

Massachusetts State Lottery Commission

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DATE: Tuesday, January 24, 2017

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Anthony Salvidio, Commissioner (Remotely)
Thomas G. Shack, III, Comptroller
Doug Levine, Special Counsel, Executive Office of Public Safety and
Security, designee for 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, Communications Director, Treasury
Shawn Collins, Legislative Director, Treasury
Dave Falcone, Chief of Staff, Treasury
Sarah Kim, General Counsel, Treasury
James MacDonald, First Deputy Treasurer, Treasury
Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer

Charlene Rideout, Attorney at Law, New England Convenience Store
Association
Colin Young, State House News Service

I. Opening of the Meeting:

Treasurer Goldberg opened the meeting at 10:47 a.m. Treasurer Goldberg informed the Commission that Commissioner Salvidio was unable to be physically present at the meeting. Treasurer Goldberg stated, "Pursuant to Section 20 of the Massachusetts Open Meeting Law, Commissioner Salvidio will be participating remotely for this meeting due to the difficulty in traveling from Worcester to Boston caused by the start of the forecasted Nor'easter. A quorum of the Commission is physically present at the meeting location. Lottery Commission by-laws allow remote participation by Commissioners. Commissioner Salvidio is participating by telephone and 'Commissioner, if at any time we are not clearly audible to you, please let us know.' Commissioner Salvidio may participate in any votes scheduled to take place at today's meeting."

II. Matters Requiring Massachusetts State Lottery Commission Approval

Votes Presented to the Commission

VOTE 1: For the reasons set forth in the attached memorandum dated January 6, 2017, the Executive Director is authorized, under state contract VEH 98, to purchase eleven (11) Dodge Grand Caravan and fifteen (15) Nissan Rogue vehicles from the following Commonwealth approved vehicle dealer:

Colonial South Automotive, Inc.
40 Holman Road
Plymouth, MA 02360

The maximum obligation assumed hereunder shall not exceed the amount of five hundred ninety-two thousand eight hundred forty-three dollars (\$592,843.00).

Commissioner Shack moved to enter into the contract and Special Counsel Doug Levine seconded the motion.

Executive Director Sweeney introduced the vote by informing the Commission that the Lottery has approximately one hundred and fifty vehicles that are out on the roads of the Commonwealth five days a week traveling to over seventy-seven hundred agents. The fleet consists of primarily 2007 and 2008 vehicles many of which have over one hundred and thirty thousand (130,000) miles on them. The Lottery tries to replace some vehicles each year, mostly for maintenance and safety reasons, and the price is directly off of a state contract. Commissioner Shack mentioned that the Comptroller's office researched the cost of these vehicles, and found the price obtained by the Lottery to be a good price. Commissioner Salvidio added that the vehicles being replaced are depreciable assets and the Lottery benefits in the cost for both safety and environmental purposes.

Treasurer Goldberg, recognizing there was no further discussion, took a roll call vote. The Treasurer asked the Commission all those in favor: Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Shack: yes; Special Counsel, Doug Levine: yes; and, Treasurer Goldberg: yes. The motion carried 4-0.

III. Approval of the Minutes from December 20, 2016

Treasurer Goldberg asked the Commission to accept the minutes of the meeting of December 20, 2016. Commissioner Shack moved to accept the minutes of the meeting, and Special Counsel, Doug Levine seconded the motion. The Treasurer then took a roll call vote. The Treasurer asked the Commission all those in favor: Commissioner Shack: yes; Commissioner Salvidio: yes; Special Counsel, Doug Levine: yes and Treasurer Goldberg: yes. The minutes were approved at 10:53 a.m.

IV. Executive Director's Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney reviewed Lottery sales for December, announcing overall sales for December of 2016 were down \$28.4 million from December 2015. Executive Director Sweeney mentioned that this month is the month when we'll begin to see the impact of the Powerball Jackpot from last December and January, which influenced sales. Net profit for the month was \$94.3 million, compared to \$91.9 million in December 2015, a \$2.4 million increase in net profit over December 2015. The prize payout for December 2016 was 69.10 percent, as compared to 70.47 percent in December 2015. Executive Director Sweeney explained that, due to lower instant ticket jackpot prizes claimed, and the absence of last year's fiscal accrual related to the \$20 million end of game Mega Cash prize, the year-to-date prize payout for the first six months of FY17 is 71.41 percent, as compared to 73.61 percent for the first six months of FY16.

