

Massachusetts State Lottery Commission

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DATE: Tuesday, October 24, 2017

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner
Jeffrey Shapiro, Esquire, First Deputy Comptroller and Chief Operating Officer, designee for Commissioner Thomas Shack
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, IT, Lottery
Matthew DiFrancesco, Assistant Executive Director, Operations, Lottery
Scott Kenyon, Draw Games Product Manager, Lottery
Judy Moore, Senior Executive Assistant, Lottery
Joshua Fredette, Overture Partners, LLC, Senior Program Engagement Manager, under contract with Lottery

James MacDonald, First Deputy Treasurer
Sarah Kim, General Counsel, Treasury
Greg Polin, Deputy General Counsel, Treasury
Dave Falcone, Chief of Staff, Treasury
Robin Healey, Chief Information Officer, Treasury
Shawn Collins, Legislative Director, Treasury
Chandra Allard, Communications Director, Treasury
Luis Velazquez, Helpdesk and Network Manager, Treasury

Phil Wettengel, O'Neill and Associates
Robert Frasca, Interested Member of the Public

I. Opening of the Meeting:

First Deputy Treasurer James MacDonald opened the Massachusetts State Lottery Commission meeting at 10:29 a.m., explaining that Treasurer Deborah Goldberg would be arriving shortly. First Deputy Treasurer MacDonald stated, "Pursuant to the Commonwealth's Open Meeting 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, Senior Executive Assistant, Lottery, announced that she would be recording to assist in the preparation of the meeting minutes.

II. Approval of the Minutes from September 25, 2017

First Deputy Treasurer MacDonald asked the Commission to accept the minutes of the Massachusetts State Lottery Commission meeting of September 25, 2017. Commissioner Anthony Salvidio made a motion to accept the minutes of the meeting and First Deputy Comptroller Jeffrey Shapiro seconded the motion. The motion passed unanimously. The minutes were approved at 10:31 a.m.

III. Executive Director's Report

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

Executive Director Michael Sweeney provided the Commission with the Lottery sales update for September 2017 by announcing that overall sales for September of 2017 were up \$5.4 million.

He reported that this year, the Lottery has an accrual for which there must be an accounting. He first reported on the figures that did not include the accrual for prizes that were won and not yet been paid. He announced that the net profit for September 2017 was \$76.8 million as compared to \$69.7 million in September 2016, an increase of 7.1 million. Executive Director Sweeney reported that the prize payout for September 2017 was 71.27 percent, as compared to 73.75 percent in September 2016.

Executive Director Sweeney proceeded by reporting on the sales figures for fiscal year 2018, which included accruals. The year-to-date net profit and prize payout figures both include accruals associated with an end of game \$1 million a year for life prize in the Billion Dollar Blockbuster instant ticket game that is expected to be awarded in FY18. Year to date net profit for the first three months of FY18 is \$274.8 million compared to \$264.8 million for the first three months of FY17. After adding a one day average net profit figure of \$3.0 million due to a shift in the calendar that resulted in one less day being included in the net profit figure for the first three months of FY18, the adjusted year-over-year change for the first three months of FY18 versus the first three months of FY17 is a \$13.0 million increase in net profit. The year-to-date prize payout for the first three months of FY18 is 71.49 percent, as compared to 72.26 percent for the first three months of FY17.

Describing sales as, "very good," Executive Director Sweeney provided a breakdown for the September 2017 sales, commenting that KENO, instant tickets and Mass Cash all experienced sales increases in September of 2017, as compared to September 2016. KENO sales were up \$4.1 million, instant ticket sales were up \$3.4 million, and Mass Cash sales were up \$256,498. Executive Director Sweeney noted that, compared to September of 2016, ALL OR NOTHING sales for September of 2017 were down \$1.1 million, Powerball sales were down \$932,328, Mega Millions sales were down \$322,848, Megabucks Doubler sales were down \$53,605, THE NUMBERS GAME sales were down \$28,348 and Lucky for Life sales were down \$3,710.

Commissioner Liddy remarked on the increase in instant ticket sales, and asked if it was due to the recent launch. Executive Director Sweeney explained that he believes some of the tickets have been better received this fiscal year versus last fiscal year and that the \$20.00 tickets continue to perform well. Chief Administrative Officer Edward Farley agreed, stating that the multiplier family that was launched back in June is still a healthy selling ticket. Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month revealing that all games continue to track the historical trend of previous years and overall, all game sales experienced a good month.

