

Massachusetts State Lottery Commission

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DATE: Tuesday, March 29, 2016

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Doug Levine, 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
Naomi Carlisle, Associate General Counsel, Treasury
Christina Medina, Associate General Counsel, Treasury

Marlene Warner, Executive Director, Mass Council on Compulsive Gambling

Andy Metzger, State House News Service

I. Opening of the Meeting:

First Deputy Treasurer MacDonald opened the meeting at 10:29 a.m. for Treasurer Goldberg, explaining that she was on her way from another meeting and would be arriving shortly.

II. Approval of Minutes from February 23, 2016

First Deputy Treasurer MacDonald asked the Commission to accept the minutes of the meeting of February 23, 2016. Commissioner Salvidio moved to accept the minutes of the meeting and Commissioner Shack seconded the motion. The motion passed unanimously. The minutes were approved at 10:30 a.m.

III. Executive Director's Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney reviewed Lottery sales for February, announcing overall sales were up \$27.9 million compared to February 2015 and he estimated the net profit for the month was \$51.0 million as compared to \$73.9 million in February 2015, a decrease of approximately \$22.9 million. February's net profit figure was impacted by the purchase of STRIPS for annuity prizes won August 2015 through February 2016. 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 eight months of FY16 is: currently \$686.3 million, compared to \$665.4 million through the first eight months of FY15, an increase of approx. \$20.9 million. He explained 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 eight months of FY16 versus the first eight months of FY15 is a projected \$23.7 million increase in net profit. The estimated prize payout for the month of February 2016 was at 79.68 percent, as compared to 72.21 percent in February 2015 and the prize payout for FY16 was also impacted by the purchase of STRIPS. The year to date prize payout for FY16 is 72.92 percent, as compared to 72.29 percent for the same eight month period of FY15. Executive Director Sweeney noted this to be the first time in FY16 that the prize payout for the year has fallen below 73%, which is better overall for the net profit. The FY16 net profit and prize payout figures both include the costs of purchasing STRIPS for a one-time end of game \$20 million bonus prize in the Mega Cash Instant Ticket game that was awarded in FY16. This cost had been accrued in previous months.

Executive Director Sweeney continued the discussion by revealing that the Instant Ticket portfolio saw a sizeable \$27.0 million sales increase in February 2016 versus February 2015. He also noted that KENO sales continued to be strong during the month, experiencing an increase of \$8.1 million over February of last year. Executive Director Sweeney also disclosed that Megabucks Doubler, the Numbers Game, and Mass Cash had slight increased sales over February 2015.

Executive Director Sweeney remarked that Powerball sales were down \$9.8 million compared to February 2015 due to primarily larger jackpots during the first three drawings of February 2015. Mega Millions sales were down \$511,132. Lucky for Life sales were down approximately \$227,870. Jackpot Poker sales were down \$24,282 as compared to February 2015.

STRIPS

Executive Director Sweeney described STRIPS (Separate Trading of Registered Interest and Principal) as being a consistent occurrence at the Lottery. He explained that STRIPS are

purchased by way of a competitive offering process to fund jackpot and instant ticket prizes paid by the Lottery as annuities when that option is chosen by winners. He stated that these prizes are paid in twenty or thirty annual installments, with the first payment being made by the Lottery following validation of the winning ticket and payment election by the winner. The remaining annual payments are funded by STRIPS. STRIPS were purchased in February 2016 to fund prizes paid as annuities that were won between August 2015 and February 2016. Executive Director Sweeney added that this is not a transaction in which private industries make any significant money. Banking institutions and private trading companies perform this service almost as a courtesy. He explained that the Lottery had some delay in purchasing these since the institutions who were willing to do this, had delays in filing all of the required paperwork required in the procurement process. This procedure can be somewhat detailed, particularly for a transaction of this nature.

Five Year Comparison Chart

Executive Director Sweeney went on to discuss the Five Year Comparison chart which shows the highest payout as a percentage of the Lottery's sales from the last five years. He was pleased to report that the prize payout, as a percentage of sales, fell below 73% for the first time this year, it is currently at 72.9%. The Lottery had not seen a huge kick-up, which had been a concern with the large increase in ticket purchases in January. Powerball has helped to pull that number lower and it will be interesting to see what March brings.

