

# *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, February 27, 2018

TIME: 10:30 a.m.

MEMBERS PRESENT: Sarah Kim, General Counsel, Treasury  
Meghan Liddy, Commissioner  
Anthony Salvidio, Commissioner  
Thomas Shack, Commissioner

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

James MacDonald, First Deputy Treasurer  
David Falcone, Chief of Staff, Treasury  
Chandra Allard, Communications Director, Treasury  
Michael Bergquist, Policy Analyst, Treasury  
Emily Kowtoniuk, Deputy Legislative Director, Treasury

Maggie Cohen, Kearney Donovan and McGee  
Phil Wettengel, O'Neill and Associates  
Robert Frasca, Interested Member of the Public

**I. Opening of the Meeting:**

Treasury General Counsel Sarah Kim opened the meeting at 10:33 a.m. 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, identified herself as recording to assist in the preparation of the meeting minutes.

**II. Approval of the Minutes from January 23, 2018**

General Counsel Kim asked the Commission to accept the minutes from the Massachusetts State Lottery Commission meeting held on January 23, 2018. Commissioner Shack made a motion to accept the minutes of the meeting and Commissioner Salvidio seconded the motion. The motion passed unanimously. The minutes were approved at 10:34 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 January 2018. First, he announced that overall sales for January 2018 were up \$6.7 million from January 2017. 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 due in part to a high rate of cashing, the net profit for January 2018 was \$81.2 million, as compared to \$105.6 million in January 2017, a decrease of \$24.4 million. He reported that the prize payout for January 2018 was 76.10 percent, as compared to 71.38 percent in January 2017, which Executive Director Sweeney characterized as a significant jump.

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 that is expected to be awarded in FY18, as well as a \$9 million Megabucks Doubler jackpot prize that was hit in January and claimed in February. Year-to-date net profit for the first seven months of FY18 is: \$600.6 million, compared to \$647.1 million for the first seven 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 seven months of FY18, the adjusted year-over-year change for the first seven months of FY18 versus the first seven months of FY17 is a \$43.7 million decrease in net profit. The year-to-date prize payout which drives the profit margin for the first seven months of FY18 is: 73.20 percent, as compared to 71.44 percent for the first seven months of FY17.

Commissioner Shack asked if the prize payout for this year was similar to the prize payout during this same time last year. Executive Director Sweeney responded that the prize payout began to increase around the same time last year but after that, the Lottery was wondering where the winners were, as sales numbers were decent. The prize payout is a variable that the Lottery cannot control because it’s never clear when a winner will cash in a ticket. The Lottery cannot predict when the tickets are purchased, and when they’ll be

redeemed by the public. This year, the Lottery has had, besides the accrual, a strong run of significant winners which the Lottery did not have last fiscal year.

Executive Director Sweeney provided a sales breakdown for January 2018, commenting that KENO, Powerball, Mega Millions, and Mass Cash all experienced sales increases in January of 2018, as compared to January 2017. KENO sales were up \$7.1 million, Powerball sales were up \$6.7 million, Mega Millions sales were up \$5.3 million and Mass Cash sales were up \$263,793. Executive Director Sweeney noted that, compared to January of 2017, instant ticket sales were down \$11 million, THE NUMBERS GAME sales were down \$1.1 million, ALL OR NOTHING sales were down \$245,893, Megabucks Doubler sales were down \$143,126, and Lucky for Life sales were down \$112,088.

