

Massachusetts State Lottery Commission

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DATE: Tuesday, April 26, 2016

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Shannon Hickey, Assistant General Counsel, Executive Office of Public
Safety and Security, designee for Commissioner Daniel Bennett
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner
Thomas G. Shack III, Comptroller

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

Jeffrey Shapiro, Esq., Deputy Comptroller, Chief Operating Officer

Dave Falcone, Chief of Staff, Treasury
James MacDonald, First Deputy Treasurer, Treasury
Sarah Kim, General Counsel, Treasury
Shawn Collins, Legislative Director, Treasury
Chandra Allard, Deputy Communications Director, Treasury

Ashley McGilloway, Connelly Partners
Emma Roehlke, Connelly Partners

I. Opening of the Meeting:

Treasurer Goldberg opened the meeting at 10:34 a.m.

II. Approval of Minutes from March 29, 2016

Treasurer Goldberg asked the Commission to accept the minutes of the meeting of March 29, 2016. Commissioner Liddy offered an amendment. Commissioner Salvidio moved to accept the minutes of the meeting, as amended, and Commissioner Shack seconded the motion. The motion passed unanimously. The amended minutes were approved at 10:37 a.m.

III. Executive Director's Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney reviewed Lottery sales for March, announcing overall sales were up \$1.3 million compared to March 2015 and he estimated the net profit for the month was \$61.2 million as compared to \$69.7 million in March 2015, a decrease of approximately \$8.5 million. Executive Director Sweeney explained that, due to a shift in the calendar, one less day was included in the Fiscal Year ("FY") 2016 year-to-date net profit figure when compared to FY15. The net profit for the first nine months of FY16 is: currently \$758.3 million, compared to \$734.4 million through the first nine months of FY15. Executive Director Sweeney commented that, although this was an increase of approximately \$23.9 million, the Lottery has seen a healthy amount of Instant Ticket cashes over the last thirty days, which would make the figure closer to \$20 million. Chief Administrative Officer, Edward Farley added that after Patriots Day, the Lottery experienced Instant Ticket cashes of \$15 million, \$4 million and \$1 million, which made an immediate impact. Executive Director Sweeney went on to explain that, after adding in that additional day, the average net profit figure of \$2.8 million, the adjusted year-over-year change for the first nine months of FY16 versus the first nine months of FY15 is a projected \$26.7 million increase in net profit. The estimated prize payout for the month of March 2016 was at 76.36 percent, as compared to 74.76 percent in March 2015. The year to date prize payout for FY16 is 73.00 percent, as compared to 72.58 percent for the same nine month period of FY15.

Executive Director Sweeney noted that KENO sales experienced an increase of \$1.9 million over March of last year. He also disclosed that Mass Cash, the Numbers Game, Powerball, Mega Millions and Megabucks Doubler all had increased sales over March 2015. He continued the discussion by informing the Commission that Instant Ticket sales were down \$2.1 million compared to March of 2015, and noted that this is a trend that started the last week of February, and has continued during the first couple of weeks of April. He then added that there has been a slight pull up this week, and is hopeful that it will continue. Lucky for Life sales were down \$251,666 and Jackpot Poker sales were down \$50,185. When asked by Commissioner Salvidio the timeframe of the new replacement game for Jackpot Poker, Executive Director Sweeney stated that the Lottery is on track for July or August. Chief Administrative Officer, Edward Farley, added that Jackpot Poker would conclude at the end of this fiscal year, and working with IT and the Product Development Team, the Lottery anticipates mid to late July or early August. Commissioner Salvidio, relaying information that he recently received regarding Jackpot Poker, stated that he has been told it is too complex to play in the period of time needed to play it, and that the payout is poor. Executive Director Sweeney assured the Commission that the new game, "All or Nothing", is much less complicated, and has had a good reception in other states.