Gross Sales Results

Referring to the Gross Sales Results chart, February FY16 vs. FY15 Unadjusted Non-Fiscal Year, Executive Director Sweeney reported Mega Millions along with Powerball, sales were down and he noted that these games are jackpot dependent. Lucky for Life showed a slight volume loss. Overall, month over month, for FY16 versus FY15 sales were at \$27.9 million, which is almost an 8% increase over 2015 for the month.

Referring to the Year to Date Gross Sales Results chart, Executive Director Sweeney reported that overall performance continues to be strong, with a total increase in sales versus FY15 through the end of February, are approximately at 6.2%. All games are performing either slightly, or in the case of Powerball, significantly better. He stated that the Instant Ticket growth is approximately 4.6% and, as discussed, most of that is driven by the higher price point tickets of \$10.00 and above. Overall, growth is healthy at 6.2%.

Instant Ticket Sales Update

Executive Director Sweeney proceeded by reviewing the new family of March Instant Tickets and commenting that multiplier tickets, which have been with the retailers for a little over four weeks, generally do very well. He remarked that, overall, sales are robust, and the new family of tickets had a good response from the public.

Executive Director Sweeney then unveiled a new \$5.00 Instant Ticket that is being launched on April 5th: \$1,000,000 Lucky Numbers. With a very solid marketing campaign behind it, he anticipates that this new ticket will be received very well. He then provided sample tickets and point of sale, "POS" advertising that will accompany the campaign to all who attended the meeting.

Determined to bring new life into a couple of the older tickets, Executive Director Sweeney previewed the Cadillac Riches Instant Ticket relaunch campaign and explained that over the last year, sales have been flat causing a number of issues, including warehouse storage and the circulation of tickets among retail agents. He explained to the Commission that recently, the marketing and sales team revisited this ticket to create a new campaign for not only this ticket, but also for two other older tickets. The team went back to the Lottery's private vendors, who produced these tickets, to ask for assistance

addressing long term marketing and sales issues that sometimes can be associated with an aging game. He explained that, historically, the focus has been on the first three to six months of the launch of a ticket. Projecting that a ticket is going to be in the public eye for thirty-six to forty-eight months, Executive Director Sweeney stated that both the team at the Lottery, as well as private vendors, need to commit to a full life cycle of marketing and promotional materials. In this way, the ticket will remain fresh, selling at a rate that is acceptable to both to the Commissioners as well as to the public. With this in mind, the Cadillac Riches Instant Ticket, first launched in 2013, has been relaunched with a strong campaign that starts with an agent incentive as well as new POS materials at the retail level. The Lottery also plans to have a strong social media campaign concerning this promotion at a low cost. Executive Director Sweeney will report back to the Commission next month with an update.

Social Media Messaging

The Lottery continues to be very aggressive in utilizing social media. Executive Director Sweeney shared examples of social media promotions of Lottery products. He mentioned a variety of themes including the launch around the multiplier games, Saint Patrick's Day and the Celtics. The Celtics social media campaign included a five day promotion from March 13th to March 17th, with a winner each day receiving two tickets to a Celtics game. Executive Director Sweeney showed examples of recent strategies employed on Twitter, Facebook and Instagram and emphasized the vast number of people reached. He concluded by saying that social media has been a very effective way for the Lottery to interact with consumers.

Problem Gambling Awareness Month

Executive Director Sweeney continued the discussion by reminding the Commission that March is Problem Gambling Awareness Month and said that the Lottery has been aggressive in getting the message out to Lottery staff, as well as to the general public. The Lottery participated in a variety of ways, including a display on KENO monitors, as well as on the draw game messaging center. Signage was visible in the Lottery's customer service area in Braintree, in the regional offices and on the Lottery's main website. Executive Director Sweeney remarked that the Mass Council of Compulsive Gambling does an excellent job of keeping the Lottery on programs that have been successful in helping those with gambling issues. The Mass Council on Compulsive Gambling offered an informational table in both the main lobby of the Braintree headquarters and in Worcester. Additionally, Executive Director Sweeney sent out an email to all MSLC employees emphasizing Problem Gambling Awareness Month, along with the phone number and website of the Mass Council on Compulsive Gambling. Treasurer Goldberg inquired into the number of responses received on this campaign surrounding social media activity. Executive Director Sweeney responded that he would provide the information, at the next Commission meeting. Executive Director Sweeney concluded the report by acknowledging the presence of Marlene Warner, the Executive Director, Mass. Council on Compulsive Gambling.