### **Sales Comparison – Week of Snowstorm**

Executive Director Sweeney provided a sales comparison for the week of the January 6, 2018 snowstorm. He reported that instant tickets sales in January were down \$11 million and he believes that at least \$10 million of that loss can be attributed to a three day period in January where Massachusetts experienced a snowstorm that shutdown most of the state, followed by two days of extremely cold weather. In view of the impact weather days, Lottery customers were unable to access Lottery products, which made a significant dent in the overall sales revenue and will impact the profit for this year. If customers had the ability to purchase Lottery products online, this number would have been greatly mitigated. Commissioner Liddy agreed, noting that during the previous February, Massachusetts experienced many days of inclement weather. She asked if during the early reporting of this February, some of that loss would be able to be made up. Executive Director Sweeney explained that, so far, the Lottery has experienced a decent February, particularly with instant ticket sales and at least two or three of the weeks have had sales slightly over last year. Commissioner Shack, elaborating on the Executive Director's point regarding online sales, stated that his review of analytics of Grub Hub and online food services show that online sales do spike during times of cold weather where people tend to stay indoors and order online. He added that it further supports that from a purchasing standpoint, online is where the future is. Executive Director Sweeney agreed and cited that during those three days, the Lottery's social media and website saw a significant increase in activity. Commissioner Salvidio remarked that the Legislature must realize the Lottery has done everything it can to squeeze out cost savings and the numbers tell how not being able to modernize, is impacting cities and towns. Executive Director Sweeney responded that it's in the forefront of the Treasurer's mind that the 351 cities and town throughout the Commonwealth rely on this money. First Deputy Treasurer James MacDonald emphasized that the Lottery needs the leadership of the state to be the advocates to get this product online. Recently, the Treasurer spoke to Mass Municipal leaders and informed them of the importance of contacting members of the Legislature. First Deputy Treasurer MacDonald continued that it's important to have the backing from the Governor, the Lieutenant Governor and the administration to be strong advocates in support of the Lottery. He encouraged the Commissioner to assist in getting that done, adding that it would be greatly appreciated.

### **Five Year Comparison Chart**

Executive Director Sweeney reported on the prize payout as a percentage of sales, informing the Commission that he considers this the single most important chart in his report. He informed the Commission that the prize payout is at a high of 73.2 percent, which is almost 2 full percentage points higher than it was last fiscal year. He said overall, the number is a good thing because it shows people are winning. The Lottery has an accrual that is being set aside due to an end of game product so this number although high, is not out of the norm and not outside of projections.

### **Gross Sales Results**

Executive Director Sweeney presented the numbers on the Gross Sales Results chart, January FY18 versus FY17 Unadjusted Non-Fiscal Year, and also the Year-to-Date FY18 versus FY17. Executive Director Sweeney reported the big driver down was instant ticket sales, which make up about 69 percent of the Lottery's overall business. Sales were down 3.26 percent, roughly \$11 million. He revealed that once

again, the big winner for the Commonwealth is the continued success of the program implemented by the Treasurer to expand KENO. KENO was up \$7.1 million, an 8.2 percent change over last January. He reminded the Commission that thanks to the efforts of the Treasurer, last year, the Lottery set an all-time record for revenue for KENO, and as of today, the Lottery is on track to break that record.

Reporting on the year-to-date numbers, Executive Director Sweeney explained that the margins are always very close to the edge and described it as fighting to keep above flat. When you have a month like January, that is impacted by the weather, it changes the dynamics around instant tickets which were down 0.30 percent, negative \$6.4 million overall. The total for the year as far as revenue, has been fairly strong and the Lottery is on target to surpass last year. As of now, the Lottery is up \$60.5 million which is a 2 percent gain compared to last year. KENO had a significant impact on that gain, up \$46.1 million.

### **Recent Grand Prize Winners**

Executive Director Sweeney shared a few examples of recent Lottery winners, communicating that this is an important part of Lottery operations. He showcased six individuals from last month who were randomly selected and who came into the Braintree office to cash in their tickets. These individuals were all from different geographic areas with various occupations, such as an engineer, a restaurant owner, and a home health aide. Executive Director Sweeney feels that it's valuable to highlight who plays and who wins because often, there is a public misconception on who the winners are. It is important for the average Lottery player to receive the respect from those who may have a false impression on who the typical Lottery player really is. People from all over the state win, with all different types of backgrounds, education and income levels. These are everyday individuals who win and, at the same time, contribute back to the 351 cities and towns in the most highly regulated gambling environment in the Commonwealth.

### **January Instant Tickets Sales Update**

Executive Director Sweeney continued the discussion by providing a sales update on the instant tickets that were released in January. He reported that overall, January instant tickets have been doing well. The Willy Wonka Golden ticket, at a \$10.00 price point, had sales over \$43 million. He also reported good movement on some of the lower priced tickets. Over the last couple of years, the tickets with price points from \$1.00 to \$5.00, have struggled as consumer interest has changed up to a higher price point. The Lottery has been doing a lot to keep those entry level price points alive and keep the public interest in them.

