

Massachusetts State Lottery Commission

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DATE: Tuesday, May 23, 2017

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner
Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer,
designee for Thomas G. Shack, III, Comptroller
Shannon Sullivan, Assistant General 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
Paul Mandeville, Assistant Executive Director of IT, Lottery
Christian Teja, Director of Communications, Lottery
Judy Moore, Executive Assistant, Lottery
Joshua Fredette, Overture Partners, LLC, Program Manager on
assignment at Lottery

Chandra Allard, Communications Director, Treasury
Shawn Collins, Legislative Director, Treasury
Robin Healey, Chief Information Officer, Treasury
Sarah Kim, General Counsel, Treasury
James MacDonald, First Deputy Treasurer, Treasury
Dan Truong, Assistant Communications Director, Treasury

Robert Frasca, Interested Member of the Public

I. Opening of the Meeting:

Treasurer Goldberg opened the meeting at 10:36 a.m. Treasurer Goldberg stated, “Pursuant to the Commonwealth’s Open Meetings Law, Massachusetts General Laws, Chapter 30A, Section 20, as Chair of the Massachusetts State Lottery Commission, I would like to advise that any person may make a video or audio recording of this open meeting. However, I am obligated to inform attendees of any recording at the beginning of the meeting, so I ask that those who are making any recording identify themselves now as doing so.” Judy Moore, Executive Assistant, Lottery, stated that she would be recording to assist in the preparation of the meeting minutes.

II. Approval of the Minutes from April 25, 2017

Treasurer Goldberg asked the Commission to accept the minutes of the meeting of April 25, 2017. Commissioner Salvidio moved to accept the minutes of the meeting, and Commissioner Liddy seconded the motion. The minutes were approved at 10:37 a.m.

III. Executive Director’s Report

- a. Sales Update**
- b. Marketing Update**

Executive Director Sweeney provided the Commission with the Lottery sales update for April. He reported overall sales for April of 2017 were down \$4.3 million from April of 2016. Due to a shift in the calendar that resulted in seven fewer days being included in the net profit figure for April 2017, two purchases of STRIPS for annuity prizes totaling approximately \$8.3 million, and a total of \$23.9 million in cash option prizes paid during the month, net profit for the month was an estimated \$46.4 million, compared to \$90.9 million in April 2016. After adding a seven day average net profit figure of 11.6 million, the adjusted change for April 2017 versus April 2016 is an estimated \$32.9 million decrease in net profit. The prize payout for April 2017 jumped substantially and was estimated at 80.18 percent, as compared to 74.41 percent in April 2016. The year-to-date prize payout for the first ten months of FY17 is estimated at the previously predicted, 72.02 percent, as compared to 73.34 percent for the first ten months of FY16.

Executive Director Sweeney reported the year-to-date net profit for the first ten months of FY17 is an estimated \$870.3 million compared to \$841.5 million for the first ten months of FY16. After adding a two day average net profit figure of \$5.7 million, due to a shift in the calendar that resulted in two fewer days being included in the net profit figure for the first ten months of FY17, the adjusted year-over-year change for the first ten months of FY17 versus the first ten months of FY16 is an estimated \$34.5 million increase in net profit over last year.

Executive Director Sweeney reported that KENO sales continue to be strong and were on the rise, experiencing an additional \$2.2 million increase in April 2017, compared to April 2016. Powerball sales were down \$3.7 million in April of 2017 compared to April of 2016. Executive Director Sweeney reported instant ticket sales were down \$2.5 million in April of 2017 compared to April of 2016. Mega Millions sales were down \$585,249. Numbers Game sales were down slightly at \$145,869. Megabucks Doubler

sales were down \$118,872. Mass Cash sales were down \$113,649 and Lucky for Life sales were down \$50,116 in April of 2017. ALL OR NOTHING game sales continue to perform strong and totaled \$799,596 for the month and Executive Director Sweeney remarked that this was the first time this game has fallen below the \$800,000 mark.

