

Massachusetts State Lottery Commission

60 Columbian Street
Braintree, Massachusetts 02184-1738
Tel: (781) 849-5555
Fax: (781) 849-5546
TTY: (781) 849-5678

DATE: Tuesday, January 23, 2018

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Meghan Liddy, Commissioner (Remotely)
Anthony Salvidio, Commissioner (Remotely)
Thomas Shack, Commissioner
Douglas Levine, Special Counsel, Executive Office of Public Safety and Security, designee of Commissioner Daniel Bennett

ALSO PRESENT: Michael Sweeney, Executive Director, Lottery
Edward Farley, Chief Administrative Officer, Lottery
Carol-Ann Fraser, General Counsel, Lottery
Didier Bertola, Chief Financial Officer, Lottery
Paul Mandeville, IT Director, Lottery
Christian Teja, Director of Communications, Lottery
Judy Moore, Senior Executive Assistant, Lottery
Joshua Fredette, Overture Partners, LLC, Senior Program Engagement Manager, under contract with Lottery

Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer
David Falcone, Chief of Staff, Treasury
Sarah Kim, General Counsel, Treasury
Chandra Allard, Communications Director, Treasury
Kathi Reinstein, Director of Policy & Legislative Affairs, Treasury

Nick Bontaite, Connelly Partners
Ashley Campbell, Connelly Partners
Christopher Corrado, Connelly Partners
Anna Ruth Watts, Connelly Partners
Hillary Williams, Connelly Partners

Maggie Cohen, Kearney Donovan and McGee
Michelle McGee, Counselor at Law, KDM
Jonathan Shaer, Executive Director, New England Convenience Store & Energy Marketers Association (NECSEMA)
Robert Frasca, Interested Members of the Public

I. Opening of the Meeting:

Treasury General Counsel Sarah Kim opened the meeting at 10:32 a.m. and explained that Treasurer Deborah Goldberg would be arriving shortly. General Counsel Kim 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, stated that she would be recording to assist in the preparation of the meeting minutes.

General Counsel Kim informed the Commission that Commissioner Salvidio and Commissioner Liddy were unable to be physically present at the meeting. General Counsel Kim then made the following statement: “Pursuant to Chapter 30A, Section 20(d) of Massachusetts General Laws and Article V, Section 9 of the By-Laws of the Massachusetts State Lottery Commission, Commissioners Liddy and Salvidio will be participating remotely because their physical attendance is unreasonably difficult. A quorum of the Commission Members is physically present at the meeting location. General Counsel Kim then stated: Commissioners Liddy and Salvidio, if, at any time, we are not clearly audible to you, please let us know. General Counsel Kim announced that Commissioners Liddy and Salvidio may participate in any votes scheduled to take place at today’s meeting.

II. Approval of the Minutes from December 19, 2017

General Counsel Kim asked the Commission to accept the minutes of the Massachusetts State Lottery Commission meeting held on December 19, 2017. General Counsel Kim took a roll call vote. General Counsel Kim asked the Commission all those in favor: Commissioner Liddy: yes; Commissioner Salvidio: yes; Commissioner Shack: yes; Special Counsel Doug Levine: yes; and, General Counsel Kim: yes. The minutes were approved at 10:35 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 December 2017. First, he announced that overall sales for December 2017 were up \$14.8 million from December 2016. Executive Director Sweeney reported that, this year, the Lottery has an accrual for which there must be an accounting. He first reported on figures that did not include the accrual for prizes that were won and not yet paid. Executive Director Sweeney reported that the net profit for December 2017 was \$98.4 million, as compared to \$94.3 million in December 2016, an increase of 4.1 million. He reported that the prize payout for December 2017 was 68.95 percent, as compared to 69.10 percent in December 2016.

