

Massachusetts State Lottery Commission

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DATE: Tuesday, September 27, 2016

TIME: 10:30 a.m.

MEMBERS PRESENT: James MacDonald, First Deputy Treasurer, Treasury
Meghan Liddy, Commissioner
Anthony Salvidio, Esquire, Commissioner
Thomas G. Shack, III, Comptroller
Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer,
designee of Commissioner Thomas Shack, III
Doug Levine, Special Counsel, Executive Office of Public Safety and
Security, designee of Commissioner Daniel Bennett

ALSO PRESENT: Michael Sweeney, Executive Director, Lottery
Edward Farley, Chief Administrative Officer, Lottery
Carol-Ann Fraser, General Counsel, Lottery
Christian Teja, Director of Communications, Lottery
Judy Moore, Executive Assistant, Lottery

Chandra Allard, Deputy Communications Director, Treasury
Sarah Kim, General Counsel, Treasury
Steve Moore, Deputy Legislative Director, Treasury

Robert Frasca, interested member of the public

I. Opening of the Meeting:

First Deputy Treasurer James MacDonald opened the meeting at 10:31 a.m.

II. Approval of Minutes from August 30, 2016

First Deputy Treasurer James MacDonald asked the Commission to accept the minutes of the meeting of August 30, 2016. Commissioner Salvidio moved to accept the minutes of the meeting, and Commissioner Liddy seconded the motion. The minutes were approved at 10:32 a.m.

III. Executive Director's Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney began his report announcing that the Lottery has submitted the Fiscal Year 2016 Final Statement of Operations to the Governor and Treasurer and, further, he stated that the news continues to be good. Net Profit increased last year with a record setting yield of \$989.4 million, surpassing the previous high of \$985.9 million set in FY15. Additionally, the record-setting sales of \$5.234 billion, exceeded the previous high of \$5.015 billion set in FY15. Executive Director Sweeney said that, although it was a slight increase, it's a number that moved in the right direction which gave the Commonwealth a couple of extra million dollars. Additionally, Executive Director Sweeney informed the Commission that, last week, the Lottery notified the Governor's office as well as Administration and Finance that the Lottery has slightly changed its FY17 net profit projection. Originally, the Lottery was projecting a net profit of about \$980 million and is now changing that amount to a range between \$965 million and \$968 million. Based on flattening sales after February, and the unpredictability of a large Powerball or Mega Millions jackpot, the Lottery felt it was prudent to pull back and then reexamine the projection after two full quarters. Executive Director Sweeney's concern is that, although the Lottery has started off the year well, Instant Ticket sales continue to decrease slightly, particularly over last year. Commissioner Shack stressed that it's important for everyone to understand that, when estimates are off by a significant amount, solves need to be found. He explained that, when actuals come in significantly lower than what was projected, it requires an enormous and challenging effort at the end of the year for Administration and Finance and also the Comptroller's office to come up with a solution to be able to balance expenditure requirements and to meet all the obligations to the Commonwealth. Commissioner Shack added that this also results in supplemental funding which requires the legislature to fund any offset. He stated that lowering the net profit prediction is a very responsible thing for the Lottery to do in order to make sure that projections are as accurate of a prediction as possible. When revenues drop dramatically, particularly in the last quarter, there isn't a practical opportunity to recover. Executive Director Sweeney will be updating the Commission on a monthly basis.

First Deputy Treasurer MacDonald reminded the Commission that originally, the monthly profit was projected with a full advertising budget and recalled that the budget, signed by the Governor, had a significant reduction in not only the operating expenses of the Lottery but also the advertising dollars. He explained that the team at the Lottery has to do more with less, which will impact the bottom line. Executive Director Sweeney mentioned that there was almost a fifty percent cut in advertising. He related that, when looking at the budget and trying to make a case using hard data as to why the advertising budget shouldn't be cut, lotteries, such as New York and Virginia, were stunned at the \$8 million figure from the previous year, unable to believe it was that low initially. They were equally surprised when they discovered that the Massachusetts Lottery was facing a cut. Commissioner Shack asked what the total remaining figure allocated for advertising was. Executive Director Sweeney replied \$4.5 million. Commissioner Shack was surprised, remarking on the difficulty of a business operating with such a low budget. Commissioner Shack commented that, in government, there isn't a lot of talk about return on investment but we shouldn't have unrealistic expectations if we are not funded from a marketing standpoint. Executive Director Sweeney pointed out that the Lottery is a product that a consumer voluntarily purchases, which presents a lot of

challenges. The Lottery must brand the product and compete against other choices and eventually, lack of branding will catch up with the Lottery. Commissioner Shack thought it ironic that the legislative cuts to the budget were effectuated on the one item that makes money for the Commonwealth.