Executive Director Sweeney provided additional details on each game across the Lottery's portfolio for the month. He reported that instant ticket sales were slightly above \$271 million for the month, trailing marginally compared to last April. Executive Director Sweeney stated that as a result of the KENO expansion, and for the third time out of the last four months, KENO sales for the month have exceeded over \$2 million compared to the previous years. Therefore, since January, KENO sales are up just about \$6.7 million compared to last January through the end of April. ALL OR NOTHING came in just under \$800 thousand. Executive Director Sweeney compared the sales of ALL OR NOTHING to the sales of the now ended Jackpot Poker, and explained that the current revenue for one month for ALL OR NOTHING, is still the equivalent of three months' worth of revenue from the Jackpot Poker game. The Numbers Game continues to track a historical trend of just about \$25 million monthly. Mass Cash continues to perform around the \$6.1 million mark, and Megabucks Doubler is holding its own at \$1.1 million. Lucky for Life experienced sales of \$1.8 million, Mega Millions, which is driven by the jackpot was down about \$600 thousand. Powerball, also jackpot dependent, had sales that were down significantly and was competing against the jackpot from last April. Executive Director Sweeney reported that overall, all games for the month were at \$389 million, trailing by about \$4.3 million compared to last April. He stated that figure would have been higher if there had been a similar comparison between Powerball and Mega Millions during that time period. Net profit for the month fell significantly, which was largely due to a sizeable number of heavy cashes coming in during the first few weeks of April.

Five Year Comparison Chart

Executive Director Sweeney discussed the five year comparison chart, a significant historical chart showing the highest payout as a percentage of the Lottery's sales from the last five years. He reported that the prize payout is currently at 72.0 percent, a substantial increase, which was anticipated and still trailing the 73.3 mark from last year.

Gross Sales Results

Discussing the Gross Sales Results chart, April FY17 vs. FY16 Unadjusted Non-Fiscal Year, Executive Director Sweeney explained that the same games with sales that have been trailing, are the same which have been trailing historically. Instant tickets were off by about \$2.5 million and Powerball, which was heavily influenced by the jackpot, was down about \$3.7 million. Executive Director Sweeney stated that the real win was the additional revenue that was generated through KENO, which brought in an additional \$2.2 million this month alone and ALL OR NOTHING generating over \$800 thousand for the month. Monitor games generated almost \$3 million, which helped to offset the setbacks that were experienced with draw games and instant tickets.

Executive Director Sweeney reported that, year to date, the Lottery still hovers near the predicted decrease of 3% and is currently at a -2.6% compared to last year. The majority of the decrease is contained in two areas, one being the continuing decline of instant tickets sales that has been prevalent for over five years in Massachusetts and across the country. The other main area is jackpot dependent games, which are down \$54 million for the year at -9.5%. The good news for this fiscal year is the long term performance of the monitor games, including the ALL OR NOTHING game that was introduced back in July. Monitor games were up \$21 million, which helps to offset some of the losses.

Instant Tickets

Executive Director Sweeney continued the discussion by providing a sales update on April instant ticket sales. He reported that the April release began strong with good consumer feedback. He noted that the Extra Play ticket that includes an option that allows players an extra chance on the back side of the ticket, required additional education and outreach to some of the retailers. Consumers are used to the historical play on just one side of the ticket and some players had been discarding the ticket without playing the game on the flip side. Executive Director Sweeney noted that overall, this ticket has gotten a

great consumer response. Executive Director Sweeney also noted that the new \$30 instant ticket, 200X sales have been very strong and experienced a couple of big winners during the first four weeks. Chief Administrative Officer Ed Farley agreed and mentioned that sales are averaging about \$13 million a week over the past three weeks. Executive Director Sweeney said overall, the tickets have helped to boost up April but at the same time have brought in some high cashes.

Executive Director Sweeney introduced Bingo Boxes as the new series of instant tickets which were released on May 23, with a price point of \$2.00. Chief Administrative Officer Ed Farley presented samples of the tickets along with Point of Sale materials (P.O.S.). Treasurer Goldberg remarked on the bright colors of the ticket and Chief Administrative Officer Farley explained that these tickets replace the Bingo Tripler and the first color to come out will be blue, followed by pink, followed by orange. The Bingo games are a strong contributor at the \$2 price point and in general, this type of theme has been a good seller for the Lottery. He stated that the different color structure helps to attract attention back to the game and keeps it fresh.

Promotions

Executive Director Sweeney shared with the Commission, an ALL OR NOTHING promotion which will begin May 29 and run through September 4th. The Lottery will be adding an additional 2X multiplier to the ALL OR NOTHING Bonus which will result in more games having a bonus multiplier. Playing ALL OR NOTHING Bonus doubles the price of a wager, and offers players the chance to multiply their prizes 2,3,4,5 or 10 times. Executive Director Sweeney commented that in the past, promotions like this have been well received and he fully expected that this promotion would benefit the ALL OR NOTHING game in sustaining strong numbers throughout the summer months.

