

Massachusetts State Lottery Commission

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DATE: Monday, July 31, 2017

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Thomas G. Shack, III, Comptroller
Jeffrey Shapiro, Esquire, Deputy Comptroller and Chief Operating Officer, designee of Thomas G. Shack, III, Comptroller
Shannon Sullivan, Assistant General 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
Christian Teja, Director of Communications, Lottery
Judy Moore, Executive Assistant, Lottery

James MacDonald, First Deputy Treasurer
Sarah Kim, General Counsel, Treasury
Chandra Allard, Communications Director, Treasury
Dan Truong, Assistant Communications Director, Treasury
Shawn Collins, Legislative Director, Treasury
Bran Shim, Fiscal Policy Analyst, Executive Office for Administration and Finance
Katie Lannan, State House News Service

I. Opening of the Meeting:

Treasurer Goldberg opened the Compensation Committee meeting at 10:39 a.m. for the sole purpose of voting to accept the minutes from the Compensation Committee meeting of June 27, 2017.

Treasurer Goldberg announced, "Pursuant to the Commonwealth's Open Meetings Law, Massachusetts General Laws, Chapter 30A, Section 20, as Chair of the Compensation Committee 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. Katie Lannan, State House News Service, also stated that she would be making such a recording today.

II. Approval of the Compensation Committee Minutes from June 27, 2017

Treasurer Goldberg asked the Commission to accept the minutes of the Compensation Committee meeting of June 27, 2017. Commissioner Shack requested an amendment to the minutes. He asked to add, "in the private sector," to Commissioner Liddy's statement that pay is performance based. Commissioner Shack then made a motion to accept the amended minutes of the meeting, and Assistant General Counsel Sullivan seconded the motion. The amended Compensation Committee minutes were approved at 10:40 a.m.

After asking if there was any further business, Treasurer Goldberg sought a motion to adjourn the Compensation Committee meeting. Commissioner Shack made a motion to adjourn and Assistant General Counsel Sullivan seconded the motion. The Compensation Committee meeting adjourned at 10:41 a.m.

III. Opening of the Meeting:

Treasurer Goldberg opened the Massachusetts State Lottery Commission meeting at 10:41a.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. Katie Lannan, State House News Service, also stated that she would be making such a recording today.

IV. Approval of the Minutes from June 27, 2017

Treasurer Goldberg requested that the Commission vote to accept the minutes of the Massachusetts State Lottery Commission meeting of June 27, 2017. Assistant General Counsel Sullivan moved to accept the minutes of the meeting, and Commissioner Shack seconded the motion. The minutes were approved at 10:42 a.m.

V. Executive Director's Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney was pleased to report that the estimated sales for FY17 of \$5.093 billion, rank second in Lottery history, topped only by FY16's \$5.233 billion. He reported that the Lottery anticipates returning an estimated \$1.035 billion in net profit to the Commonwealth, which is \$46 million higher than the FY16 net profit of \$989.4 million. The finalized financial statement of operations for FY17 is anticipated to be completed by mid-September.

Commissioner Shack commended Executive Director Sweeney and remarked on the figures in light of the sales challenges and marketing cuts facing the Lottery. He articulated that he believes everyone at the Lottery deserves a great debt of gratitude from the Commonwealth. Executive Director Sweeney agreed, acknowledging the outstanding work of Lottery employees.

Treasurer Goldberg recalled that when she was first seated as Treasurer, she felt it was vital to focus on regionalized marketing, new creative strategies and every imaginable way to squeeze the juice out of the lemon in terms of operations. The Lottery has done that significantly. The results show that, even with declining ticket sales and the like, the Lottery has accomplished that. As an example, Treasurer Goldberg complimented the Lottery's new assistant director of social media, Juan Di Prado, expressing that he did a fantastic job during a recent FOX25 Zip Trip in which the Lottery has been participating each Friday throughout the summer. She stated that, part of his role is to regionalize the Lottery's thinking and work with the different areas of the state, as well as focusing on our retailers, regional offices and how the Lottery can do a better job in reaching their needs. The Treasurer mentioned that, interestingly, she recently participated on a panel which focused on, how you can do more with less and when does less become less. She had used the Lottery as an example and spoke of the efficiencies being used, but cautioned that, eventually, you will not be able to do more with less and you will get to a point to which you will have less with less. That is why it is important to look at ways to expand the business, such as online Lottery. She was pleased to mention that, from the beginning, her goal was to exceed the billion dollar mark in profits. She explained that as a local elected official, she is very aware of the local dollars that go to every single city and town across the Commonwealth and how each local elected official needs those profits to meet critical needs.