Gross Sales Results

Executive Director Sweeney moved on to discuss the Gross Sales Results chart, September FY18 versus FY17 Unadjusted Non-Fiscal Year, and also the Year-to-Date FY18 versus FY17. When comparing September FY18 versus FY17, Executive Director Sweeney commented that it's been a healthy month with just about \$5.4 million in sales. He drew attention to KENO'S positive performance as well as instant tickets and stated that in September, Powerball and Mega Millions did not generate a lot of sales because of low jackpots.

Reporting on the year-to-date numbers, Executive Director Sweeney stated that to date, it's been a respectable year. He reported that the low jackpots from Mega Millions and Powerball, gave the opportunity to examine how well instant tickets were actually trending on their own, and reported that they have been very well received, up at 1.28%. He reported that KENO was up 7.6% and described it as a real win for the Lottery. He credited the positive sales to the strategy that was implemented by the Treasurer two and a half years ago.

Executive Director Sweeney introduced the Lottery's new Product Manager for draw games, Scott Kenyon. Chief Administrative Officer Farley stated that Kenyon comes from Northstar Lottery Group in New Jersey, which is the advertisement and marketing team that runs the New Jersey State Lottery. Scott has a lot of ideas on how the Lottery can invigorate sales for draw games.

Instant Tickets

Executive Director Sweeney provided a sales update on the September instant ticket sales that were launched on September 19th. He reported on the Creepy Cash ticket and conveyed that it is doing very well. Chief Administrative Officer Farley agreed stating that there are only three weeks of tickets remaining at the warehouse and he anticipates it will sell out during this fiscal year.

Executive Director Sweeney presented a preview of the new holiday instant tickets being released on October 24th. He stated that these tickets tested very well internally and also with the vendor. Executive Director Sweeney expressed that he is hoping for a robust season. Chief Administrative Officer Farley displayed samples of the tickets along with Point of Sale materials (POS) and explained that the Nutcracker Cashword ticket is the first die cut ticket that the Lottery has ever presented. In addition, Chief Administrative Officer Farley explained that the Lottery is offering a promotion for this family of tickets from October 24th to January 9th where all non-winning tickets can be entered into a chance to win up to \$10,000.00. He declared that this is the first time that the Massachusetts State Lottery has done this for non-licensed tickets and he is hopeful that it will increase sales. Executive Director Sweeney stated that the Lottery plans to go all out this holiday season and is hopeful for a good public response.

Mega Millions Enhancements

Executive Director Sweeney provided an update on the Mega Millions enhancements, which will be going into effect on October 28, 2017. The starting jackpot going forward will more than double from \$15 million to \$40 million. The goal of this improvement is to gain higher average jackpots with faster rolls and improve the odds of winning a \$1 million prize. For the first time since the start of the game in 2002, there will be a price adjustment and a single wager will cost \$2.00. Executive Director Sweeney provided a matrix designed to produce significantly higher average jackpots and more \$1 million prize

winners and explained the new enhancements to the Commission. He noted that the game's odds were changing and winning the jackpot will be more difficult. Overall, the prize payout remains at approximately 50%.

Mega Millions Promotion

In connection with the Mega Millions change, Executive Director Sweeney reported on a Mega Millions promotion which will begin on October 29th and run through November 11th. During this time, players who spend \$4 or more on a single Mega Millions ticket will receive a promotional ticket for a chance to win \$1,000. On November 13th, forty (40) winning promotional ticket serial numbers will be randomly chosen and posted on masslottery.com.

Executive Director Sweeney also reported on a Mega Millions Agent Incentive. From October 29th through November 18th, every \$300 worth of Mega Millions sales by an agent location will earn them one entry into a drawing to win \$500. On November 20th, forty (40) qualifying agents will be randomly chosen as winners.

Social Media Messaging

Executive Director Sweeney highlighted social media activities used to promote Lottery products. He showed examples of recent and upcoming strategies that have been rolled out on Twitter, Facebook and Instagram. He also highlighted the Massachusetts State Lottery employees' goodwill efforts, in conjunction with the Treasurer's office, to donate to those in Puerto Rico and Florida who were affected by recent hurricanes. The contributions totaled approximately \$1,500.00.

Executive Director Sweeney also spoke about the great responses being received on social media in using in-house videos and music as well as inspirational messaging to create an emotional connection between players and the Lottery. He drew attention to message postings which don't necessarily promote the Lottery but encourage followers to engage with the Lottery and become more familiar with the Lottery brand. The Lottery is receiving a significant increase in social media responses and plans to continue to engage in this type of messaging.