Celtics “Heroes Among Us” Partnership

Over the past couple of years, Executive Director Sweeney has spoken about the importance of the Heroes Among Us award program and the Lottery’s relationship with the Boston Celtics. The Heroes Among Us award is a program of the Boston Celtics, presented by the Massachusetts State Lottery. Recently, Commander Peter Niles was honored before the start of a Boston Celtic’s game for his dedication and a lifelong career in the US Coastguard. Throughout his career, Commander Niles oversaw a crew of over one hundred Boston based Coast guardsmen and women and just returned from a seventy-four day patrol that seized over 1,400 kilograms of narcotics. It is estimated that he has helped to prevent over \$2 billion worth of illegal drugs from reaching the streets throughout his military career. Executive Director Sweeney shared with the Commission a letter of gratitude from Commander Niles and said he felt it was important for the Commission to see the many different kinds of positive work being done by the Lottery.

Social Media Messaging

Executive Director Sweeney updated the Commission on a number of ways the Lottery has been using social media as a tool to gain customer insight, increase awareness on Lottery products and build customer relationships. He explained that recently, the Lottery ran a Celtics “Lottery Pick” promotion that asked users to comment and share “Lottery Pick Promo” on the Lottery Facebook site for a chance to win an autographed jersey or basketball. During the first two days of the promotion, it generated 906 comments and 182 shares. Executive Director Sweeney also highlighted the success of various promotions that were run on social media to help promote Lottery instant games, such as, Corvette Cash, Boston Bruins and the 200X instant ticket. Executive Director Sweeney also highlighted the Lottery’s relationship with the Mass Council on Compulsive Gambling and spoke about successful examples of recent strategies promoted on Twitter, Facebook and Instagram and emphasized the vast number of people reached.

Executive Director Sweeney thanked the Commission for the opportunity to share this information, and Treasurer Goldberg asked the Commission if there was any feedback or questions, but first restated her thoughts of squeezing the juice out of the lemon in order to remain profitable. Reviewing Lottery sales from last year and the year before, Treasurer Goldberg described the drop as significant. Commissioner Salvidio asked where is the Massachusetts State Lottery in relation to other lotteries in terms of declining

sales. Executive Director Sweeney described it as a national issue and stated that the only outliers are usually the states that have room for expansion and cited California, Texas and Florida. He explained that, if you examine the numbers from these states on a straight level, there appears to be some increases. However, these increases are usually driven by the fact that these states are about fifteen years behind Massachusetts as far as saturation of the market. Executive Director Sweeney also spoke about Michigan, revealing that the traction that they have been experiencing over the last three years is the result of the implementation of a successful on-line strategy. They are generating revenues approaching over \$100 million a year from just the on-line component and are gaining the benefits of going on-line. The industry is scrambling for the solution for instant tickets but it's just not out there because commerce has changed and all lotteries are facing the same issues. We need to modernize, we need to go where business is being transacted. Commissioner Salvidio mentioned the fact that these days, most people don't carry money and this combined with the lack of on-line presence will be the Lottery's biggest detriment. Deputy Comptroller Shapiro stated that when you look at the figures from year to year, it sends a message that the customer base is changing and the way that they interact is changing and if the legislature pushes on-line lottery out even just another year it still will require time to get it up and running. Treasurer Goldberg explained that we can either manage the decline of an overly mature business that is on its way down and at some point the legislature will need to explain to their communities the reduction in unrestricted general funds to their bottom line or, we can innovate and capture new markets. These are the only two choices.

IV. Matters Requiring Massachusetts State Lottery Commission Approval

Votes Presented to the Commission

VOTE (1): For the reasons set forth in the attached memorandum dated May 11, 2017, the Executive Director is hereby authorized, under the state contract specifically identified as Massachusetts Master Services Contract ITC47, for the purchase of a new IBM mainframe, peripherals and maintenance, with the following company:

PSR, Inc.
770 Dedham Street
Canton, MA 02021

The total maximum obligation assumed hereunder shall be four hundred and six thousand nine hundred and forty dollars (\$406,940.00).

Deputy Comptroller Shapiro moved to enter into the contract and Commissioner Liddy seconded the motion.