Executive Director Sweeney reported on the "Find the Golden Ticket" promotion, describing it as successful. The promotion was featured on Facebook with clues to find a promotional ticket at randomly chosen retail agent locations. This promotion helped to drive people into retail locations by having them search for this ticket and have their photo taken inside the store with the ticket, and then posting it online for a chance to win \$500. The promotion included one location selected at random from each of the five Lottery regions during the five day campaign. Each day of the promotion, two winners were randomly selected and each winner received a \$500 cash prize. Executive Director Sweeney reported on the Facebook analytics, revealing, 777,491 Reaches, 721 Comments, 641 Likes and Loves and 117 Shares. Twitter had 4,195 impressions and Instagram had 2,870 views. Executive Director Sweeney commented that agents are a key partner to the Lottery and the feedback was positive with increased Lottery sales at the selected locations. Executive Director Sweeney described the increase in social media activity as a complete evolution from where the Lottery was three years ago. This promotion was done with minimal cost to the Lottery and was not only fun, but helped to drive brand security, create interest with the retailers and interest in the product.

## **February Instant Tickets Release**

Executive Director Sweeney shared information on the new series of February instant tickets due to be released on February 27. He highlighted a new concept ticket, \$50, \$100 and \$500 Blowout with a price point of \$10. This ticket is packed with prizes in the \$50, \$100 and \$500 range, as opposed to having a larger one million or two million dollar top prize. The ticket offers a bushel of smaller prizes, and increases the odds of winning. Consumer feedback has shown an interest in this type of ticket, and the market will serve as the ultimate test place. The Lottery plans to track this ticket very closely to gauge the response.

Chief Administrative Officer Ed Farley further stated that this ticket is a niche game that has been tested over the last couple of years in focus groups. He remarked that it has tested well with core players and the Lottery is optimistic that it will do well. Executive Director Sweeney added that the Lottery was conservative and opted for a low print run of ten million tickets.

## **Promotions**

In addition to the Find the Golden Ticket promotion, Executive Director Sweeney shared the MA Lottery App promotion where up to ten MA Lottery app account holders will be randomly chosen to win \$1,000. Commissioner Shack commented that there may be some disappointment regarding the limitations of the app in respect to not being able to gain access to purchase online. Executive Director Sweeney agreed and described it as a doorway that doesn't lead to where the player would like it to go. He added that, often, the reaction is that the player thinks something isn't working correctly because he is unable to make a purchase.

The Lottery is also offering a Lucky for Life Promotion. For the month of March, players who spend \$4 or more on a single Lucky for Life ticket will be entered into a drawing to win \$1,000 a day for a month. There will also be up to twenty-seven prizes of \$364 awarded.

Executive Director Sweeney also reported on a KENO and an ALL OR NOTHING promotion where from March 11 through March 24, the Lottery will add an additional multiplier of 2X to KENO and to ALL OR NOTHING Bonus, resulting in more games having a bonus multiplier. Playing KENO and ALL OR NOTHING Bonus doubles the price of a wager, while offering players the chance to multiply their prizes 2,3,4,5 or 10 times. Executive Director Sweeney mentioned the Lottery has had good success with this promotion in the past and that players respond well to it.

## **Holiday Instant Tickets and Sales Comparison, FY16-FY18**

Executive Director Sweeney reminded the Commissioners that, last month, they had asked for a comparison on holiday ticket packages and the rate of the sell through for this fiscal year. Executive Director Sweeney pulled the current year along with the last two fiscal years. He presented an overview chart and pointed out that the holiday packages have not done quite as well over the last two years as in previous years. Particularly looking at FY16, Executive Director Sweeney explained that, although some of the numbers were down because of inclement weather, there has been a continuous downward trend being seen across the board on instant tickets. There has been great success in each of the years for the holiday packages but the Lottery is fighting the times as to how people engage in commerce and how they're no longer carrying cash. Executive Director Sweeney noted that, while the \$1.00 ticket did well this year, it's important to mention that although 60 percent was sold both in FY16, and in FY18, 2,016,000 fewer tickets were printed during FY18. The Lottery has been adjusting print runs to manage and eliminate years of inventory. Commissioner Liddy described the chart as the best depiction of understanding exactly what instant tickets at the Lottery are facing in terms of downward sales. Executive Director Sweeney stated that, over the last two years, the Lottery is running faster to stay in the same place and still losing ground. Executive Director Sweeney concluded that the biggest issue facing the Lottery is being cashless. The Lottery needs to be able to accept frictionless payments in some method.

