

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, March 28, 2017

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Meghan Liddy, Commissioner (Remotely)
Anthony Salvidio, Commissioner (Remotely)
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, IT, Lottery
Christian Teja, Director of Communications, Lottery
Judy Moore, Executive Assistant, Lottery

Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer
James MacDonald, First Deputy Treasurer, Treasury
Dave Falcone, Chief of Staff, Treasury
Sarah Kim, General Counsel, Treasury
Chandra Allard, Communications Director, Treasury

Charlene Rideout, Attorney at Law, New England Convenience Store
Association
Colin Young, State House News Service
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. Colin Young, State House News Service also stated that he would be making such a recording today. Treasurer Goldberg informed the Commission that Commissioner Liddy and Commissioner Salvidio are unable to be physically present at the meeting. Treasurer Goldberg then made the following statement: "Pursuant to Section 20(d) of the Massachusetts General Laws, Commissioners Liddy and Salvidio will be participating remotely for this meeting, both because of physical injury and lack of mobility. A quorum of the Commission members is physically present at the meeting location. Lottery Commission by-laws allow for remote participation by Commission members. Commissioner Liddy and Salvidio are participating by telephone and 'Commissioners, if at any time we are not clearly audible to you, please let us know.' Commissioners Liddy and Salvidio may participate in any votes scheduled to take place at today's meeting."

II. Approval of the Minutes from February 27, 2017

Treasurer Goldberg asked the Commission to accept the minutes of the meeting of February 27, 2017. Commissioner Shack moved to accept the minutes of the meeting, and Assistant General Counsel Shannon Sullivan seconded the motion. The minutes were approved at 10:39 a.m.

III. Executive Director's Report

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

Executive Director Sweeney reviewed Lottery sales for February, announcing overall sales for February of 2017 were down \$5.9 million from February 2016. Net profit for the month was \$76.5 million, compared to \$51 million in February 2016, a \$25.5 million increase in net profit over February 2016. The prize payout for February 2017 was 73.32 percent, as compared to 79.68 percent in February 2016. Due to lower instant ticket jackpot prizes claimed, and the absence of last year's fiscal accrual related to the \$20 million end of game Mega Cash prize, the year-to-date prize payout for the first eight months of FY17 is 71.65 percent, as compared to 72.92 percent for the first eight months of FY16.

Executive Director Sweeney reported the year-to-date net profit for the first eight months of FY17 is \$723.7 million compared to \$686.3 million for the first eight months of FY16. After subtracting a five day average net profit figure of \$14.6 million, due to a shift in the calendar that resulted in five more days being included in the net profit figure for the first eight months of FY17, the adjusted year-over-year change for the first eight months of FY17 versus the first eight months of FY16 is a \$22.8 million increase in net profit through the end of February.

Executive Director Sweeney reported that Powerball sales experienced a \$7.3 million increase in February of 2017 over February of last year. KENO sales were up \$248,842 over February 2016, instant ticket sales were down \$11.8 million, Mega Millions sales were down \$993,319 and the Numbers Games sales were down \$895,654 in February 2017 as compared to February 2016. Executive Director Sweeney

reported Mass Cash sales were down \$463,569, Lucky for Life sales were down \$126,112 and Megabucks Doubler sales were down \$32,558. Executive Director Sweeney reported that sales of the new ALL OR NOTHING monitor game, which was launched on July 18, 2016, totaled \$1,060,185 for the month. Executive Director Sweeney noted that the major snowstorms on February 9th and February 12th led to a negative impact on sales.

