

Massachusetts State Lottery Commission

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DATE: Tuesday, May 29, 2018

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner (Remotely)
Jeffrey Shapiro, Esquire, First Deputy Comptroller, Chief Operating Officer,
Office of the Comptroller, designee of Thomas Shack III
Spencer Lord, 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, IT Director, Lottery
Christian Teja, Director of Communications, Lottery
Didier Bertola, Chief Financial Officer, Lottery
Michael Lanava, Assistant Director, Worcester Regional Manager, Lottery
Judy Moore, Senior Executive Assistant, Lottery
Joshua Fredette, Overture Partners, LLC, Senior Program Engagement
Manager, under contract with the Lottery

James MacDonald, First Deputy Treasurer
Sarah Kim, General Counsel, Treasury
David Falcone, Chief of Staff, Treasury
Chandra Allard, Communications Director, Treasury
Kathi Reinstein, Director of Policy & Legislative Affairs, Treasury
Michael Bergquist, Policy Analyst, Treasury
Emma Sands, Assistant Communications 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 10:37 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 the designee of the 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.

Treasury General Counsel Kim informed the Commission that Commissioner Anthony Salvidio is unable to be physically present at the meeting. Treasury General Counsel Kim then made the following statement: "Pursuant to Section 20(d) of the Massachusetts General Laws, Commissioner Salvidio will be participating remotely for this meeting. 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 Salvidio is participating by telephone and 'Commissioner, if at any time we are not clearly audible to you, please let us know.' Commissioner Salvidio may participate in any votes scheduled to take place at today's meeting."

II. Approval of the Minutes from April 24, 2018

General Counsel Kim asked the Commission to accept the minutes from the Massachusetts State Lottery Commission meeting held on April 24, 2018. Commissioner Meghan Liddy made a motion to accept the minutes of the meeting and First Deputy Comptroller and Chief Operating Officer Jeffrey Shapiro, seconded the motion. General Counsel Kim, recognizing there was no further discussion, took a roll call vote. General Counsel Kim asked the Commission all those in favor: Assistant General Counsel Spencer Lord: yes; Commissioner Salvidio: yes; First Deputy Comptroller Shapiro: yes; Commissioner Liddy: yes; and, General Counsel Kim: yes. The motion carried 5-0. The minutes were approved at 10:40 a.m.

III. Executive Director's Report

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

Treasurer Deborah Goldberg arrived at 10:41 a.m. and Executive Director Michael Sweeney provided the Commission with the Lottery sales update for April 2018. He announced that, overall, sales for April 2018 were strong and were up \$37.8 million from April 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 lower rate of instant ticket jackpot prize claims in April 2018 vs. April 2017, and STRIPS purchases for annuity winners totaling 8.3 million in April 2017, the net profit for April 2018 was \$87.5 million, as compared to \$47.0 million in April 2017, an increase of \$40.5 million. He reported that the prize payout for April 2018 was at 72.39 percent, as compared to a high 80.04 percent in April 2017.

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 was awarded in May as an annuity prize. The year-to-date net profit for the first ten months of FY18 currently stands at \$828.5 million, compared to \$870.9 million for the first ten months of FY17. After adding a one day average net profit figure of \$2.7 million due to a shift in the calendar that resulted in one less day being included in the net

profit figure for the first ten months of FY18, the adjusted year-over-year change for the first ten months of FY18 versus the first ten months of FY17 is a \$39.7 million decrease in net profit. The year-to-date prize payout for the first ten months of FY18 is 73.66 percent, as compared to 72.01 percent for the first ten months of FY17, which explains the profit differential.

Executive Director Sweeney provided a sales breakdown for April 2018. He noted that seven of nine Lottery products experienced sales increases in April of 2018 compared to April of 2017. Instant ticket sales were up \$29.2 million, KENO sales were up \$5.2 million, Mega Millions sales were up \$1.8 million, Powerball sales were up \$1.1 million, Mass Cash sales were up \$298,624, THE NUMBERS GAME sales were up \$203,646, and Megabucks Doubler sales were up \$122,137. Executive Director Sweeney also reported that, compared to April of 2017, ALL OR NOTHING sales were down \$112,668 and Lucky for Life sales were down \$18,016.