## MSLC Technology Modernization Program Update

Executive Director Sweeney asked Assistant Executive Director for IT, Paul Mandeville, to update the Commission on the installation and roll out of the Lottery's new terminals. Assistant Executive Director Mandeville reported that across all regions, the Lottery planned a very aggressive roll-out of 700 terminals and as of the previous Friday, the Lottery exceeded that goal by rolling out 729 terminals. To date, the Lottery has replaced about 24 percent of all terminals. Executive Director Sweeney added that there will be a little bit of a lull over the next couple of months as the Lottery waits for additional equipment to come in and be staged. There is an aggressive schedule of about 1,000 a month beginning in June and should be completed by the end of October and this part of the project will be supplemented with outside help. In February and March, the Lottery will focus on getting the terminals out to the Cape instead of during the summer months for logistical reasons. The Lottery will also concentrate on the other seaside communities before the beginning of the summer. Assistant Executive Director Mandeville complimented the technicians who have been doing a great job and who have been extremely busy during this project. General Counsel Sarah Kim asked Assistant Executive Director Mandeville to update the Commission on meeting the milestones set for this project. Assistant Executive Director Mandeville reported that it is going very well. The biggest phase that the project is in now is called, Functional Requirements Documents, (FRD's). The Lottery is slightly behind in gathering the details for the FRD's and were hoping to be done in the middle of January but is now aiming for the beginning of March. He explained that this does not have any impact on the development of the project and that it is still on track. General Counsel Kim also asked Assistant Executive Director Mandeville for an update regarding the transparency and best practices with the vendor and the system integrator, IGT, formerly known as GTech. It had previously been revealed that the vendor has a different approach to managing projects with a lack of visibility of what they are doing so the team developed a risk assessment to measure the vendor's performance against the plan. Assistant Executive Director Mandeville stated that IGT has a methodology that they use and they have done between seventy and eighty of these types of conversions throughout the United States. The Lottery conversion is slightly different because it is a purchase as opposed to a facilities management process. IGT has a process that they use in-house which is more of a waterfall project management. The team at the Lottery is looking for an agile kind of a project management. Although IGT does not lack transparency, their methods are not those preferred by the Lottery team. At hand are two different methods of doing something and it is something that the team at the Lottery is consistently monitoring. There is a fine line between having IGT change their business practices and causing another risk. Program Manager Fredette has a number of Key Performance Indicators (KPI's) that the team is following which enables the Lottery to keep track and remain proactive, and when the IGT reports that they are at 85 percent, the team is able to see that. Executive Director Sweeney added that the team is also doing quality control testing interaction with IGT through multiple phases.

#### **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 February 13, 2018, the Executive Director is hereby authorized to enter into the second year of a contract for a three (3) year period, with two (2) one (1) year extension options, for custodial services at seven (7) Lottery office locations, with the following company:

**FM&M, Inc.**  
East Boston, MA

The award is made pursuant to a competitive bid process from a state contract (BID #17-30).

The maximum obligation assumed hereunder for the second year of the contract shall not exceed three hundred and fifty-three thousand seven hundred and thirty-four dollars (\$353,734.00).

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

Executive Director Sweeney introduced the vote by noting that, previously, the Commission did approve the contractual relationship and there is an opener on the contract every March 1<sup>st</sup> mostly because of prevailing wages increases. Last year, this figure was just over \$334,000.00. Remembering the mandate from the Commission to always negotiate, the Lottery did a good job in negotiating a number down that was previously higher than the one being presented today. Matthew DiFrancesco, Director of Lottery Operations, is asking for an additional \$5,000.00 in the event of any type of emergency cleanup, which brings the total cost up to \$353,734.00.

General Counsel Kim, 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.

**VOTED (2):** For the reasons set forth in the attached memorandum dated February 22, 2018, the Executive Director is hereby authorized to enter into contract amendments with the following firms, to increase the maximum aggregate obligation for the purchase of delivery, moving and storage services:

**Sterling Corp.**  
27 Sterling Road  
Billerica, MA

**Wakefield Moving and Storage**  
388 Newburyport Turnpike  
Rowley, MA

The award is made pursuant to a competitive bid process from a state contract (BID #17-28).

The maximum aggregate obligation for both contracts will increase by two hundred fifty thousand dollars (\$250,000.00). The maximum aggregate obligation for both contracts will now be six hundred thousand dollars (\$600,000.00).

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

Executive Director Sweeney introduced the vote by explaining that this is straightforward. The total of both contracts combined would be set to \$600,000.00. The acquisition of so many terminals as well as additional equipment being anticipated over the next six to twelve months will increase the Lottery's need for additional storage from the vendors as well as the moving services.