Executive Director Sweeney reported 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 six months of FY18 is: \$509.6 million, compared to \$542.4 million for the first six months of FY17. After adding a one day average net profit figure of \$2.8 million due to a shift in the calendar that resulted in one less day being included in the net profit figure for the first six months of FY18, the adjusted year-over-year change for the first six months of FY18 versus the first six months of FY17 is a \$30.0 million decrease in net profit. Executive Director Sweeney explained that this net profit figure was projected in the figures that the Lottery submitted at the beginning of the year. He stated that of that figure, approximately \$20 million dollars up to this point, is mostly related to the end of game accrual. The year-to-date prize payout for the first six months of FY18 is: 73.02 percent, as compared to 71.41 percent for the first six months of FY17.

Executive Director Sweeney provided a sales breakdown for December 2017, commenting that KENO, Powerball, Mega Millions, Mass Cash and Megabucks Doubler all experienced sales increases in December of 2017, as compared to December 2016. KENO sales were up \$8.6 million, Powerball sales were up \$7.2 million, Mega Millions sales were up \$5.5 million, Mass Cash sales were up \$174,245, and Megabucks Doubler sales were up \$32,141. Executive Director Sweeney noted that, compared to December of 2016, instant ticket sales were down \$6.4 million, ALL OR NOTHING sales were down \$219,957, Luck for Life sales were down \$67,592, and The Numbers Game sales were down \$17,952.

Executive Director Sweeney reported on the prize payout as a percentage of sales, informing the Commission that the prize payout is impacting the profit margin bringing the Lottery to a healthy 73.0 percent payout through the end of the December and for comparative purposes, last year at this time, the Lottery was at 71.4 percent payout, which Executive Director Sweeney described as a significant increase. He explained that, while this is beneficial to the players and the agents by bringing in more bonuses and commissions, it impacts the net profit.

Gross Sales Results

Executive Director Sweeney presented on the Gross Sales Results chart, December FY18 versus FY17 Unadjusted Non-Fiscal Year, and also the Year-to-Date FY18 versus FY17. Executive Director Sweeney reported that instant tickets sales were down 2.23 percent, but otherwise, sales were strong across the board. He reported that the strategy implemented by Treasurer Goldberg over two years ago for KENO continues to be successful. Overall, the Lottery was up \$14.8 million in gross sales for the month. The excitement around the jackpots for Powerball and the Mega Millions helped to drive those sales.

Reporting on the year-to-date numbers, Executive Director Sweeney reported that, through the end of December, instant tickets sales, which make up just under 70 percent of all Lottery revenue, were up a marginal .25 percent for the year, which is about a \$4.6 million increase over last year. The big winner is Powerball, which is tracking well because of the jackpots. The real win for the Commonwealth and for the cities and towns is the extra \$39 million that's been generated by KENO. Overall, total gross sales to date are at \$53.8 million, which is a healthy 2.1 percent over sales compared to FY17 at this time. Executive Director Sweeney warned the Commission that the sales drop in instant tickets is a red flag that we should be aware of as the Lottery moves into February.

Powerball Jackpot Growth

Treasurer Goldberg arrived at 10:43 a.m. Executive Director Sweeney discussed the growth cycle of the Powerball jackpot. He stated that he thought the discussion would be instructive to the Commission as it involves information that the Commonwealth, city and town managers and elected officials need to keep in mind.

Executive Director Sweeney noted that from November 2015 through to January 2016, there was a historic run on Powerball which rose to \$1.5 billion. He also pointed out two subsequent notable Powerball jackpots from June 2017 through August 2017, and the recent Powerball jackpot that began in October 2017 through January 2018. These last three significant jackpots all show a similar tracking period. The interesting singularity that is being seen across the country, including Massachusetts, is that after draw seventeen, there is significant separation from the last two Powerball jackpots, as opposed to during the first dynamic November 2015 run-up in Powerball.

During the first jackpot that ran from November 2015 through to January 2016, Executive Director Sweeney described Powerball as having an enormous lift off that went from \$500 million occurring around the 18th draw, up to \$900 million on draw 19, and then the subsequent run straight up to \$1.5 billion dollars. He pointed out that in the jackpot succeeding that, from June 2017 through August 2017, all of the dynamics are the same except at draw 17 and 18. He explained that although the jackpot is essentially similar, with draw 18, there is not the same type of sales volume and jackpot growth that was previously experienced with the first run. The jackpot barely starts to go over \$400 million and then lags around \$500 million. Coming into the August drawing the jackpot finally rose to \$700 million after the 21st draw compared to the January 2016 draw, where at the 19th draw, the jackpot was at \$900 million. He drew attention to an even less substantial velocity in the recent jackpot from October 2017 to January 2018. Executive Director Sweeney believes that the public is not only getting use to higher jackpots, but the winter weather, in the Eastern seaboard states, had an impact on overall jackpots.