Five Year Comparison Chart

Executive Director Sweeney reported on the prize payout as a percentage of sales, informing the Commission that the five year comparison chart continues to show that the prize payout for FY18 remains high, moving just slightly lower, compared to last month. He reported that the prize payout is currently at 73.7 percent for the year, which has been the highest amount paid out percentage wise over the last five years. He reminded the Commission that last July, the Lottery projected that the net profit number would be approximately \$968 million. As of last week, the Lottery is right on track to meet that \$968 million.

Gross Sales Results

Executive Director Sweeney presented the numbers on the Gross Sales Results chart, April FY18 versus FY17 Unadjusted Non-Fiscal Year, and also the Year-to-Date FY18 versus FY17. Executive Director Sweeney reported that, sales were very strong. He reported almost an eleven percent increase on instant ticket sales compared to April of last year, up \$29.2 million. Overall, sales on a monthly basis compared to last year, were up 9.7 percent. ALL OR NOTHING and Lucky for Life sales were down.

Reporting on the year to date gross sales results, Executive Director Sweeney informed the Commission that sales were good. Instant ticket sales through the end of April were up two percent versus last year. Executive Director Sweeney stressed to the Commission, that this is a strong number given the Lottery's maturity and saturation of the market. Total instant ticket sales were up \$59.1 million for the year. KENO was also a strong performer and was up \$65.7 million for the year. As of now, KENO is on track to achieve the second highest year of sales and close to achieving an all-time record. Overall sales for the year were up 3.8 percent which is \$161.6 million

Recent Grand Prize Winners

Executive Director Sweeney highlighted some of the recent grand prize winners and described them as a reflection of the population who play the Lottery. The winners have a variety of occupations, such as a machine operator from Springfield, a nurse practitioner from Dracut, a portfolio expert from Hollister and a chef from Lawrence. Executive Director Sweeney believes that it is important to share information about the winners and their backgrounds and the ways in which they choose to spend their money.

Instant Ticket Sales Update and POS Advertising

Executive Director Sweeney continued the discussion by providing a sales update on April instant ticket sales. He reported that the Fastest Road to \$1 Million instant ticket, with a \$30 price point, has been doing well, having four weeks of strong sales totaling \$38,153,481. He stated that, in general, the "For Life" instant ticket family series, with price points of \$1, \$2, and \$5, have gained good traction in the marketplace.

As part of the discussion around instant tickets, Executive Director Sweeney presented a preview of the new instant tickets that will go on sale June 19th, featuring a "Multiplier" theme. He acknowledged that in the past, there had been good success with this type of ticket. Being cognizant of the print numbers, these tickets

have price points of \$1, \$2, \$5 and \$10 and Executive Director Sweeney expects this family of tickets to do well going into the summer months.

Promotions

Executive Director Sweeney shared the promotion surrounding THE NUMBERS GAME. From May 7th to June 3rd, players who spend \$4 or more on a single ticket will be entered into a weekly drawing to win \$7,777. In addition, there will be twenty \$100 winners each week. Executive Director Sweeney added that the Lottery has been heavily advertising this game throughout the Lottery website, social media and at point of sale locations. Executive Director Sweeney is hopeful that this promotion will attract more players. He complimented Draw Games Product Manager, Scott Kenyon, and the entire marketing team at the Lottery for a job well done. The Lottery is hoping to focus on, and bolster the foundation of, the draw games and explained that, over the last decade, these games have not gotten a sufficient amount of attention.

Social Media Messaging

Continuing to be assertive with the Lottery's robust efforts on social media messaging, Executive Director Sweeney shared the cost effective ways taking place to reach Lottery players. He showed examples of recent techniques used on Twitter, Facebook and Instagram. He showed highlights from the Fenway Park Challenge along with a Mother's Day post that generated a lot of activity with over 3,000 people reached. Executive Director Sweeney noted that the Lottery is also using social media to introduce new tickets and to highlight current promotions. There was information shared on Twitter surrounding the Corvette Cash promotion as well as jackpot awareness publicized on Facebook. Executive Director Sweeney also commented on a posting that was sent out on Instagram with a reminder to players about the importance of responsible gaming.