Executive Director Sweeney reviewed Lottery sales for August, announcing overall sales for August of 2016 were down \$5.1 million over August 2015. Net profit for the month was \$107.6 million compared to \$100.1 million in August 2015, an increase of \$7.5 million. The prize payout for August 2016 was 70.34 percent, as compared to 72.12 percent in August 2015. The year-to-date prize payout for the first two months of FY17 is 71.16 percent, as compared to 74.72 percent for the first two months of FY16. Executive Director Sweeney explained that, due to the lower prize payout and a shift in calendar resulting in five additional days being included in the net profit figure for the first two months of FY17, the year-to-date net profit for the first two months of FY17 is \$199.6 million compared to \$152.4 million for the first two months of FY16. After subtracting a five day average net profit figure of \$15.4 million, the adjusted year-over-year change for the first two months of FY17 versus the first two months of FY16 is a \$31.8 million increase in net profit.

Executive Director Sweeney reported that Powerball and Mass Cash experienced sales increases in August of 2016 over August of last year. Powerball sales were up over \$1 million, and Mass Cash sales were up \$201,855. The Lottery's new, ALL OR NOTHING monitor game, which was launched on July 18th, replacing Jackpot Poker, had sales totaling \$4.3 million for the month. Executive Director Sweeney reported the game continues to do well and expected the numbers to pull back as the public gets into a more consistent playing pattern.

Instant Ticket sales were down \$8.6 million in August of 2016 as compared to August of 2015. KENO sales for August of 2016 were down \$1.4 million. Lucky for Life sales were down \$203,018, Numbers Game sales were down \$116,189, Megabucks Doubler sales were down \$43,734 and Mega Millions sales were down \$4,548.

Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month. He reported that Instant Ticket sales are strongly tracking last year and, also the previous year. Referring to the Instant Ticket chart, Commissioner Shack commented that the spikes seen each year in December and in January, were clearly near the time when the Lottery has done the greatest amount of advertising for holiday games. He remarked that it shows the truth around the marketing expense issues, mentioned earlier. Executive Director Sweeney agreed, and commented that in mid-October, holiday advertising begins to hit at full force, with all of the regional offices on board and more social media activity generated through November to compete against other private companies that are also competing for holiday spend dollars. Commissioner Salvidio stated that with Instant Tickets earning between \$25 and \$30 million more during the holiday season, it was illogical to cut the budget almost fifty percent, considering the return is 10-1. Commissioner Liddy remarked that it would be interesting to see the data during the last recession of 2009 through to 2011 to evaluate how these peaks compare to those three years. Commissioner Shack stated that it was interesting in noticing that each spike in the chart occurred during major marketing pushes. Chief Administrative Officer, Ed Farley agreed, commenting that last spring, the Lottery had a robust statewide radio campaign to promote the \$30.00 Instant Ticket and with the reduction of advertising funds, he believes that will be

highly unlikely this year. Referring to the spikes, Chief Administrative Officer Farley explained they happen when the Lottery utilizes significant Point of Sale advertising in stores to support new Instant Ticket launches.

Executive Director Sweeney continued the update by reporting that the close out of Jackpot Poker generated a minimal amount of revenue. ALL OR NOTHING had a very strong month in August, and Executive Director Sweeney remarked that even if there was a sizeable reduction in sales, ALL OR NOTHING would still significantly outperform Jackpot Poker. He reported that the Numbers Game and Mass Cash have seen remarkably consistent sales over the last three years, and Megabucks Doubler Game had a decent month with sales being a little less than last year but with an increase over the prior fiscal year. Executive Director Sweeney stated that, although Lucky for Life game sales were down, a new interim director has been appointed at the Lottery in Connecticut with new ideas to revitalize the game.

Executive Director Sweeney reported that all game monthly sales, were fairly strong as compared to the prior fiscal year and trending almost \$6 million above. Net profit overall for the month was a little bit higher than the previous year. Executive Director Sweeney attributed the increase to Powerball and Mega Millions both having healthy jackpots.