Executive Director Sweeney summarized the update, and reported that Power Ball had a stronger performance than it did the previous March and currently, is projected at about \$285 million. He added that with signs showing a bit more traction in sales, it is hopeful that if there isn't a winner for three or four additional draws, it may once again come up to the half billion mark, resulting in increased sales.

Overall, all monthly sales are tracking last year at this point, with less than a \$2 million difference. Monthly net profit has decreased over the last few months compared to the prior year, which is not a surprise as there was a very large boost due to the payout involved around Powerball back in January and early February.

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 that the prize payout, as a percentage of sales, was back up to 73% and added he expected the percentage to go even higher, as we go forward through the next couple of months. He added that it would be great if it stays or continues to hug that 73% line, but we have no way to know for sure. In view of the sales that have occurred with the Instant Tickets during the past six weeks, and with the \$10.00 tickets performing the best, it is not a good sign for the prize payout factor, but added that some of that could be counteracted if we see strong sales in Powerball over the next month.

Gross Sales Results

Referring to the Gross Sales Results chart, March FY16 vs. FY15 Unadjusted Non-Fiscal Year, Executive Director Sweeney reported that Instant Ticket sales were down, 0.7% which was just over \$2 million. The good news is that because of expansion and better focus, KENO came in higher at 2.7% which is approximately, \$1.9 million higher and was able to counteract the performance with Instant Tickets. Overall for the month, sales were up 0.3% or \$1.3 million as compared to March 2015.

Referring to the Year-to-Date Gross Sales Results chart, Executive Director Sweeney reported that sales are strong with almost a 4% increase and almost \$100 million in increased sales. Instant Tickets and KENO had increased sales of more than \$43 million and Powerball, with the surge back in January, is almost at a \$62 million dollar increase in sales to date. Overall, total sales are up 5.6% compared to last year with \$205 million in sales-to-date.

Instant Tickets

Executive Director Sweeney explained the life cycle of the Instant Ticket process and the dilemma of the management of the remaining inventory of older tickets. He explained to the Commission that the Lottery has a lot of inventory of valid Instant Game Tickets stored in the warehouse and discussed a number of problems that this presents. He detailed the mechanics of tickets that feature Second Chance Drawings, explaining that those who don't win on the original scratch, can submit the ticket back to the Lottery to be entered into a drawing to be held at a later date. He went on to explain that Second Chance Instant Tickets include five drawings, each with various merchandise packages that are drawn after the completion of each 20% sale intervals. The tickets are stored in the warehouse, and not only do they take up space, the material can become difficult to scratch and also subjected to damage caused by the environment. He stated that ticket development has not included support for the entire life-cycle of the game. Executive Director Sweeney continued the discussion by presenting a few examples of the tickets in question and the solution to address the problem. One example he gave centered on the \$5 Wheel of Fortune Instant Ticket, which features a Second Chance Drawing. He explained that the Wheel of Fortune ticket, which was first launched in 2011, had a print quantity of 30,240,000. He stated that as of April 2016, 73% of the tickets had been sold, with 1,359 of the agents carrying it, and approximately 116 orders are processed per week. Operating at this order rate, would result in seven years of stock remaining in the warehouse. He stated that the Wheel of Fortune ticket has had three Second Chance drawings, with the