Executive Director Sweeney showed how this trend presented in sales. He described a similar pattern from draw 15 through draw 17 in the period from November 2015 through January 2016, when the \$1.5 billion jackpot skyrocketed not only in the amount but also in sales of almost \$12 million in Massachusetts alone. In the period of June through August 2017, jackpot sales barely touched \$3 million in sales in Massachusetts. In the latest jackpot run up, October 2017 through January 2018, the number struggles at \$2 million in sales towards the end of December. Executive Director Sweeney stated that, in draws 20 and 21, during the first week of January, the jackpot rose up to a significant amount over \$550 million, with three weeks of media attention. Over the last week, sales essentially stayed flat and actually went down from the previous Wednesday draw.

Executive Director Sweeney explained that the drop in sales occurred as a result of a significant snowstorm on Thursday and subzero weather on Thursday and Friday that impacted both businesses and private citizens. The weather had a disconcerting impact on the Commonwealth, velocity was slower, private retailers did not have the opportunity to sell this product, and private citizens did not have the opportunity to purchase tickets. Executive Director Sweeney estimated that Powerball sales during that time period were down a minimum of \$2.2 million compared to the August numbers for a relatively similar jackpot number. The Lottery lost about 32.3 percent of sales during that three day period just on Powerball alone, a loss of about \$3 million in gross sales for the Commonwealth. Executive Director Sweeney believes the momentum was broken by the public's inability to purchase and the retailer's inability to sell.

Holiday Spending Trends

Dovetailing on the consumer's inability to purchase Lottery products online, Executive Director Sweeney updated the Commission on holiday spending trends that were released by Adobe Analytics. Adobe Analytics released the following statistics from the record-breaking 2017 holiday sales season:

- Online shopping sales totaled \$108.2 billion dollars, which was up 14.7 percent from the previous year
- 33 percent of online revenue came from purchases made on a smartphone or tablet
- Mobile shopping accounted for 52 percent of all traffic to retail websites
- Cyber Monday was the biggest shopping day in U.S. history with \$6.6 billion spent online, including \$1.6 billion on smartphones

Executive Director Sweeney then read the following quote from Reuters on the Adobe Analytics findings. "Many brick-and-mortar retailers have spent heavily to move online and improve their delivery services, as people increasingly desert malls and shop online."

Executive Director Sweeney also provided a few examples on how consumers' shopping and buying habits are changing, and how established cash-based retailers and brands must adapt. He included a recent article from the Salvation Army informing the public that the Salvation Army in Massachusetts had about

an \$800,000 gap in fundraising efforts for 2017. Major David Davis, the Massachusetts Divisional Commander, believes that the changing consumer habits may be the main reason for the shortfall and was quoted as saying, “People don’t necessarily carry and use cash in the same ways they have in the past, and every year more and more Christmas shopping transitions online. This is something we are experiencing in 2017 perhaps more than ever before – and the impact on our fundraising has been severe.”

Executive Director Sweeney concluded by providing a preview of a sales comparison of Lottery products using information from the week of a recent snowstorm. He stated that the sales numbers speak for themselves as to the impact of Lottery products being dependent on cash and physical purchases. With Powerball and Mega Millions both experiencing high jackpots, sales during the snowstorm were shown to be off a couple of million dollars because of the consumer’s inability to get out purchase tickets.

Recent Grand Prize Winners

Executive Director Sweeney shared a few examples of recent winners who came to the Braintree office to cash in their tickets. He commented on a \$2,500,000 win for a social worker from Springfield, a \$100,000 Mass Cash winner who is a bus driver for the Boston Public Schools and a taxi driver who won \$100,000. He stated that the Lottery, most likely, has provided life changing opportunities for these players and for the lives of their children.