Executive Director Sweeney reported the year-to-date net profit for the first six months of FY17 is \$542.4 million compared to \$479.2 million for the first six months of FY16. After subtracting a five day average net profit figure of \$14.7 million, due to a shift in the calendar that resulted in five more days being included in the net profit figure for the first six months of FY17, the adjusted year-over-year change for the first six months of FY17 versus the first six months of FY16 is \$48.5 million increase in net profit.

Executive Director Sweeney reported that Mass Cash experienced a \$191,603 sales increase in December of 2016 over December of last year. Instant Ticket sales were down \$18.1 million and Powerball sales were down \$8.7 million in December of 2016 compared to December of 2015. Powerball sales were down due to smaller jackpots. Mega Millions sales were down \$1.4 million, Numbers Game sales were down \$537,977, KENO sales were down, \$306,831, Lucky for Life sales were down \$232,800, and Executive Director Sweeney reported that Megabucks Doubler sales were down \$133,561. Executive Director Sweeney attributed much of the decline in sales to the lack of extra sales driven by a large Powerball jackpot. Sales of the new ALL OR NOTHING monitor game continue to do well, and totaled \$959,434 for the month.

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 continue to follow a similar pattern as in prior years and were down for the month, in the year-over-year comparison. KENO sales continue to be strong across the board and matching last year's performance. ALL OR NOTHING continued to do well, and is generating just under \$1

million for the month. Executive Director Sweeney stated that he is watching for where this number will eventually find its level and he believes it could be somewhere around the \$550 thousand mark. The Numbers Game continues to mirror the performance of the last couple of years, and Executive Director Sweeney reported a similar situation with Mass Cash, continuing with its usual performance, just over \$6.2 million and very little fluctuation. There was a decrease regarding the Lucky for Life sales over this past month, and Mega Millions, which is jackpot dependent, was down.

Executive Director Sweeney reported that, overall, game monthly sales were tracking \$400 million versus \$431 million as compared to December of last year. He explained that monthly net profit was about \$3 million higher from last year and can fluctuate greatly, depending on a variety of factors, from month to month.

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 good news, from a net profit standpoint, is that the prize payout as a percentage of sales continues to track low and is at 71.4%. He attributed this mostly to the accrual that was set aside in July, August and September of last year for approximately \$20 million. Last year at this time, the prize payout was at 73.6% and Executive Director Sweeney stated that 71.4% was a good trend for net profit.

Gross Sales Results

Referring to the Gross Sales Results chart, December FY17 vs. FY16 Unadjusted Non-Fiscal Year, Executive Director Sweeney reported a "red" month. He explained that the main concern, which has been previously expressed, is the challenges the Lottery has been facing with Instant Tickets, which took a negative hit during December and sales were down almost a full 6%, year over year. He described Powerball as the big mover, as well as Mega Millions, and, although he reported Powerball was down 60%, he was not overly concerned because of last year's Powerball run up. Overall, total combined sales were down a total of 6.6% compared to December of last year. A large portion of that was attributed to the sweeping effect that Powerball had during the last two weeks of December across the board on all games. Executive Director Sweeney reported that, year to date, the driving force, which accounts for 70% of the Lottery's business, is within the one product of Instant Tickets, and for the year, it is down approximately 3.3%. KENO and ALL OR NOTHING sales are making up for some of the losses. Despite these earnings, the Lottery is down 1.5%.

Instant Tickets

Executive Director Sweeney informed the Commission that Holiday Instant Ticket sales were very strong, with book sales ranging from being approximately 50% sold, up to 72% sold. He announced the advertising campaign, as well as the work on the design of the tickets that the marketing department did with the vendor, made a difference and has received positive feedback from retail agents. Overall, Instant Ticket sales during the holiday period were down about 2.8%.

As part of the discussion around the holiday campaign, Executive Director Sweeney provided a Holiday Season Ticket sales update over the last three years. He reported that exclusively with Instant Tickets, sales are down approximately 2.8% and for all products, sales were down 2.6%. He reported that ALL OR NOTHING sales helped to mitigate some of that loss.