General Counsel Kim, 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.

**VOTED (3):** For the reasons set forth in the attached memorandum dated February 9, 2018, the Executive Director is hereby authorized to make an aggregate purchase of up to twelve million dollars (\$12,000,000.00) to procure Player Activated Terminals from one or more of the following companies, which were previously qualified under Request for Qualifications (“RFQ”) LOT# 1701 Agent Location Hardware:

**IGT Global Solutions Corporation**  
10 Memorial Blvd.  
Providence, RI 02903

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

**Intralot, Inc.**  
11360 Technology Drive  
Duluth, GA 30097

The total maximum obligation assumed hereunder shall not exceed twelve million dollars (\$12,000,000.00) for the total aggregate purchase of Player Activated Terminals, which purchase shall include delivery costs.

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

Executive Director Sweeney introduced the vote by explaining normally he would like to be able to provide more details before coming to the Commission but this vote is running into a timing issue. He explained that the three companies have been qualified through the RFR process and is related to the overall host system. It is part of modernizing the existing system. Most of the machines that are out in the field are older and the Lottery is seeking a healthy purchase that needs to be pivoted upon delivery by the end of the fiscal year which would push out the cost.

General Counsel Kim, 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.

**VOTED (4):** For the reasons set forth in the attached memorandum dated February 13, 2018, the Executive Director is hereby authorized to make an aggregate purchase of up to four million dollars (\$4,000,000.00) to procure ticket checkers from one or more of the following companies, which were previously qualified under Request for Qualifications (“RFQ”) LOT# 1701 Agent Location Hardware:

**IGT Global Solutions Corporation**

10 Memorial Blvd.  
Providence, RI 02903

**Scientific Games International, Inc.**

1500 Bluegrass Lakes Parkway  
Alpharetta, GA

**Intralot, Inc.**

11360 Technology Drive  
Duluth, GA 30097

The total maximum obligation assumed hereunder shall not exceed four million dollars (\$4,000,000.00) for the total aggregate purchase of ticket checkers, which purchase shall include delivery costs.

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

Executive Director Sweeney introduced the vote by explaining that this is also a timing issue with a ceiling of \$4,000,000.00. The ticket checkers are necessary and the goal is to have one in each agent location. The Lottery believes that this is something players want and will allow them to check for themselves if their ticket is a winner along with the amount won. The Lottery considers this a baseline to have for its consumers. Assistant Executive Director Mandeville described these checkers as highly sought after as well as a newer technology that will allow players to check their instant tickets as well, which as of now, they are unable to do.

General Counsel Kim, 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.

**VOTED (5):** For the reasons set forth in the attached memorandum dated February 22, 2018, the Executive Director is hereby authorized to enter into negotiations, and if appropriate, a contract, to spend up to two million dollars (\$2,000,000.00) to procure Multi-Purpose Draw Game Vending Machines and associated equipment for a pilot program with the following company, which was previously qualified under Request for Qualifications (“RFQ”) LOT# 1701 Agent Location Hardware:

**Intralot, Inc.**

11360 Technology Drive  
Duluth, GA 30097

The total maximum obligation assumed hereunder shall not exceed two million dollars (\$2,000,000.00) for the purchase of Multi-Purpose Draw Game Vending Machines, which purchase shall include associated equipment and delivery costs.

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

Executive Director Sweeney introduced the vote by explaining that this vote is related to the host system upgrade and the new machinery being brought in. The Lottery would like to establish a pilot program and hoping to get between one hundred and one hundred and fifty machines. The primary goal would be to place these in locations such as VFW halls, social clubs, and possibly general bar establishments. VFWs and social halls in particular have a significant need to generate revenue in a fair and reasonable manner. These machines have been successful in other states, and in that type of environment. This will be a new program for the Lottery and this was the only vendor to qualify for this category. Executive Director Sweeney stated that the cost is a concern to him but he would like to meet with the vendor and establish a bottom line and determine if they are willing to bend considerably in the price. He will then be able to establish the pilot program.

General Counsel Kim, recognizing there was no further discussion, moved the motion to a vote. For the reasons stated above and in the meeting materials, the Commission voted unanimously to adopt the motion.

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

After asking if there was any other business to discuss, Treasury General Counsel Kim 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 11:42 a.m.