High Frequency Cashers

Executive Director Sweeney reminded the Commission of a conversation and various news articles from July and August of 2017. He described this concern as a long term issue for both the Massachusetts Lottery as well as lotteries across the country. Executive Director Sweeney reported that there is a universe of individuals, presenting high frequency wins of prizes of \$1,000 or more, that he referred to as high frequency cashers. Examination of the situation over a calendar year revealed that a pattern of high frequency wins defies statistical odds and reason associated with the games. Additionally, the Massachusetts State Lottery is mandated under Massachusetts General Laws, Chapter 10, Section 28A to collect outstanding child support liabilities and taxes and fees owed to the Commonwealth whenever a prize is presented at \$600 or more. Executive Director Sweeney stressed that the Lottery is not concerned with players who honestly purchase Lottery tickets. The Lottery is concerned with money laundering and consumer fraud and protecting the integrity of the Lottery system.

Executive Director Sweeney presented a snapshot of isolated activity within one calendar year, using Subject "A" as an example. He explained that Subject "A" presented more than 1,300 claims for prizes of \$1,000 or more, for a total of \$2.4 million in prizes in one calendar year. The Lottery has the ability to see every single game product brought in to be cashed and looked at every one of those instant tickets and determined what the odds were for each of those individual tickets in order to win the prize that was cashed. Based on prize structures and odds of winning these prizes in each individual ticket game, Subject "A" would have needed to purchase 7.8 million tickets, which comes out to 21,000 tickets per day or 890 tickets per hour. Executive Director Sweeney explained that this doesn't take into account that the individual would need to sleep, eat, shower, scratch the tickets and physically bring them to one of the

regional offices for cashing. It is the Lottery's responsibility and legal obligation to make sure that child support, tax obligations and other fees are being collected appropriately. Commissioner Meghan Liddy asked if this was concentrated in a specific geographical retail area. Executive Director Sweeney reported that the Lottery did conduct a geographical analysis of individuals on the "20/20 list" and the largest concentration are individuals within the 495 belt/Boston area, with most of the cashes occurring in the Woburn and Boston offices. Commissioner Salvidio asked if the Lottery could ban players from playing the Lottery. Executive Director Sweeney explained that the Lottery has developed a balanced policy. Historically, the Massachusetts State Lottery has produced a 20/20 list, which is twenty cashes of \$1000.00 or more during a 365 day period and has shared that information with law enforcement, at state and federal levels and the DOR and the IRS. The Lottery will continue to share that information each month. Since 2016, under Treasurer Goldberg's leadership, the Massachusetts State Lottery has ramped up investigative efforts with state and federal law enforcement agencies. Additionally, the Lottery has begun the process to address the retail agents who appear on the 20/20 list. A regulation is being developed and the Lottery will return in November for a formal vote to have it submitted for a CMR (Code of Massachusetts Regulations).

Executive Director Sweeney presented an outline of the proposal stating that going forward, if a person appears on this list, there will be an internal analysis regarding odds and frequency of cashes. Once it is determined that it is beyond any type of statistical reasoning, the person will be notified by a letter informing them that they fit within these parameters, and that the Lottery intends to suspend their ability to claim prizes for a period of ninety days. There will be an appeal process to make sure the Lottery conforms to all individual rights. If the person engages in a second violation the Lottery is proposing a one hundred and eighty day freeze and a third violation would impose a three hundred and sixty five day freeze. The Lottery is hoping to finalize this effort by January 2018.

Star Market

Executive Director Sweeney shared a letter from the Town of Belmont notifying the Lottery that on September 18, 2017, the Belmont Board of Selectmen moved to approve the revised rules and regulations that will now allow retail establishments that have alcohol beverage licenses to also sell Lottery tickets if approved by the State Lottery Commission and the Belmont Board of Selectmen. He was pleased to report that the motion passed unanimously. On October 16, 2017, the Belmont Board of Selectmen moved to revise the conditions of the Retail All-Alcohol License for Star Market Company in Belmont and allow the sale of Massachusetts State Lottery products effective on October 17, 2017. Executive Director Sweeney stated that this is a million dollar account and described it as a real win for the Commonwealth. Treasurer Goldberg elaborated that Michael Trotsky, who is the Executive Director and CIO of Massachusetts Pension Reserves Investment Management Board (PRIM), assisted the Treasury in speaking with the selectmen. She pointed out that the Belmont Board of Selectmen did not realize the connection between their unrestricted general funds and their retailers having created those funds. She communicated her passion of getting those unrestricted general funds back to every city and town and given the fact that Belmont is building a new high school, it's critical to have these resources.