IV. Votes Presented to the Commission

VOTE (1): Treasurer Goldberg asked for a motion to authorize the Executive Director to exercise the first one year contract extension option for double jackpot window LED signs and parts with the following firm:

Pro-Lite, Inc.
3505D Cadillac Avenue
Costa Mesa, CA 926626

This original award was made pursuant to a competitive bid, LOT #1304. The total maximum obligation assumed under the contract extension shall not exceed three hundred and ninety-eight thousand five hundred dollars (\$398,500.00) for the one-year term.

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 this will allow the Lottery to purchase one thousand additional signs to be used in retail locations. In part, this will enable the Lottery to integrate the billion dollar sign into the Powerball mechanism. There will be a slow replacement of signs that are beyond repair, as well as to allow the Lottery to accurately reflect the Powerball dollar amount. He described it as a fairly routine purchase.

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 purchase vehicles, under state contract VEH 98, from the following vehicle dealer:

Colonial Nissan of Medford
104 Mystic Avenue
Medford, MA 02155

MSLC shall purchase seventeen (17) Nissan Rogue S all-wheel drive vehicles at a price of twenty-one thousand two hundred twenty six dollars (\$21,226.00) for each vehicle.

The total maximum obligation assumed hereunder shall be three hundred sixty thousand eight hundred forty-two dollars (\$360,842.00)

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 purchase off a state contract for the purchase of seventeen all-wheel drive vehicles. They will be purchased by Matthew DiFrancesco, Assistant Executive Director of Operations at

the Lottery. Many of the vehicles will be disbursed in western Massachusetts where there is less highway driving and more back roads. The Lottery usually maintains a fleet of approximately 148 vehicles and have been down by five vehicles. He continued by saying that the Lottery has a number of vehicles that are over the 170 thousand mile mark and are used five days a week and sometimes more. Commissioner Shack inquired about the warranty on the vehicles and Executive Director Sweeney stated that he would get that information for the Commission. He did say that, in general, the repair rating and life maintenance is higher than those vehicles purchased in the past. Commissioner Shack pointed out that, by making sure to utilize the warranty by scheduling check-ups before the warranties expire, could prove to be a cost saver. Executive Director Sweeney emphasized to the Commission that vehicles are part of the life blood at the Lottery.

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 (3): Treasurer Goldberg asked for a motion to authorize the Executive Director to exercise the first one-year contract extension option concerning Lottery audit and financial consulting services with the following firm of independent public accountants who are licensed as certified public accountants:

KPMG, LLP
Two Financial Center
60 South Street
Boston, MA 02111

This original award was made pursuant to a competitive bid, LOT # 1305. The total maximum obligation assumed under the contract extension shall not exceed one hundred and forty-three thousand four hundred and sixty-one dollars (\$143,461.00) for the one-year term.

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

Executive Director Sweeney introduced the vote by informing the Commission that the Lottery has had a longstanding relationship with KPMG and this is the first of two one-year contract extensions. He described it as fairly routine and informed the Commission that KPMG will perform audits that are required under the laws and regulations for the Lottery, to maintain operations.

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. Commissioner Shack abstained from the vote due to the fact that KPMG performs the audits of the Commonwealth. For the reasons stated above and in the meeting materials, the Commission voted unanimously to adopt the motion.

VOTE (4): Treasurer Goldberg asked for a motion to authorize the Executive Director to exercise the second and last, one-year option available under contract extensions concerning Lottery custodial banking services with the following provider:

XEROX-ACS
Boston, MA 02111

This original award was made pursuant to a competitive bid, Treasury issued TRE RFR CASH CUSTODY 2 20212. On April 28, 2015, the Commission voted to authorize the Executive Director to exercise the first one-year contract extension for banking services with Xerox-ACS.

The total maximum obligation assumed under the contract extension shall not exceed two hundred and twenty-one thousand seven hundred and seventy-one dollars (\$221,771.00) for the one year term.

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 is a requirement for Operations and pointed out that, in 2012, First Deputy Treasurer James MacDonald and the Lottery team, issued a wide ranging umbrella RFR that essentially covered these services for various departments within the Treasury, including the Lottery under it. He went on to say that First Deputy Treasurer MacDonald and his team are working on a new RFR and the Lottery will interact to help shape the needs and requirements of the Lottery. He went on to say that these are fairly routine banking matters and services that must be provided because the Lottery fits under the Treasury's umbrella and saves the Lottery money by not having to bid on these services independently.

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.