fourth drawing projected to be held in January 2018, when the ticket sales have reached 80%. Executive Director Sweeney mentioned one instance where a player had passed away before sales had reached that next 20% mark, which not only posed a potential estate situation, but is also unfair to consumers. One of the solutions that has been discussed, and what has been done in the past, is to close the game out early with an announcement to protect the consumer. However, he explained that the problem with a Second Chance game is that the cost structure is built in with the vendor to include those second chance prizes, and the Lottery generates those checks when the Second Chance drawing is triggered. Referring to the Wheel of Fortune ticket, he explained that, under the terms of the contract, by leaving an additional drawing on the table and closing the game out, would cost the Commonwealth, \$1.84 million. Treasurer Goldberg asked Executive Director Sweeney if he could give more clarification. He responded that as each drawing occurs, there is a fixed number of prize packages to be awarded. Those prize packages all have a dollar amount associated with them that is built in to the cost of the ticket. The drawing will enable the original print vendor, who in this case would be MDI, a subsidiary of Scientific Games, to make additional money, assuming that they purchased the prize package at a reduced cost. Chief Administrative Officer, Edward Farley, explained it further, informing the Commission that because it would be too costly for the Lottery to purchase the name rights, they are purchased through MDI, so the prize structure is built into a second chance game. At 20% intervals, Second Chance Drawings are held, and is part of the licensing fee. Executive Director Sweeney went on to say that each time the 20% trigger is hit, there will be an additional payment from the Lottery for those prizes. Executive Director Sweeney continued the discussion explaining that overall, this ticket has been a win for the Commonwealth with over \$110 million in sales and approximately \$21 million going back into local aid. In an unprecedented move, the team at the Lottery got together and spoke with the vendor with whom the Lottery has a licensing agreement and asked the vendor to waive the \$1.84 million payment. Executive Director Sweeney was pleased to report, that after the initial shock from the Lottery team wore off, as this had never been done, the call was made and the \$1.84 million was waived. Executive Director Sweeney continued the update with similar examples, announcing that to date, the combined savings to Commonwealth is \$2.74 million. With keeping the prize structure in mind, the Lottery intends to reexamine future print runs and the process of how games are closed out. Commissioner Shack inquired about the total dollar amount of Second Chance drawing payouts that is added to the percentage of the overall payout from a structure standpoint. Chief Administrative Officer, Edward Farley explained that, although he didn't have an exact number, it was a very small amount. He offered an example stating that if there were \$732 million dollars in cash prizes, there is only five, \$1 million second chances in terms of the prize structure and it would vary from game to game. Commissioner Shack asked the Director how much of an impact does the Second Chance really have and expressed that it must be a challenging organizational issue for the Lottery in terms of the warehouse storage and keeping track of the tickets and everything that is involved with it. Executive Director Sweeney replied that the Lottery is reexamining the entire concept of Second Chance Drawings. He stated that what he has been consistently hearing from the players is that people are looking for the cash prizes and are not as interested in the "experience prize", or the "noncash prize", as they may have once been ten years ago, such as with the Harley Davidson motorcycle.

Executive Director Sweeney continued the discussion by reviewing the results of two of the Instant Tickets that offer Second Chances that have been relaunched. One of the examples reviewed was the relaunch of the Cadillac Riches Instant Ticket. He explained that this ticket was first launched in 2013, and has been reintroduced with a strong campaign that started with an agent incentive, new point of sale, "POS" advertising materials, wheel spin events, as well as aggressively promoting it on social media. Second

Chance Drawings give players chances to win Cadillacs and merchandise packages at the completion of each 20% sale intervals. As of January 15, 2016, there were twelve years of stock remaining in the warehouse, 1,083 agents were carrying the game, and Second Chance Drawing #3 was projected for May 2017, after it reached 60% of sales. Redistribution of this ticket began in March, as well as discussions with the vendor to determine what steps can be taken to close this ticket out. Executive Director Sweeney reported that since the relaunch, the number of agents carrying the game has jumped from 1,083 agents to 5,471 agents, with a weekly sales increase of 555%. He finished by commenting that this same concept was applied to the 2012 Boston Celtics Instant Ticket, and resulted in increased sales of 135%. Chief Administrative Officer, Edward Farley added that the Celtics were cooperative and provided merchandise to help stimulate the ticket and give it a boost. Executive Director Sweeney will report back with more results at the next Commission meeting in May.

Executive Director Sweeney continued the discussion by updating the Commission on the \$1,000,000 Lucky Numbers Instant Ticket that was launched on April 5th by revealing that sales were received well with about \$16 million in sales through the first three weeks.