Executive Director Sweeney introduced the vote by first announcing that Paul Mandeville, Lottery Assistant Executive Director for the IT Department, was in attendance, and he complimented Paul and his team on the work they've been doing in relation to this vote. Executive Director Sweeney explained that the current IBM system is being phased out and it's time for the Lottery to purchase a new one. In part, the IBM platform supports various systems integral to the Lottery operations such as accounting, instant ticket inventory and invoicing over 7500 retail agents as well as interfacing all aspects of bank interaction. This new system will go into the primary data system and the existing system will be swapped out with an older system in the backup center and would include maintenance. Executive Director Sweeney concluded that Paul and his team worked

through the state contract and got the best price possible and this purchase is an absolute must for the continuing operations and part of the ongoing modernization of technology of 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 (2): For the reasons set forth in the attached memorandum dated May 1, 2017, the Executive Director is authorized to set the maximum obligation for the third year of the three (3) year contract for advertising services with the following company:

Connelly Partners
Boston, MA 02118

This original procurement was made pursuant to competitive bid process (RFR LOT#1508) which resulted in Connelly Partners being awarded the contract.

The maximum obligation shall not exceed seven million dollars (\$7,000,000.00) in fiscal year 2018.

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

Executive Director Sweeney introduced the vote by explaining that during FY17, the Lottery was allowed \$4.5 million for the advertising budget and is asking for the full authorization of \$7 million. He clarified that the Lottery would only spend what it is eventually budgeted for and emphasized that Connelly has been a good partner. He explained that recently, key members from the Lottery's media and development team met with Connelly to begin strategizing the Lottery's advertising services for FY18, which generated a lot of good ideas to help even at this level of funding. Commissioner Salvidio remarked that each year, Connelly has put together a campaign that shows much success. Treasurer Goldberg stated that declining sales and cutting the advertising budget, equals loss, not success. Commissioner Liddy agreed, explaining that it's basic business principles. When you have a declining business, you do not cut back on marketing. Deputy Comptroller Shapiro agreed that Connelly has been an excellent partner and when the budget was first announced, they were able to be creative and stretch it. However, this time, it will be very challenging to be as resourceful.

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): For the reasons set forth in the attached memorandum dated May 1, 2017, the Executive Director is hereby authorized to exercise a contract extension for a period of six (6) months, until December 31, 2017, for custodial banking services with the following provider:

Xerox-ACS
Boston, MA 02111

This original procurement was made pursuant to competitive bid process, TRE RFR CASH CUSTODY 2 2012.

The maximum obligation under the contract extension shall not exceed one hundred and twenty-six thousand two hundred and thirty-six dollars (\$126,236.00) for a six month extension, through December 31, 2017.

Deputy Comptroller Shapiro moved to enter into the contract and Commissioner Salvidio seconded the motion.

Executive Director Sweeney described this vote as straightforward, explaining that the Lottery expects the relationship with this provider to come to an end during this time period. The Commonwealth and the Treasury are in the process of issuing a new RFR for Custodial Banking Services but this process may not be completed before the expiration of the existing contract on June 30th, and therefore, in order to avoid a disruption in service, it is necessary that the existing contract be extended until December 31, 2017.

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 (4): For the reasons set forth in the attached memorandum dated May 11, 2017, the Executive Director is hereby authorized, under the state contract ITC 66, to purchase a color printer, model Xerox XC 1000i, with the following company:

Xerox Corporation
440 Wyman Street South
Waltham, MA 02451

The total maximum obligation assumed hereunder shall be four hundred and eighty-five thousand dollars (\$485,000.00).

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

Executive Director Sweeney introduced the vote by explaining that this is for a five year lease, and the current lease on the existing copier is expiring this year. This contract would assume a down payment of \$97,000.00 which would reduce the monthly payment from approximately \$6,270.97 to \$5,981.27. Although a copier may not seem to be a key part of an operation, this new advanced copier is part of the technology changes and adjustments from the advertising and marketing end that will allow the Lottery more flexibility. Currently, the Lottery yields almost 100,000 pieces of unique advertising and marketing material each month and this will not only maintain that level, but also give greater flexibility to what those pieces look like and how it can be applied out in the field.

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 (5): For the reasons set forth in the attached memorandum dated May 6, 2017, the Executive Director is hereby authorized to enter into a contract for a three (3) year period, with two one year extension options, for the design and manufacture of bet stations, with the following company:

GO PLASTICS LLC
515 Brown Industrial Parkway
Canton, GA 30114

The award is made pursuant to a competitive bid process, RFR Lot #1703.