Five Year Comparison Chart

Executive Director Sweeney went on to discuss the five year comparison chart, which is a key chart showing the highest payout as a percentage of the Lottery's sales from the last five years. He reported last month that he expected the 70.1% prize payout to increase substantially, as it has to 71.2% for the year. Executive Director Sweeney remarked that this percentage is still much lower than the previous year, which he attributed to a component of not factoring in last year's accrual. He anticipates the percentage to increase as the year goes forward.

Gross Sales Results

Referring to the Gross Sales Results chart, August FY17 vs. FY16 Unadjusted Non-Fiscal Year, Executive Director Sweeney reported that the numbers were not dramatic overall, with a decrease of 1.1% for the month. Executive Director Sweeney predicts there could be a decrease between 1% and 3% overall for this year. He noted that Instant Ticket sales were down 2.5% for the month compared to last year. Overall, the total revenue of sales were down 1.1% for the month of August. Year to date total revenue sales are up 1.2%, which was largely driven by the two jackpots that existed from Powerball and Mega Millions along with \$7.6 million in sales from ALL OR NOTHING. This mitigates the \$2.2 million loss from KENO. Executive Director Sweeney warned that he believes the marketplace is changing in which the way the consumer engages in Instant Tickets and was not surprised by the 2.7% decrease.

Instant Tickets

Executive Director Sweeney continued the discussion by providing an update on August Instant Ticket sales and reported that overall, they've had a good reception in the marketplace, particularly the \$5 Win It All Instant Ticket. The \$10.00 Monopoly Ticket continues to be a success story that was launched during the second week of August. He explained one of the main points of this ticket was the data and the interaction that the Lottery is receiving from the consumer. The Monopoly Ticket has an, "on-line only" Second Chance Drawing registration. He explained that most lotteries across the country no longer accept mail-in registrations for Second Chance Drawings, which is a more effective way to collect key data from actual

players, is also faster, and more efficient. He reported that there were over 7,000 new registrants to the VIP Club since the launch of the game with 50% of those entered solely to be able to enter the Second Chance Drawing. He explained that, regardless of demographics, consumers have no self-restrictions about going on-line and engaging in technology. He described the consumer as being, “hungry” to participate in the Lottery through a mobile device but the Lottery has been unable and has not had the legal authority to engage players on that platform.

As part of the discussion around Instant Tickets, Executive Director Sweeney delivered an update of the September Instant Tickets launch that was released on September 20th. He reported that sales are doing well and the initial market reaction for first week from retailers and customers looks to be good. The launch offers a wide variety of themes and artwork that will catch the eye of consumers who play the Lottery.

Lucky for Life Promotion

Executive Director Sweeney informed the Commission that the Lottery will be offering a Lucky for Life Promotion from October 2nd through October 15th. Players who spend \$8 or more on a single Lucky for Life ticket will receive a promotional ticket for a chance to win \$2016. On October 17, twenty winning promotional ticket serial numbers will be randomly selected and posted on masslottery.com. Posters have gone up at Lottery headquarters, regional offices and also with retail agents. Chief Administrative Officer, Edward Farley, added that a similar promotion was launched for the Mass Cash game, which was supplemented with a \$1,000.00 buy of social and digital media and found that the redemption on the tickets was as high as it has ever been for that \$1,000.00 investment. Executive Director Sweeney agreed and explained that it’s important to get the product and the branding in front of consumers and continuously find ways to engage consumers at a low dollar cost.

Social Media Messaging

Executive Director Sweeney moved on to share activities using social media to promote Lottery products. He showed examples of recent and upcoming strategies that have been rolled out on Twitter, Facebook and Instagram. He highlighted the Lottery’s first \$4 million winner in the new Monopoly Jackpot game mentioning that recently, there have been a number of winners from Western Massachusetts. Executive Director Sweeney complimented Christian Teja, Director of Communications, on the good work in getting the Lottery message out using social media. Executive Director Sweeney reported that, Agent Incentive Wheel Spins continue to be well received and that the winners were featured on Instagram. A preview of the September Instant Ticket launch was presented on Facebook and Executive Director Sweeney also spoke about the success of the efforts made by the Lottery through the use of social media to inform consumers of the Lottery’s relationship with the Mass Council of Compulsive Gambling. He concluded that social media has been a great avenue to promote Lottery products at a low dollar cost.

IV. Votes Presented to the Commission

VOTE (1): First Deputy Treasurer MacDonald asked for a motion to authorize the Executive Director to exercise the second one-year contract option for marketing pull tab tickets with the following firms:

American Games, Inc. – (A Pollard Banknote Co.)