First Deputy Comptroller Shapiro asked Treasurer Goldberg to briefly explain how the percentage goes back into the cities and towns. Treasurer Goldberg explained that it's decided by the legislature with interesting arguments on both sides. If a community has more sales, it's reasonable to assume it should receive a bigger allocation. However, the formula includes such things as poverty, population and what the needs are for the general community. The formula does not eliminate towns without Lottery sales since the people who live in those towns, go elsewhere to buy their tickets. As an example, she stated that the City of Boston has an enormous amount of sales because players purchase their tickets during the workday and this shouldn't mean that the city in which they live in shouldn't receive an allocation. She described it as a complicated formula and that the Treasury does not have a say on how the distribution of funds are determined.

MSLC Technology Modernization Program Update

Executive Director Sweeney asked Senior Program Engagement Manager Joshua Fredette, of Overture Partners, LLC, and under contract with Lottery, to deliver an update on the MSLC Technology Modernization Project.

Joshua Fredette provided a review of where the Lottery has been in the past and where it is today. He explained that in order to mitigate risks, the Lottery took a phase approach in rolling out the new terminal system. The roll out of the terminals began slowly by working closely with the vendor and the system's integrator, IGT, formally known as GTech, to ensure that the software was working accordingly to its requirements. The Lottery then executed a "soft launch" approach to replace the twenty year old legacy terminals. The team used a controlled roll out of the new terminals to ensure that they worked correctly before being rolled out to selected agent locations. In doing this, the team was able to closely monitor the process to make sure there were no software glitches. Joshua Fredette explained the key factors to gauge progress. Currently, the project is on track and on schedule and is now in the requirements phase. When the bid was put out to vendors, they were given a set of requirements from the Lottery to build the system. The vendors are now working hand in hand with the Lottery to make sure everything is in accordance with the set of requirements. The team reviews the requirements with cross functional teams (Accounting, Asset Management, Operations, IT, Sales and Claims) to make sure they are not missing any critical requirements. To date the formula has been positive. There are over four hundred new terminals successfully running in the field, which Joshua Fredette viewed as a huge success. Joshua Fredette reviewed the timeline with the Commission and explained the risk mitigation approach that is taking place throughout the implementation. The team at the Lottery is using subject matter experts and they are currently reviewing schedules to guarantee that the timeline remains realistic. Joshua Fredette stated that the project is on schedule to complete the requirements by January 2018 and he is confident of where the project is to date. Executive Director Sweeney thanked Joshua Fredette for doing a phenomenal job as the project manager and working well with the existing team led by Paul Mandeville, the Assistant Executive Director of IT at the Lottery.

Treasurer Goldberg explained her reasoning for why it's critical to take a phase approach to this project. She stated that a phase approach is not typical of what you would normally see in state government. She said she often balances her approach in a way that would be done in private business versus how things are done in state government. IT projects are often huge issues in state government and the idea of transition can be frightening in anticipation of the things that could go wrong. It is important to allow time for everyone to adjust to the new system and to also run parallel systems in case there is a problem. This method will result in no gaps in the process and Treasurer Goldberg described it as the ABC's of business.

Treasurer Goldberg feels that it is critical for the Commission to continue to receive monthly updates in case there are any problems and what is being done to mitigate it.

IV. Matters Requiring Massachusetts State Lottery Commission Approval

Votes Presented to the Commission

VOTED (1): For the reasons set forth in the attached memorandum dated September 26, 2017, the Executive Director is hereby authorized to enter into a three (3) year contract with two (2) one (1) year extension options for custodial banking services with the following company:

Conduent State & Local Solutions, Inc.

8260 Willow Oaks Corporate Drive
Willow Oaks 1, Sixth Floor
Fairfax, VA 22031

This original award was made pursuant to a competitive bid process (TRE Cash Custody RFR #2017).

The total maximum obligation assumed under this contract shall not exceed six hundred eight thousand three hundred ninety-one dollars (\$608,391.00) for the three (3) year term.