Executive Director Sweeney continued the discussion by providing a sales update on January Instant Ticket sales. He reported that the initial sales on both the \$10 and the \$5 ticket have been very strong. Chief Administrative Officer, Ed Farley agreed and mentioned that the World Poker Tour, \$5 ticket, received gross sales of over \$7 million in the first three weeks. Executive Director Sweeney stated that the ticket has been well received by the consumer and predicted that the Lottery should see some improved Instant Ticket sales numbers in January.

Promotions

Executive Director Sweeney shared with the Commission the Powerball promotion that is scheduled to begin on January 29th and run until February 11th. Players who spend \$6 or more on a single Powerball ticket, will receive a promotional ticket for a chance to win \$2,017. On February 13th, twenty winning promotional ticket serial numbers will be randomly selected and posted on masslottery.com. Executive Director Sweeney also gave details on the Red Carpet VIP Club Promotion, beginning on January 17th and continuing until February 1st. Red Carpet VIP Club members have a chance to enter to win a \$100 cash prize in the WPT \$1,000,000 Hold ‘Em Poker promotion. To enter, VIP Club members are required to log into the VIP Club website and answer three questions related to the Hold ‘Em Poker ticket, found on the VIP Club Promotion page. Chief Administrative Officer Ed Farley explained that this promotion was sent out to 3,000 VIP Club members and is the first promotion that the Lottery has done interactively by email. The Lottery is inviting players to click and participate in a promotion and has received over 1,500 participants. Executive Director Sweeney added that the Lottery is doing a lot to interact with the consumer through a multiple number of channels.

Social Media Messaging

Executive Director Sweeney moved on to highlight 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 Toys for Tots toy drive held by the Lottery, in conjunction with the Treasurer’s office, the Mass Council of Compulsive Gambling and the Lottery Regional offices. Additionally, the Lottery sent out multiple notifications making players aware of the 2nd chance drawings that are offered on the 2nd chance App site, as well as promotional material concerning games that are running throughout the year. This included prizes remaining on the Patriots Instant Ticket and drawing attention around the holiday campaign with shared photos of some of the winners.

Winter Reroute Recap

Executive Director Sweeney continued with the discussion by providing an update of the new Massachusetts Lottery reroute schedule. The new schedule was implemented back in July of 2016 after examining the routes that were being driven on a daily basis by the sales accountants and reps. Director of Sales & Regional Operations, Michael Lorden, and the Executive Director saw an opportunity for efficiencies and cost savings. After loading the existing routing schedules into specific software, and removing some inactive retail agents and adding new agents, as well as receiving feedback and edits from Lottery employees, routes were adjusted. Executive Director Sweeney stated that Lottery employees were happy to contribute direct input and to see the changes incorporated and finalized. He updated the Commission on the progress and the results of the updates. This included, the average number of daily routes, average time spent per visit, total number of stops and the total annual miles. He explained that in addition to these efficiencies, Lottery reps are able to spend more time interacting at agent locations and speaking with Lottery retail agents about products, and any issues they may be experiencing, such as, equipment and product placement. He highlighted a chart showing the key measures of comparisons and emphasized the significant cut in the total

number of annual miles. Executive Director Sweeney commented that additionally, one of the key factors was that the Lottery was able to increase the time that Lottery employees are in the agent locations, and interacting with retail agents as well as the cost savings on gas and maintenance.

Editorial

In conclusion, Executive Director Sweeney added a copy of a Boston Globe editorial to the Executive Director's Report, dated January 18, 2017, "Cash is so 2007. Can the state lottery adapt?" This article was written after an interaction with Treasurer Goldberg, relating to how consumers in Massachusetts interact with products and technology. The article states that the time is appropriate for the state to take a cautious but full approach to looking at online sales for Lottery products.

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

After asking if there was any further business, Treasurer Goldberg took a minute to address the Commission. She announced that today marks her second anniversary as Chairperson of the Lottery Commission and also as the Treasurer and Receiver General of Massachusetts. Treasurer Goldberg commented on strategies and approaches being employed to maximize the amount of money that the Lottery can give back to every city and town in the Commonwealth. She referred to the red sales figures posted in the Gross Sales Results charts, and pointed out that the losses were seen within the Instant Ticket sales as well as the monitor games. The Treasurer stated that, despite the decline, the Lottery continues to squeeze profits. In conversations within the Commission, she has given a broad view of where the Lottery is and what the strategy will be moving forward. The Lottery is a mature business, and the decline can either be managed, or it can be modernized to move towards the twenty-first century.