STRIPS

Executive Director Sweeney provided a report and clarification of the purchase of STRIPS (Separate Trading of Registered Interest and Principal of Securities) for the annuity prizes. He stated that, prior to the conclusion of the current fiscal year, the Lottery is planning on purchasing STRIPS to fund prizes paid as annuities that have been won and claimed since July 1, 2016. The Lottery is predicting three separate purchases, the first of which is scheduled for this Thursday, March 30, 2017. He stated that interest rates have increased, and projected that would cause the STRIP trading cost to decrease somewhat from what was projected at the beginning of the fiscal year. Commissioner Liddy interjected and asked Executive Director Sweeney if the Lottery is expecting the aggregate of the STRIPS purchases to be equivalent, less than, or more than, last year? Executive Director Sweeney stated that, although he did not have the exact figure, he explained that the Lottery would be going out for \$16 million. His last discussion with the budget office figured in at about \$32 million and once some of the final numbers are in, which are based on such factors as the age of the winner, the Lottery will have a final number. Executive Director Sweeney stated that he will report back as the trades are made.

Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month. He reported that instant ticket sales continue to track a similar trend and a review of the last five fiscal years shows sales for February 2017 were better than February of 2015, but below sales from February of 2016. ALL OR NOTHING has had a significant impact with a jump in sales this February of over a million dollars. Executive Director Sweeney provided a chart showing the comparison between Jackpot Poker and ALL OR NOTHING, the game that has been a success in replacing it, and explained that one month of ALL OR NOTHING revenue is running about the equivalent of five months of revenue that Jackpot Poker was generating over the course of last fiscal year. He described ALL OR NOTHING as a great success for the Lottery as well as for the Commonwealth. Treasurer Goldberg mentioned that she believes that ALL OR NOTHING sales will settle at a certain level and the game has added important revenue to the bottom line. Executive Director Sweeney reported the Numbers Game remains steady and Mass Cash sales were down slightly with sales showing the impact of the recent snowstorm. Megabucks Doubler sales have remained consistent over the last three years. Lucky for Life game sales checked in at \$1.8 million, which is slightly less than February 2016. Mega Millions, which is a jackpot dependent game, had a consistent month. Executive Director Sweeney mentioned that the Executive Directors of various lotteries have been discussing some changes with advertising and other mechanics of the game and he would be providing an update at the beginning of the next meeting. Powerball had a decent jackpot during the month of February and in spite of losing between two to four robust buying days because of inclement weather, sales were up almost \$16 million. Executive Director Sweeney added that it was unfortunate that players were unable to purchase their tickets on-line during that time period.

Executive Director Sweeney reported that overall, all game monthly sales were just under \$390 million and net profit was at \$76.5 million for the month of February.

Five Year Comparison Chart

Executive Director Sweeney discussed the five year comparison chart, which is a key chart showing the highest payout as a percentage of the Lottery's sales from the last five years. He reported an additional bump up in the prize payout this month from 71.4% to 71.6%, which is trailing last year at this time which was at 73.3%.

Gross Sales Results

Referring to the Gross Sales Results chart, February FY17 vs. FY16 Unadjusted Non-Fiscal Year, Executive Director Sweeney reviewed the gross sales from February FY17. He referred to the red figures posted, and reported that the significant amount of decreases were mostly driven by Instant Tickets which make up almost 70% of Lottery sales. He stated that Instant Tickets were down just over 4% for the month compared to last year. Executive Director Sweeney credited KENO and ALL OR NOTHING to be strong performers not only for February, but all throughout the fiscal year. He reported that Powerball had a strong month with sales just up over \$7 million compared to last year. The total gross sales revenue for the month versus FY16 was down 1.5%. Executive Director Sweeney reported that year to date, Instant Tickets continued to track very closely to the minus 3.0% that was predicted earlier this year, and for the year they were down at 2.8%. He explained this decrease is due to a variety of factors including, store restructurings and store closings that are related to corporate takeovers. Total gross sales results compared to last fiscal year at this time were down -2.9%. Executive Director Sweeney stated that draw games and KENO sales were at a -3.2% overall, but stated that if Powerball figures from January FY16 were in a normal territory and had not experienced an enormous jackpot, total gross sales would in all probability be in a positive range.