Executive Director Sweeney continued his report, stating that the Lottery spent an estimated \$97.4 million on administrative costs in FY17, which was five percent less than in FY16. These costs are less than two percent of overall revenues, which is the lowest of any Lottery operating in the United States.

Executive Director Sweeney continued by providing the Commission with the Lottery sales update for June. He reported overall sales for June of 2017 were down \$2.1 million from June of 2016. The estimated prize payout was 73.25 percent as compared to 75.89 percent in June 2016. The estimated FY17 prize payout is 72.02 percent, as compared to 73.41 percent for FY16. Due in part to a shift in the calendar that resulted in six fewer days being included in the estimated net profit figure for June 2017, the estimated net profit for the month was \$53.1 million compared to \$59.9 million in June 2016. After adding a six day average net profit figure of \$11.8 million, the adjusted change for June 2017 vs. June 2016 is an estimated \$5.0 million increase in net profit.

Executive Director Sweeney reported that, on the strength of escalating jackpots, Powerball sales increased \$6.1 million in June of 2017 over June of 2016. KENO sales experienced a \$1.6 million increase in June of 2017 over June of last year. Mega Millions sales were down \$5.5 million in June of 2017 compared to June of 2016, when the jackpot reached \$391 million. Compared to June of 2016, instant ticket sales were down \$4.0 million, Numbers Game sales were down \$467,843, Lucky for Life sales were down \$87,322, Megabucks Doubler sales were down \$79,332, and Mass Cash sales were down \$22,036 in June of 2017.

Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month. He reported that ALL OR NOTHING experienced a significant drop,

below \$700,000, for the first time since the game was launched. He opined that this game will begin to settle somewhere around the \$400,000 mark and stated that it is a significant win over the prior version of the game, Jackpot Poker. The Numbers Game continued to do well, seeing almost \$18.5 million in sales for the month and all games were just in over the \$300 million mark.

Five Year Comparison Chart

Executive Director Sweeney discussed the five year comparison chart, a significant historical chart, showing the highest payout as a percentage of the Lottery's sales from the last five years. He reported that the prize payout for the fiscal year is expected to close out at just around 72%.

Gross Sales Results

Discussing the Gross Sales Results chart, June FY17 vs. FY16 Unadjusted Non-Fiscal Year, Executive Director Sweeney reported that sales were down just under 1%, a loss of \$2.1 million. He stated that the expansion and increased focus on KENO and ALL OR NOTHING drew in an additional \$2.1 million compared to the previous year. Powerball, which is jackpot dependent, also had a good month and was up 121.7%.

Reporting on the year to date Gross Sales Results, Executive Director Sweeney informed the Commission that instant ticket sales continue a historical trend as they decrease year over year which is also being seen within other states. The lack of the \$1.5 billion Powerball jackpot which occurred in FY16, had a negative impact on the numbers for FY17. Powerball was down almost \$50 million as a result of that one jackpot run experienced in FY16.

Instant Tickets

Executive Director Sweeney continued the discussion by providing a sales update on June instant ticket sales and reviewed the point of sale advertising supporting the launch. He reported on the \$1, \$2, and \$5 family "X" multiplier series and commented that the response has been robust over the past five weeks and was off to a good start. Chief Administrator Officer Ed Farley agreed, and added that the multiplier family is an extension of the 200X ticket which was launched in April.