Using the example of the Lottery's new rerouting refinements, she noted that, in terms of profits, the approach that the Lottery has been taking, may be unnoticed. She explained that these refinements have reduced the total number of miles driven by Lottery sales agents each year on Lottery-owned vehicles with fewer oil changes, gas and other maintenance. Treasurer Goldberg explained that the Lottery is doing everything to maximize opportunities by creating additional efficiencies. Simultaneously, the Lottery is operating under a marketing budget which was dramatically cut, making it crucial to do these kinds of efficiencies in order to increase profit. Treasurer Goldberg stated that the Lottery will continue to do whatever is necessary, but cautioned that this business is also subject to variables, such as the payout, which, at times, cannot be controlled. We are very fortunate that this year the payout has declined and being able to project profits isn't always easy because of the variables that we can't control. The Treasurer cited last year's large Powerball jackpot as a perfect example of which drove profits, and explained that when players came in to purchase their Powerball tickets, they also bought additional types of Lottery products. Overall, the Lottery needs to continue to have a good business model. Treasurer Goldberg plans to further examine the Instant Ticket process and the way in which the Lottery approaches marketing campaigns. She also plans to be more creative as to the ways in which the Lottery interacts with vendors in regards to their business practices. The Lottery will also collaborate with other lotteries which are confronting some of the same issues.

¹Referring to the Globe Editorial "Cash is so 2007. Can the state lottery adapt?" the Treasurer stressed that the Lottery needs to modernize and has to change in order to continue to be profitable and move forward. The trend on sales is down, and although the profits were

up in January, there are many months ahead. Treasurer Goldberg mentioned that the Lottery is using a lot of clever, behind the scenes business strategies to try to hold those profits in line and also move it forward. The Treasurer expressed that she felt this is critical and the overall picture can sometimes be confusing.

Commissioner Shack expressed his support for the Treasurer's remarks and explained that as a Comptroller, this is one of these unique environments in the Commonwealth where the Lottery is a business, as well as an entrepreneurial endeavor. This is the Commonwealth's business, the people's business and it should be treated as such. Referring to the mileage rerouting refinements, Commissioner Shack stated that those one time efficiencies, can paint a different picture from a profitability standpoint. He stated that he supports wholeheartedly what the Treasurer has indicated relative to going forward and he applauded her for her leadership in this effort over the last two years.

Commissioner Salvidio communicated that he continues to be impressed by the way in which the Lottery is managed. He stated that although it is part of the state organization, he also considers the Lottery to function as a business that returns dollars back to the Commonwealth. Commissioner Salvidio added the importance of focusing on the consumer and modernization that makes it convenient to those who play the Lottery. Just as the registry went to an on-line format when renewing a driver's license and registration, our consumers, by the decrease in sales, communicate to us that they want Lottery delivered by another medium and we have to really begin to study consumer choices. Treasurer Goldberg agreed and declared that the Lottery is taking a cautious approach and to ignore this type of modernization, is dangerous to the Lottery. She continued that it is the direction that the world is going in and this is about generating profit so that we have unrestricted local aid for every community.

Special Counsel, Doug Levine, Executive Office of Public Safety and Security, asked about other states and how they are modernizing and what they've done successfully. Treasurer Goldberg responded that the Massachusetts State Lottery is a one of a kind lottery and the most successful lottery in the country and that several states have moved to on-line ahead of us. Several states are going to be up and running more rapidly because they're smaller. Treasurer Goldberg stated that it is very hard to compare the Massachusetts State Lottery to other states because it is so unique. However, other states have successfully implemented on-line lottery without cannibalizing their sales and referred to the state of Michigan as a case in point.

Commissioner Shack said that it is important to recognize that Massachusetts is a leader in so many different ways in these organizations and so much of what has been done has been a first of its kind. Massachusetts has been the first to do a lot and this is one of those areas that is extremely important.

After asking if there was any further business, Treasurer Goldberg sought a motion to adjourn the meeting. Commissioner Shack moved to adjourn and Special Counsel, Doug Levine seconded the motion. The motion carried unanimously. The meeting adjourned at 11:23 a.m.

¹Please reference page 32 of the January Executive Director's Report for the editorial.