Promotions and Social Media Messaging

Executive Director Sweeney shared a unique promotion around the new Willy Wonka Golden Ticket™ instant game. Assistant Executive Director Ed Farley and the team at the Lottery developed a type of scavenger hunt across Massachusetts, which will utilize retail partners to draw interest to the game and clues will be posted on social media. Each day of the promotion, the Lottery will make a post on the Lottery Facebook page with clues about where to find a promotional Golden Ticket at a randomly selected Lottery retail agent location. To enter, entrants must find the Golden Ticket at the agent location for that day, take a picture of themselves with the Golden Ticket and post the photo within the comment section of the Lottery’s promotional post for that day. Each day of the promotion, two winners will be randomly selected from all eligible entries. Each winner will receive a \$500 cash prize. One location from each of the five Lottery regions will be represented over the five days of the promotion. Reporting on the initial results, Executive Director Sweeney announced that the Lottery had over 6000 reaches through social media in less than a twenty-four hour period with favorable reactions from the public. He will share the final results with the Commission during the next meeting in February.

Executive Director Sweeney presented on the accomplishments of the Lottery’s robust social media messaging program promoting Lottery products. He showed examples of recent methods utilized on Twitter, Facebook and Instagram. He provided analytics that showed that even though the Lottery does not sell online, consumers are online and clearly engaging with the activities offered by the Lottery through a variety of social media mechanisms. Commissioner Shack expressed that players may be searching the Lottery sites in hopes of being able to make Lottery purchases online.

Instant Tickets Sales Update

Executive Director Sweeney informed the Commission that holiday instant ticket sales were good through the holiday season, with about sixty five percent of the tickets being sold. He reported that the \$10 ticket- \$2,500,000 Holiday Bonus, is doing well with fifty-six percent sold and the \$5.00 ticket- \$1,000,000 Holiday Bonus, is sixty-five percent sold. Executive Director Sweeney will provide the exact percentage breakdown at the next Commission meeting in February. Overall, throughout the holiday sales season, the numbers were down slightly from the previous sales season.

Instant ticket sales performed a little under which has a disproportionate impact both to gross sales and profit. All product sales compared to last year during this time were up 0.5 percent. Instant ticket sales were down almost three percent, which Executive Director Sweeney attributed to the public’s inability to

purchase tickets on-line. The transition from consumers carrying cash to not carrying cash is having a significant impact on sales.

Promotions

Executive Director Sweeney presented on the Lottery VIP Extra Holiday Bonus Promotion which was from October 24, 2017 to January 9, 2018. In this promotion, Red Carpet VIP Club members could enter non-winning Holiday Bonus and/or Nutcracker Cashword tickets to earn entries into a drawing for cash prizes ranging from \$1,000 to \$10,000. Tickets could be entered manually on the VIP Club website or by scanning them using the MA Lottery 2nd Chance mobile application. During the entry period, 10,645 new VIP Club accounts were created and there were 7,319 downloads of the 2nd Chance mobile application. In addition, 2,444,845 tickets were entered with 55 percent entered via the VIP Club website and 45 percent via the mobile application.

The Lottery is also offering a Patriots Promotion from January 29 through February 3, where players will have a chance to win a \$500 cash prize in addition to being entered into the next 5X Champions Second Chance Drawing.