504 34th Avenue
Council Bluffs, IA 51501-8095

Arrow International, Inc.
990 Clinton Road
Cleveland, OH 44144-1097

This original award was made pursuant to a competitive bid process (RFR LOT#1212).

The maximum obligation for the second, one year contract option shall be one hundred twenty thousand three hundred twenty-nine dollars (\$120,329.00).

Executive Director Sweeney introduced the vote by informing the Commission that this vote would allow the Lottery to exercise a second one year contract option to engage two companies that were originally awarded through an RFR process, for the marketing and development of the Lottery's pull tab tickets. Executive Director Sweeney described these pull tab tickets as a very unique and limited market item, with about one-hundred and fifty being sold at Lottery retail agents across Massachusetts. Prices are being held at the same level as the previous year and Executive Director Sweeney explained that although pull tabs are a small piece, with a small core player, they are a good revenue return for the Commonwealth.

Commissioner Shack made the motion to enter into the contracts and Commissioner Salvidio seconded the motion.

First Deputy Treasurer MacDonald, recognizing there was no further discussion, moved the motion to a vote. For the reasons stated above and in the meeting materials, the Commission voted unanimously in favor of the motion. The Motion carried.

VOTE (2): First Deputy Treasurer MacDonald asked for a motion to authorize the Executive Director to enter into a contract with **Verizon (DBA MCI)**, a statewide vendor, to provide data communications between the MSLC's Braintree headquarters and regional offices.

The purchase for this service shall be made from OSD state contract ITT046.

The total maximum obligation assumed hereunder shall be four hundred and fifty thousand dollars (\$450,000.00).

Commissioner Liddy made the motion to enter into the contract and Commissioner Shack seconded the motion.

Commissioner Shack asked if for these types of services, was the cost going down as opposed to going up. Executive Director Sweeney explained that this cost was basically remaining the same, but said that there has been some decreases in general communication and telecommunication bandwidth issues over the last two years.

First Deputy Treasurer MacDonald, recognizing there was no further discussion, moved the motion to a vote. For the reasons stated above and in the meeting materials, the Commission voted unanimously in favor of the Motion. The Motion carried.

VOTE (3): First Deputy Treasurer MacDonald asked for a motion to authorize the Executive Director to exercise the first one-year contract option with the following firm for all required services for a Lottery Retail Sales Management System:

Lapis Software Associates LLC
601 Jefferson Road
Parsippany, NJ 07054

This original award was made pursuant to a competitive bid process (RFR LOT #1309).

The maximum obligation for the one-year contract option shall be one hundred sixty thousand dollars (\$160,000.00).

Commissioner Shack made the motion to enter into the contract and Commissioner Salvidio seconded the motion.

First Deputy Treasurer MacDonald, recognizing there was no further discussion, moved the motion to a vote. For the reasons stated above and in the meeting materials, the Commission voted unanimously in favor of the Motion. The Motion carried.

VOTE (4): First Deputy Treasurer MacDonald asked for a motion to authorize the Executive Director to enter into an agreement for training, maintenance and support relating to the development and issuance of a mobile application from the developer / vendor, Realpolitech, for a period of not more than 4 months as provided in the memorandum concerning:

Realpolitech
224 Townsend Street
San Francisco, CA 94107

Executive Director Sweeney introduced the vote and informed the Commission that this vote is to provide training directly to the IT team at the Lottery regarding mobile application that will offer baseline training and will troubleshoot any of the normal bugs that could develop. When the RFR was put out in 2013, Executive Director Sweeney felt that this service should have been captured and is something that the Lottery will be conscience of in the future. Executive Director Sweeney expressed that he would not be comfortable launching the application without having staff receive this training.

Commissioner Shack made the motion to enter into the contract and Commissioner Salvidio seconded the motion.

First Deputy Treasurer MacDonald, recognizing there was no further discussion, moved the motion to a vote. For the reasons stated above and in the meeting materials, the Commission voted unanimously in favor of the Motion. The Motion carried.

V. Other matters related to the purchase of goods and services by the Lottery

After asking if there was any other business to discuss, First Deputy Treasurer MacDonald sought a motion to adjourn the meeting. Commissioner Salvidio moved to adjourn and

Commissioner Shack seconded the motion. The motion carried unanimously. The meeting adjourned at 11:29 a.m.