E-Commerce

Executive Director Sweeney shared with the Commission, information from a column written by NFL Sportswriter, Peter King. The article featured a quote from business owner Robert Kraft, in 1999, regarding E-commerce. The quote stated, "I think the internet is like television in 1948, with infinite potential. The internet is going to completely change the way commerce is done in the world." Executive Director Sweeney stressed the fact that Mr. Kraft said this almost twenty years ago and viewed it as a prediction by one of the most successful businesspersons in Massachusetts. Executive Director Sweeney emphasized that the Massachusetts State Lottery is still fighting to be able to enter into the internet marketplace as another channel in which to sell tickets for the long term success of the Lottery.

Worcester Regional Office

Executive Director Sweeney informed the Commission that, approximately every month or two, he would like to invite one of the Lottery's regional managers to attend the Commission meeting, to be formally introduced, and to have them explain the framework of the regional operations. Executive Director Sweeney described the regional operations as the core and the strength of the Massachusetts State Lottery which deals on a direct day to day basis with the retail agents as well as the majority of the Lottery's employees who interact daily with the public. Executive Director Sweeney introduced Michael Lanava, who is the regional sales manager for the Worcester area, who created a presentation to share with the Commission.

Regional Manager Lanava provided a brief overview of the Worcester region and the roles and functions performed there. He informed the Commission that the Worcester office encompasses 86 cities and towns and represents approximately 1,421 retail partners. In FY17, players at retail locations in these communities, won \$591,023,397 in prizes, and cities and towns in this region received a total of \$170,477,321 in local aid.

Regional Manager Lanava explained that the current office opened in 2005 and is accessible from the highway and by public transportation. Some of the unique facts regarding the Worcester office are that it is home to the only agent training center outside of the Braintree office. Due to its size, it's the only regional office to hold in-house trainings and seminars for Lottery employees across the Commonwealth. The warehouse stores instant tickets, promotional materials and distributes Beano products. Regional Manager Lanava provided trivia about the workforce at the Worcester office, adding that one current employee comes to

work each day since the Lottery first opened its doors in 1972. Regional Manager Lanava then described each of the departments within the building, including Sales, Service, Inventory Control/Warehouse, Administration, Asset Protection, Compliance and Customer Service. Commissioner Liddy asked how many technicians were employed in Worcester. Regional Manager Lanava explained that there are seven technicians, which includes a bench tech who repairs the equipment, along with a supervisor who is out in the field and also a manager. He described technical support staff as not a lot of people who do a lot of work. He also noted having a good partnership with the Springfield office and together, they share a territory in the western part of the state. When necessary, technicians from the Worcester and Springfield offices will service one another's area. In his opinion, it is important to do things as efficiently as possible. Regional Manager Lanava concluded the presentation by thanking the Commissioners for their continuous support.

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 the monthly update on the status of the MSLC Technology Modernization Project. Program Manager Fredette provided the Commission with a recap, describing the Lottery as being in the middle of a massive modernization program and he reflected on the progress that has been made to date and the achievements of the project. He complimented the Commission and the Lottery teams involved for their support and the success of the cross collaborative efforts at the Lottery. In Senior Program Engagement Manager Fredette's view, the fact that the project is half way complete is considered very good progress.

To date there are about 3,500 terminals deployed out in the field that are working and Senior Program Engagement Manager Fredette stated that progress on a project of this size is phenomenal. The Lottery has been working with the vendor and the system integrator, IGT, to make sure that the requirements and the blue prints for the software, are accurate. The vendor will take those specifications and develop the software. As time goes on, and the project enters the testing phase, one of the risk mitigation steps that has been taken is to have IGT demo the software to the Lottery. This step is critical in order to catch any problems and solve them before the project progresses too far.