Executive Director Sweeney proceeded to discuss the Lottery's upcoming April Instant Ticket Release, unveiling the four new instant tickets which will be hitting store shelves today, on April 26th. He distributed samples of the \$1.00 ticket, Top Prize; the \$2.00 ticket, Double Match; the \$5.00 ticket, \$1,000,000 Gold Rush and the newest \$30.00 ticket, Ultimate Millions. He outlined the details of a dynamic advertising campaign to support this release and explained that these tickets all tested very well in the focus groups and should end the year on a strong note. As part of the discussion around Instant Tickets, Executive Director Sweeney presented a preview of the family of new Cashword Instant Tickets that go on sale May 17th and mentioned that historically, Cashword tickets have a strong niche players.

KENO-to-go Mobile Application

Executive Director Sweeney was pleased to announce the KENO-to-go Mobile Application, and commented that this is the Lottery's first venture into a mobile app that he hoped to introduce soon. He explained that this app will enable players to view the KENO numbers on their smartphones or tablets within two minutes of an actual draw. They will also be able to scan their tickets for a winner, as well as to be able to find retail locations that offer KENO-to-go. This new app will be compatible with all major mobile systems and Executive Director Sweeney is confident that this will be well received by consumers.

Social Media Messaging

The Lottery continues to be aggressive in utilizing social media. Executive Director Sweeney shared examples of social media promotions of Lottery products and mentioned a variety of themes. He updated the Commission on a campaign organized for Marathon Monday where the Lottery commissioned a plane to fly with a banner along the course route, and also engaged people during the Marathon on Facebook which received over 800 "Likes". Executive Director Sweeney also showed successful examples of recent strategies promoted on Twitter, Facebook and Instagram and emphasized the vast number of people reached.

Connelly Partners

Executive Director Sweeney continued the meeting by introducing members from Connelly Partners, LLC, Ashley McGilloway, and Emma Roehlke to update the Commission with a presentation around the April Instant Ticket Campaign, particularly the \$30.00 Ultimate Millions Instant Ticket. Ashley outlined details around the April Ticket campaign, which is being launched today, on April 26th, and running through to June 8, 2016, on radio broadcast, Spotify radio, outdoor transit, digital online display and social media. In reviewing the media and production budget for this campaign, Ashley presented a Q4 Broadcast Plan Flowchart which highlighted the months of April, May and June. She explained that going into the remainder of the year, Connelly Partners wanted to pay particular attention through broadcast, to extend media dollars, and apply it to different games in order to bring in the broadcast elements and to also build awareness towards the \$30.00 Ultimate Millions ticket. In addition, through broadcast, Connelly Partners will be promoting LUCKY FOR LIFE, Cashwords, and the Numbers Game. Ashley concluded her presentation by playing two station produced radio spots for Instant Scratch Tickets and Draw Games. **(Please reference the handout to provide the details that were discussed.)** Executive Director Sweeney thanked Ashley and Emma for their presentation.

IV. Votes Presented to the Commission

VOTE (1): Treasurer Goldberg asked for a motion to authorize the Executive Director to extend an existing contract to supply component parts in order to repair ISYS terminals and any subassemblies with the following company:

IGT Global Solutions Corporation (f.k.a. GTECH Corporation)
10 Memorial Boulevard
Providence, RI 02903

This original award was made pursuant to a competitive bid, LOT #908, which resulted in IGT being awarded the contract.

The total maximum obligation assumed hereunder, over the two year period, shall not exceed one million five hundred thousand dollars (\$1,500,000.00).

Commissioner Liddy moved to enter into the contract, and Commissioner Salvidio seconded the motion.