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

Executive Director Sweeney introduced the vote by announcing that this is one of the Lottery's main financial business transactions. This vote involves the trading of Separate Trading of Registered Interest and Principal of Securities (STRIPS) and providing custodial banking services for potential accruals over the course of the next couple of years.

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 in favor of the motion. The motion carried.

VOTED (2): For the reasons set forth in the attached memorandum dated October 12, 2017, the Executive Director is authorized, under state contract VEH 98, to purchase Dodge Caravan and Nissan Rogue vehicles from the following vehicle dealer:

Colonial South Automotive, Inc.

40 Holman Road
Plymouth, MA 02360

The MSLC shall purchase eighteen (18) Dodge Caravan and three (3) Nissan Rogue vehicles.

The maximum obligation assumed hereunder shall not exceed the amount of four hundred sixty-three thousand one hundred eighty-eight dollars (\$463,188.00).

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

Executive Director Sweeney introduced the vote by announcing that Matthew DiFrancesco, Assistant Executive Director and Director of Operations for the Lottery, was in attendance to answer any questions that the Commission may have. Executive Director Sweeney stated that in the past, these types of votes were done in the December to February timeframe but explained that as of November of this year, it is anticipated that prices will increase by ten (10%) percent. For obvious reasons, the Lottery wanted to bring vehicles to a vote before that time to save the Commonwealth money. These vehicles are used by the Lottery's field reps as well as the employees who perform repairs. They are utilized at a minimum of five days a week and are replaced when it is warranted to do so. These vehicles are the same vehicles purchased previously and they have had a good track record with 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 in favor of the motion. The motion carried.

VOTED (3): For the reasons set forth in the attached memorandum dated October 17, 2017, the Executive Director is hereby authorized to enter into a three (3) year contract with two (2) one (1) year options to renew for marketing pull tab tickets with the following firms:

American Games, Inc. – (a Pollard Banknote Company)

504 34th Avenue
Council Bluffs, IA 51501-8095

Arrow International, Inc.

990 Clinton Road
Cleveland, OH 44144-1097

International Gameco, Inc.

9335 N. 48th Street
Omaha, NE 68152-1541

This original award was made pursuant to a competitive bid process (RFR LOT # 1707).

The aggregate maximum obligation assumed under this contract shall not exceed six hundred thousand dollars (\$600,000.00) for the three (3) year term.

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

Executive Director Sweeney introduced the vote by announcing that this is a routine vote. He stated that the Lottery currently has about 200 licensees, which are pouring establishments that have found the pull tab tickets to be engaging for their customers. This vote would allow the Lottery to continue on a contractual basis with three companies that have the qualifications to meet the printing demands on this particular product. Executive Director Sweeney explained that this is a small part of the Lottery business but also a profitable part.

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 in favor of the motion. The motion carried.

VOTED (4): For reasons set forth in the attached memorandum dated October 2017, the Executive Director is hereby authorized to purchase a total of two thousand six hundred and one (2,601) full service lottery terminals (six hundred (600) coming from SGI and two thousand and one (2,001) coming from IGT) from the following corporate entities:

IGT Global Solutions Corporation

IGT Center

10 Memorial Boulevard
Providence, RI 02903

Scientific Games, International, Inc.
1500 Bluegrass Lakes Parkway
Alpharetta, GA 30004

The purchase arises out of MSLC Request for Qualifications Lot #1701 – Agent Location Hardware and the subsequent Request for Quote from Bidders Qualified under Agent Location Hardware, also Lot #1701.

The total maximum obligation assumed hereunder shall not exceed four million nine hundred and thirteen thousand two hundred and eight-six dollars (\$4,913,286.00) for the purchase of two thousand six hundred and one (2,601) full service lottery terminals.

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

Executive Director Sweeney introduced the vote by reminding the Commission that about two months ago, there was a similar vote for terminals and this vote is an additional rollout to the order. He explained that there is a significant lead time ranging anywhere from five to six months and is expecting another vote similar to this next month. He informed the Commission that the order with IGT is for 2001 as opposed to 2000 as a cost saving by ordering the extra one terminal. Executive Director Sweeney feels that this is an appropriate amount of terminals to order at this time.

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 in favor of the motion. The motion carried.

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

After asking if there was any other business to discuss, Treasurer Goldberg sought a motion to adjourn the meeting. Assistant General Counsel Sullivan moved to adjourn and Commissioner Salvidio seconded the motion. The motion carried unanimously. The meeting adjourned at 11:39 a.m.