Commissioner Liddy inquired about a schedule slip recorded in the timeline of the presentation. Senior Program Engagement Manager Fredette explained that it was a risk that he identified six months ago. When it comes to managing projects, IGT does not follow industry standard practices. Because of this, the Lottery was unable to gain insight on how they were managing their schedule. The Lottery developed their own metrics to measure their progress in terms of where they should be and where they are right now. The Lottery informed IGT that if there is any more of a slip, there will be corrective action to get it back on track.

Executive Director Sweeney pointed out that one of the unique aspects regarding this project is that it's not a situation where there is a large technology company coming in to try to figure out how a particular type of business is run. IGT comes with decades of experience within the Lottery industry and their methodologies are a little bit different than a typical large technology company coming in to try and fit into an operation. IGT's testing and deliverables are a bit different than what would normally be expected in the industry. Executive Director concluded that, as of today, not only is the Lottery at 95 percent of the financial allotment and on track to not overspend, but also on track to come in five percent ahead.

IV. Matters Requiring Massachusetts State Lottery Commission Approval

Votes Presented to the Commission

VOTED (1): The Executive Director is hereby authorized to enter into contracts and make payments to vendors providing standard services to the Lottery's headquarters,

regional offices and back-up data facility for services that include fuel charges for Lottery-issued vehicles, wireless services, electrical services and postage expenses. Such payments will be made in Fiscal Year 2019 to the following vendors:

<u>Fuel</u>	\$430,500.00
Wex, Inc.	
225 Gorham Road	
South Portland, ME 04106	

<u>Postage</u>	\$336,000.00
Pitney Bowes	
3001 Summer Street	
Stamford, CT 06926	

<u>Electricity</u>	\$472,500.00
NSTAR	
800 Boylston Street	
Boston, MA 02199	

National Grid
25 Research Drive
Westborough, MA 01582

Braintree Electric Light Department

150 Potter Road
Braintree, MA 02184

<u>Wireless service and support</u>	\$225,000.00
Verizon Business Network Services, Inc.	
One Verizon Way	
Basking Ridge, NJ 07920	

These purchases are made from statewide contracts, with the exception of those for electrical service.

Deputy Comptroller Shapiro moved to enter into the contracts and Commissioner Liddy seconded the motion.

Executive Director Sweeney informed the Commission that it is worth noting that each of these items is being level funded from the current fiscal year. Executive Director Sweeney spoke with Assistant Executive Director of Lottery Operations, Matt DiFrancesco, who is confident he will be able to hit those dollar targets with the possible exception of gasoline prices, which have been rising significantly and projecting further increases. Executive Director Sweeney informed the Commission that gasoline is one item that the Lottery will be tracking very closely throughout the summer.

Treasurer Goldberg took the vote, asking the Commission all those in favor: Assistant General Counsel Lord: yes; Commissioner Salvidio: yes; First Deputy Comptroller Shapiro: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. The motion carried 5-0.

VOTED (2): For the reasons set forth in the attached memorandum dated May 18, 2018, the Executive Director is authorized to exercise the first year of two (2) one (1) year contract extension options and to set the maximum obligation for the one (1) year extension for advertising services with the following company:

Connelly Partners

46 Waltham Street
Boston, MA 02118

This original procurement was made pursuant to competitive bid process (RFR LOT#1508) which resulted in Connelly Partners being awarded the contract.

The maximum obligation shall not exceed four million five hundred thousand dollars (\$4,500,000.00) for fiscal year 2019.

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

Executive Director Sweeney informed the Commission that as in past years, the Lottery is anticipating the \$4,500,000.00 in the Commonwealth's budget and if that number were to decrease, the Lottery would adjust the number accordingly. Executive Director Sweeney added that Connelly has done a good job for the Lottery over the past year, and would like to exercise this one year extension.

Treasurer Goldberg took the vote, asking the Commission all those in favor: Assistant General Counsel Lord: yes; Commissioner Salvidio: yes; First Deputy Comptroller Shapiro: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. The motion carried 5-0.