Executive Director Sweeney introduced the vote by informing the Commission that this would be for a two year period, with IGT holding the original pricing. He explained that this would supply component parts for the Lottery terminals and described it as a “must have.” He informed the Commission that this comes from an RFR that initially was issued in 2009 at a three year original time period, with a two year option, which the Lottery has exercised. In 2014, through the Commonwealth, the Lottery issued a notice of intent to try to find other private vendors that could possibly supply these component parts, to which there were no responses. Through the appropriate approvals, the Lottery was allowed to extend the contract an additional two years, which will end in June, 2016. Commissioner Shack inquired about the actual number of machines that this will this service. Executive Director Sweeney explained that there are over 7500, but it depends on the amount of

machines that need servicing or end up breaking down. In addition, the Lottery tries to maintain in-house, about 100 terminals that are scavenged for parts and Executive Director Sweeney described it as the backbone of the operation. Commissioner Salvidio inquired about the timeline on the new replacement terminals. Executive Director Sweeney responded that the RFR would be going out in May and will need to coordinate with the new technology. Treasurer Goldberg added that this will need to be done in tiers and requires a process flow. She added that the new machines are not going to interface with the old machines and the Lottery needs to keep these systems going until the new ones are ready to go live and we are confident that everything will run smoothly.

Treasurer Goldberg, 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 to adopt the motion.

VOTE (2): Treasurer Goldberg asked for a motion to authorize the Executive Director to extend two existing contracts for outsourcing component part repairs and/or services to ISYS terminals and any subassemblies with the following companies:

IGT Global Solutions Corporation (f.k.a. GTECH Corporation)
10 Memorial Boulevard
Providence, RI 02903

Peripheral Development Corporation
42 Ladd Street
East Greenwich, RI 02818

This original procurement was pursuant to a competitive bid, RFR LOT#909, which resulted in the above-named companies being awarded contracts.

The total maximum obligation assumed hereunder, over the two year period, shall not exceed nine hundred thousand dollars (\$900,000.00), divided between each of the above-named companies.

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

Executive Director Sweeney introduced the vote by informing the Commission that the Peripheral Development Corporation in Rhode Island is a very small shop that employs only a couple of employees. The shop specializes in the services that they provide to the Lottery which helps to keep a small company in business. He continued by explaining that this would provide component repairs and general servicing of the terminals during the two year period. This is similar to the previous vote, arising from a 2009 RFR with the same history.

VOTE (3): Treasurer Goldberg asked for a motion to authorize the Executive Director to extend, by five (5) years, the current lease at MSLC's New Bedford Regional Office.

The purpose of this vote is to obtain approval for extension of an existing lease, with additional funding associated with an increase in leased warehouse space with the lease extension.

The total maximum obligation assumed hereunder shall be one million two hundred and seventy-nine thousand dollars four hundred and twenty-five dollars (\$1,279,425.00) over the five year period.

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

Executive Director Sweeney introduced the vote by informing the Commission that DCAMM conducted a cost benefit analysis on this five year extension with a favorable recommendation, and was signed off by DCAMM Commissioner Gladstone. He explained that back in early October, members of the Lottery Team, along with members from DCAMM, had been in negotiations with the landlord and have thoroughly vetted it. The new lease would run from October 2018 through the end of September 2023. Executive Director Sweeney highlighted that this contract will allow the Lottery an increase on square footage from 16994 square feet to almost 26000 square feet, and that the rate per square footage would drop. He added that there would be some work done in the building to increase the size of one of the restrooms, and that the Lottery has been very happy with the space. The Lottery, and the landlord, listed as First Highland Management and Development Corporation, has had good discussions concerning this contract. Commissioner Liddy inquired as to if the Lottery would be responsible for funding the updates on the restroom. Executive Director Sweeney informed the Commission that the updates would be built into the overall cost and is part of the negotiations. Commissioner Shack commented that this seems to be a good deal in getting 40% more space for 20% more money.

Treasurer Goldberg, 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 to adopt the motion.

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

After asking if there was any other business to discuss, Treasurer Goldberg sought a motion to adjourn the meeting. Commissioner Shack moved to adjourn. Commissioner Salvidio seconded the motion. The motion carried unanimously. The meeting adjourned at 11:05 a.m.