Instant Tickets

Executive Director Sweeney informed the Commission that February Instant Tickets sales were off to a decent start with a series of new tickets running from a \$1.00 price point through a \$10.00 price point. He reported sales in general were good for the month, but sales were lost due to inclement weather during prime selling days. He added that he thought February FY17 sales would have been more equal to February FY16 sales and it is unfortunate that people were not able to buy online during the snowstorms. Chief Administrative Officer Ed Farley agreed, explaining that the weather definitely had an impact on sales and the effects of snowstorms on Lottery sales are most obvious on scratch ticket sales. Treasurer Goldberg found it interesting that the Gaming Commission reports that they want to have on-line gambling, and then, according to a recent news article, that there is a limited amount of entertainment dollars and feared that if the Gaming Commission is permitted to have online gambling, and the Lottery is not permitted to have iLottery, they would be capturing the money that could go to the cities and town for the profit of a profitable entity. Commissioner Shack agreed, and expressed that it was enormously disturbing that Massachusetts has the most successful lottery in the nation and it's being kneecapped from the standpoint of not allowing it to participate in any kind of online purchases, as well as handing the keys over to private industry. He continued that he hears time and time again from certain agencies within the Commonwealth, that gaming fees are not Commonwealth funds, but they absolutely are. The minute those licensing fees get deposited into a Commonwealth checking account, they are Commonwealth funds and to take those revenues away from cities and towns and share them with private industries goes against what we're designed to do as a Commonwealth and as a Lottery. Executive Director Sweeney agreed and added that it's important for the Massachusetts State Lottery to take a significant step into the on-line world and stressed that the Lottery will never be able to compete with the advertising dollars that private casino industries will pour into that effort if allowed to. Establishing the Lottery's brand and presence on-line is extremely critical. The Lottery is under a lot of pressure from the multi-state games, particularly Powerball and Mega Millions, who are aware that they are losing millions of dollars a year in revenue because of the states that are not online. Executive Director Sweeney stated that there is a slow trend with states such as Michigan, Kentucky and others who have moved online. He feels this is a trend that will continue and it will be apparent and a real disadvantage to Massachusetts if it is not allowed to participate in the online market. Commissioner Shack remarked that we are in the East Coast hub of technology, where the Lottery could be partnering with Massachusetts vendors and startup organizations rather than supplying those vendors from out of state the opportunity to have a monopoly on online gaming. The Lottery needs to have an even playing field, if nothing else.

Promotions

Executive Director Sweeney shared with the Commission the Numbers Game promotion, which will begin April 9th and run through April 29th. Players who spend \$5 or more on a single Numbers Game ticket will receive a promotional ticket for a chance to win \$500. Five winning promotional tickets will be selected each day of the promotion and on May 1st, all winning promotional tickets will be entered into an additional drawing for one \$5,000 prize. This promotion also features a bonus chance to win \$1,000. Executive Director Sweeney also updated the Commission on the “See the Green” Social Media five day promotion, which was well received and ran from March 13th through March 17th. There were two winners each day who each received two tickets to a Celtics game on April 10th.

Problem Gambling Awareness Month

Executive Director Sweeney continued the discussion by reminding the Commission that March is Problem Gambling Awareness month, which the Lottery participated in a variety of ways, including a number of social media announcements. The Lottery also displayed helpful information on KENO monitors throughout the Commonwealth, as well as on draw game tickets. Signage was placed in the Customer Service areas in the regional offices, as well as at the Braintree headquarters. The Mass Council on Compulsive Gambling supplied an information table in the Braintree and Worcester offices. The Lottery also displayed a notification in the agent newsletter and on the homepage of the Lottery website.

Social Media Messaging

Executive Director Sweeney updated the Commission on a number of ways the Lottery has been using social media to promote engagement and generate feedback on Lottery products. Social media messaging was used on Facebook, Twitter and Instagram, and drew attention to Problem Gambling Awareness Month. Additional social media messaging was used with a series of tweets around St. Patrick’s Day to promote Lottery Instant Tickets, as well as announcements on Facebook to publicize winner awareness throughout the Commonwealth. Executive Director Sweeney complimented New Bedford Regional Manager, Steve Martins, for always doing a great job, and who was highlighted on Instagram along with a New Bedford store owner who sold a \$4 million winning ticket. Commissioner Liddy took a minute to commend the efforts done to promote Problem Gambling Awareness Month and added that the Lottery always does a great job in getting the word out so that people can participate in a responsible way in revenues going back to the cities and towns.