The maximum obligation assumed hereunder for the three year period shall not exceed three hundred and seventy-two thousand seven hundred and fifty dollars (\$372,750.00).

Deputy Comptroller Shapiro moved to enter into the contract and Commissioner Salvadio seconded the motion.

Executive Director Sweeney introduced the vote by explaining that this is a good example of the type of investment that the Lottery makes that directly benefits our retail agent partners. These new stations not only have a modern look and a better feel, they meet all of the mandatory requirements. The Lottery plans to roll out about 350 of these units each year with some going to new locations and others will replace older units. This will be done based on feedback from the retail partners. These new stations are about \$350.00 each and although the Lottery only received one bidder, the pricing was still within what was originally anticipated.

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 (6): For the reasons set forth in the attached memorandum dated May 16, 2017, the Executive Director is hereby authorized, under the state contract specifically identified as OSD PRF65, to enter into a contract for the purpose of providing technology consulting services, with the following provider:

Gartner Consulting
56 Top Gallant Road
Stamford, CT 06902

The maximum obligation assumed hereunder shall not exceed two hundred thousand dollars (\$200,000.00).

Commissioner Liddy moved to enter into the contract and Deputy Comptroller Shapiro seconded the motion.

Treasurer Goldberg introduced the vote by announcing that Robin Healey, Chief Information Officer for the Treasury, and Josh Fredette, Program Manager for the Lottery technology project and who works with Gartner, were in attendance to provide any additional information if needed. Executive Director Sweeney explained that this is part of the Lottery's ongoing strategy in laying out a new vision and a new movement for where the Lottery should be and needs to be. This will provide Gartner Consulting the ability to produce a roadmap as to some of the steps that the Lottery, as an institution, can be taken to continue to modernize the current hardware and software terminal adjustments. This will take a snapshot from everything from where the Lottery is currently in technological development to where we want to be in five years and have it broken out into manageable pieces. Recently, the Lottery was successful in hiring a new employee to focus on social media and also a new manager of gaming system software. While the Lottery waits for new opportunities such as iLottery, they are doing everything possible to appropriately advance the

Lottery's technologically across the board. Chief Information Officer Healey explained that the timing of this vote comes at a perfect time. She explained that this is a vision of where the Lottery needs to go to maximize profit and that Gartner will provide the expertise to help shape and elicit that vision. Commissioner Liddy stated that the technology investment is so far overdue and that she fully supports that this is being done the right way.

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 (7): For the reasons set forth in the attached memorandum dated May 12, 2017, the Executive Director is hereby authorized to enter into a contract, pursuant to a Notice of Intent, for roll ticket stock, with the following company:

RMF Printing Technologies, Inc.
50 Pearl Street
Lancaster, NY 14086

The maximum obligation assumed hereunder shall not exceed nine hundred and sixty-six thousand dollars (\$966,000.00).

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

Executive Director Sweeney introduced the vote by explaining the total amount may not be needed but this amount will cover what is needed through FY18. He noted that although the pricing did go through negotiation discussions, this contract comes with a modest 2 percent increase. He stated that this is a needed element for the Lottery's business and was hoping for the support of the Commission.

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 (8): For the reasons set forth in the attached memorandum dated May 16, 2017, the Executive Director is hereby authorized, under state consortium contract ITT50, to contract for services to upgrade voicemail application software and hardware with the following firm:

LCN, Inc.
260 Libbey Parkway
Weymouth, MA 02189

The total maximum obligation assumed hereunder shall be one hundred seventy four thousand nine hundred forty-six dollars and seventy-four cents (\$174,946.74).

Deputy Comptroller Shapiro moved to enter into the contract and Commissioner Liddy seconded the motion.

Executive Director Sweeney introduced the vote by explaining this vote is necessary to keep the phone system current and operational. About \$44,000.00 of this amount will be used to customize the system. Executive Director Sweeney complimented Lottery Telecommunication Manager, Jeff

Rogato, on the excellent work done in vetting this firm. He explained that the Lottery plans to take a step back over the next year and a half to examine all of the internal and external telecommunication needs to see what the best systems might be going forward. He described this as a good temporary gap measure to ensure that operations can continue in the efficient manner that they currently do now.

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 further business, Treasurer Goldberg sought a motion to adjourn the meeting. Commissioner Salvidio moved to adjourn and Deputy Comptroller Shapiro seconded the motion. The motion carried unanimously. The meeting adjourned at 11:30 a.m.