MSLC Technology Modernization Program Update

Executive Director Sweeney asked Senior Program Engagement Manager Joshua Fredette, of Overture Partners, LLC, who is under contract with Lottery, to deliver an update on the MSLC Technology Modernization Project. Program Manager Fredette informed the Commission that it is called a “program” because there are a number of large interrelated projects under the umbrella of the Modernization Program. This consists of the terminal rollout that is being done now in parallel with taking the IGT application to diversify the vendor pool. Senior Program Engagement Manager Fredette provided a review of where the Lottery has been in the past and where it is today. He referenced a graphical step-down chart and reminded the Commission that the Lottery is using a multi-phase risk mitigation approach and that the project is in the requirements phase. The Lottery has been working with the vendor and the system integrator, IGT, formerly known as GTech. Senior Program Engagement Manager Fredette informed the Commission that the project is moving ahead. In addition, the Lottery is updating its data center and will take the existing legacy data and convert that into the new host system. In parallel, the team will test the system with IGT’s support. He explained that there are a lot of projects being done throughout the arching umbrella of the update and to date, it has been a huge team effort to keep it on track. The vendor has indicated that their schedule is slipping about a month within the requirements phase. Due to this concern, the team will perform an independent verification validation assessment of their processes and project plan. Senior Program Engagement Manager Fredette will then provide recommendations to the vendor and report back to the Commission in March. Overall, he feels that the project is making good progress and is being monitored closely.

Connelly Partners

Executive Director Sweeney introduced staff members from Connelly Partners, the advertising agency working with the Lottery. Connelly Partners, through Hillary Williams, Anna-Ruth Watts, Ashley Campbell, Christopher Corrado and Nick Bontaites, shared details outlining the evergreen advertising campaign for FY18. This campaign will be the second biggest campaign apart from the holiday campaign for the Lottery. Christopher Corrado updated the Commission on the media strategy with much of the demographics focusing on the young millennial. Christopher stated that it was important to keep the momentum going from the holiday strategy that focused on the opportunity to rebrand the Lottery and to promote the Lottery’s mission of giving back to the cities and towns. The campaign will keep the branding message during key time periods throughout the year, such as during the Olympics and Boston Red Sox opening day, while making sure to prevent overexposure. Connelly will be providing two versions of the evergreen spot.

Nick Bontaites spoke about the efficiencies of the production process. He explained that they did not enlist the help of a traditional production process with a director and camera crew. Connelly Partners used a production company and did an outreach to local photographers and cinematographers who submitted their work of Massachusetts footage. Using the holiday spot, Connelly was able to swap in clips to take away the seasonality to make it more in line to the current time of year. Anna-Ruth Watson provided examples of the digital execution using screen shots from the television spot and incorporated it into the digital execution.

Connelly Partners concluded their presentation by playing the themed spots which establishes the Lottery's commitment to Massachusetts. Executive Director Sweeney thanked Connelly Partners as well as the marketing team at the Lottery for their efforts.

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 January 12, 2018, the Executive Director is hereby authorized to increase the maximum aggregate obligation, by one million dollars (\$1,000,000), on the three (3) contracts for instant tickets, game designs and research and marketing services, with the following companies:

IGT Global Solutions

10 Memorial Blvd.
Providence, RI 02903

Pollard Banknote Ltd.

1499 Buffalo Place
Winnipeg, Manitoba, CN R3T 1L7

Scientific Games Lottery

1600 Bluegrass Lakes Parkway
Alpharetta, GA 30004

The original award was made pursuant to a competitive bid process (RFR LOT # 1705).

The aggregate maximum obligation under the contracts shall not exceed twenty million dollars (\$20,000,000.00) for fiscal year 2018.

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

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. For the reasons stated above and in the meeting materials, Treasurer Goldberg moved the motion to a roll call vote. Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; Special Counsel Levine: yes; and, Treasurer Goldberg: yes. The motion carried.

VOTE (2): For the reasons set forth in the attached memorandum dated January 16, 2018, the Executive Director is hereby authorized to exercise the first of two, one (1) year contract extension options for criminal background screening services with the following firm:

Inquiries Acquisition LLC
129 North West Street
Easton, MD 21601

The original award was made pursuant to competitive bid process (RFR LOT # 1406).

The maximum obligation for the first of two, one year (1) contract extension options shall not exceed seventy-five thousand dollars (\$75,000.00).

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

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. For the reasons stated above and in the meeting materials, Treasurer Goldberg moved the motion to a roll call vote. Commissioner Liddy: yes; Commissioner Salvidio: yes; Commissioner Shack: yes; Special Counsel Levine: yes; and, Treasurer Goldberg: yes. 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. Commissioner Salvidio moved to adjourn and Commission Liddy seconded the motion. The motion carried unanimously. The meeting adjourned at 11:26 a.m.