IV. Matters Requiring Massachusetts State Lottery Commission Approval

Votes Presented to the Commission

VOTE 1: For reasons set forth in the attached memorandum dated March 21, 2017, the Executive Director is hereby authorized to exercise the second one year contract extension option concerning Lottery audit and financial consulting services with the following firm of independent public accountants who are licensed as certified public accountants.

KPMG, LLP
Two Financial Center
60 South Street
Boston, MA 02111

The original award was made pursuant to competitive bid, LOT #1305. The maximum obligation assumed under the contract extension shall not exceed one hundred forty-three thousand four hundred and sixty-one dollars (\$143,461.00) for the one year term.

Commissioner Shack recused himself from the vote as KPMG is the auditor of the state and this audit rolls up to the Commonwealth of Massachusetts. He stated that he will neither contribute to the discussion nor participate in the voting.

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

Executive Director Sweeney introduced the vote by informing the Commission that this is the last one year option on an original contract that was for three years with two, one year options. When the Lottery originally engaged KMPG for the second option, they came in about \$4,300.00 higher than what the Lottery was charged last year. The Lottery went back and asked KMPG to maintain pricing and they agreed to revert back to last year's pricing at \$143,461.00. Executive Director Sweeney added that KPMG has done a good job at providing audit and financial consulting services to the Lottery.

Treasurer Goldberg, recognizing there was no further discussion, took a roll call vote. The Treasurer asked the Commission all those in favor: Commissioner Salvidio: yes; Commissioner Liddy: yes; Assistant General Counsel Shannon Sullivan: yes; and, Treasurer Goldberg: yes. The motion carried 4-0.

VOTE 2: For the reasons set forth in the attached memorandum dated March 20, 2017, the Executive Director is hereby authorized to purchase a total of twelve hundred (1,200) full service lottery terminals from the following corporate entities:

IGT, Inc.
IGT Center
10 Memorial Boulevard
Providence, RI 02903

Scientific Games, 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 two million seven hundred and five thousand two hundred and fifty-two dollars (\$2,705,252.00) for the purchase of twelve hundred (1,200) full service lottery terminals.

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

Executive Director Sweeney informed the Commission that this would be the first initial rollout that will involve some degree of testing, beginning towards the end of July 2017. The Lottery asked both companies, IGT and Scientific Games, to make a delivery by the end of June, which is reflected in the four hundred terminals that will be received on or before June 30th, with an additional eight hundred terminals being received by the end of July. The Lottery's plan will be done in conjunction with the Treasury and the Lottery will develop a roll out plan that targets a number of retail agents. A variety of factors will be looked at to discover which ones have existing terminals that have been getting the most amount of service. Executive Director Sweeney described this as a key moment for the Lottery, not just in terms of service, but in the replacement and easing out of new technology, in addition to relieving a lot of operational stress that comes with the outdated terminals. Executive Director Sweeney asked the Commission to keep in mind that the Lottery is anticipating over the next year and a half, that as we ramp up, there is between a four to six month normal lead time from when the order is placed to when the order is received. The timing of these votes as well as the timing of orders, and the funding aspects, will be somewhat complicated, but very important over the next six to eight months. Commissioner Liddy remarked that this vote was not only a long time coming and necessary, but also very exciting. Commissioner Liddy asked about budget implications. Executive Director Sweeney replied that the initial purchase will be covered by this fiscal year, and then explained to the Commission how the operating budget has been structured in a manner in which the Lottery will be able to absorb.

Treasurer Goldberg, recognizing there was no further discussion, took a roll call vote. The Treasurer asked the Commission all those in favor: Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; Assistant General Counsel Shannon Sullivan: yes; and, Treasurer Goldberg: yes. The motion carried 5-0.

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 Shack moved to adjourn and Commissioner Salvidio seconded the motion. The motion carried unanimously. The meeting adjourned at 11:11 a.m.