As part of the discussion around instant tickets, Executive Director Sweeney presented a preview of the new instant tickets that will launch on August 8. He introduced a new family of tickets, Make My Day™ with price points of \$1, \$2, and \$5 as well as a new \$10.00 ticket, \$4,000,000 Instant Jackpot ticket. In addition, he announced that once again, the Lottery, in partnership with the Patriots, will be releasing a 5X Champions ticket with a price point of \$5.00. Executive Director Sweeney anticipates that these tickets, along with the Make My Day™ family of tickets, will help to drive sales.

Promotions

Executive Director Sweeney shared with the Commission two special agent promotions supporting the new Patriots instant ticket. Agents who correctly answer a series of eight questions will be entered into a drawing to have a chance to win two passes to a special event at Gillette Stadium along with being able to meet members of the Patriots and see all five championship trophies. Twenty-five agents will be chosen as a result of the promotion.

For every book of 5X Champions settled before September 9, agents will earn one entry into a September 11th drawing to win two passes to the Gillette Stadium Patriots event on September 21st. Winning agents will be also be able to meet members of the Patriots as well as the opportunity to see all five championship trophies.

The Lottery will also be offering a Megabucks Doubler Promotion from August 13 through August 26. Players who spend \$4 or more on a single Megabucks Doubler ticket will receive a promotional ticket for a chance to win \$2,017. On August 28, twenty winning promotional ticket serial numbers will be randomly chosen and posted on masslottery.com.

Executive Director Sweeney introduced a new promotion, in conjunction with Live Nation Concerts. Up to ten "Rock Stars" will be selected to receive two tickets to their choice of one participating concert at the Xfinity Center. "Rock Stars" will also receive a \$100 food voucher to use at the concert along with a

parking pass. To enter, “Rock Star Nominators” must in 260 words or less, tell the Lottery how the Rock Star that they are nominating uplift and better their community. This is a unique promotion on which Chief Administrator Ed Farley and Director of Communications Christian Teja have been working with Connelly Partners and Live Nation.

Social Media Messaging

Executive Director Sweeney updated the Commission on how the Lottery has been using social media to increase awareness of Lottery products and on building customer relationships. Executive Director Sweeney announced that the Lottery has upgraded the use of social media messaging with the hire of a new full time assistant director of social media. He highlighted the great response to the inflatable hammock promotion done on Facebook Live during a recent Zip Trip. Over 27,000 people were reached and over 12,000 viewed the video. He expressed his hope that the Lottery will do more of this work. The Lottery has also begun to develop more interactive themes, such as, “What would you do Wednesday?” as well as using trendy hashtags. He reported that, so far, the response has been significant.

New Hampshire Lottery

Executive Director Sweeney noted that the New Hampshire State Lottery has been authorized to sell online. Sales are expected to begin in January or February of 2018. Executive Director Sweeney remarked that the New Hampshire Lottery director rightfully points out, that this is a business decision. With online sales, New Hampshire is estimating that online Lottery sales will generate \$13 million for the education trust fund over a two year period. Executive Director Sweeney encourages Massachusetts to watch the trend of online sales in general because a significant amount of our revenue is derived from New Hampshire residents who cross into Massachusetts, for work, to shop and to vacation. This is a significant market segment for the Lottery and it will be interesting to see how this new online development affects sales. Commissioner Shack stated that this is the evolution of the Lottery as a business and the inability to evolve, creates stagnation. He reminded the Commission that one of the reasons why the Massachusetts State Lottery has been so successful is because there is not a significant drain in the way there is with other gaming efforts occurring in Massachusetts where the private sector takes a portion of the earnings elsewhere. He stressed it is something that is critically important and that everyone understands that the decisions being made by the Legislature really have the ability to have a significant impact on our cities and towns and should be of great concern. Treasurer Goldberg agreed and added that before one would ever consider allowing a commercial enterprise, such as casinos to go online, one would want to think about the cities and towns needs prior to any consideration of any private enterprise being online.

VI. Matters Requiring Massachusetts State Lottery Commission Approval

Votes Presented to the Commission

There were no votes on the agenda for this meeting.

VII. 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 Shack moved to adjourn and Assistant General Counsel Sullivan seconded the motion. The motion carried unanimously. The meeting adjourned at 11:06 a.m.