VOTED (3): For the reasons set forth in the attached memorandum dated May 22, 2018, the Executive Director is hereby authorized to enter into contracts with the following firms, which are under state contract, to provide information technology expertise, through consultants:

NTT Data Services

100 City Square
Charlestown, MA 02129

Rolta AdvizeX Technologies, LLC

164 Middlesex Turnpike
Burlington, MA 01803

The total maximum obligation assumed hereunder shall be three million seven hundred thousand dollars (\$3,700,000.00), from which up to six hundred thousand dollars (\$600,000.00) shall be allocated to fund consultants for the remainder of fiscal year 2018 and all remaining shall fund consultants for fiscal year 2019.

Commissioner Liddy moved to enter into the contract and Assistant General Counsel Lord seconded the motion.

Executive Director Sweeney informed the Commission that this is part of the overall IT host and terminal rollout. Previously, the placement and system upgrade in which the Lottery has been engaged used both of these companies and they have done an excellent job. One of the mandates on which Executive Director Sweeney asked them to concentrate is working cooperatively as opposed to competing with each other. The communication among the consultants, Lottery and the systems integrator has been excellent. If the Commission sees fit, the Lottery would like to continue these contracts. From the funding, \$600,000.00 will be allocated to SMEs the remainder of this fiscal year, FY18, and \$3,100,000.00 will provide funding for FY19. Commissioner Liddy asked if the \$600,000.00 is based on a certain amount of available hours and a certain amount of labor hours. Executive Director Sweeney responded that it was, and something that the team at the Lottery reviews on a weekly basis.

Treasurer Goldberg took the vote, asking the Commission all those in favor: Assistant General Counsel Lord: yes; Commissioner Salvidio: yes; First Deputy Comptroller Shapiro: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. The motion carried 5-0.

VOTED (4): For the reasons set forth in the attached memorandum dated May 22, 2018, the Executive Director is hereby authorized to enter into a three (3) year contract with two (2) one (1) year extension options for audit and financial consulting services with the following firm of independent public accountants, which are licensed as certified public accountants:

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

The original procurement was made pursuant to competitive bid process (RFR LOT # 1802).

The aggregate maximum obligation assumed under the contract shall not exceed three hundred eighty-eight thousand seven hundred and thirty-seven dollars (\$388,737.00) for the three year term.

Assistant General Counsel Lord moved to enter into the contract and Commissioner Salvidio seconded the motion.

Executive Director Sweeney informed the Commission that this a straightforward vote and this is a firm that the Lottery has used in the past. A number of Lottery individuals, including the budget and finance departments, were involved and felt that this is the overall best value and as well as the best experience for the Lottery in this particular area that must be covered.

Treasurer Goldberg took the vote, asking the Commission all those in favor: First Deputy Comptroller Shapiro abstained from the vote for the comptroller because the Comptroller's office has its own significant contract; Assistant General Counsel Lord: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. The motion carried 4-0.

VOTED (5): For the reasons set forth in the attached memorandum dated May 23, 2018, the Executive Director is hereby authorized to enter into a three (3) year contract with two (2) one (1) year extension options for draw game equipment and associated maintenance and training with the following company:

SmartPlay International
1550 Bridgeboro Road
Edgewater Park, NJ 08010

The original procurement was made pursuant to competitive bid process (RFR LOT # 1801).

The aggregate maximum obligation assumed under the contract shall not exceed two hundred ninety-two thousand five hundred and seventy-five dollars (\$292,575.00) for the three year term.

First Deputy Comptroller Shapiro moved to enter into the contract and Assistant General Counsel Lord seconded the motion.

Executive Director Sweeney explained to the Commission that this was part of a procurement process and part of the ongoing efforts by this Commission, to lead the Lottery into the 21st century. This is a critical system that is approximately twenty years old. It handles the draw games including THE NUMBERS GAME, Mass Cash and Megabucks Doubler. The equipment will provide more options as to how the Lottery can interact with games and potentially also do some promotions. Executive Director Sweeney described this as a critical component as far as the daily functioning on a system that is twenty years old, prompting the team to make an internal decision to pursue this endeavor.

Treasurer Goldberg took a vote, asking the Commission all those in favor: Assistant General Counsel Lord: yes; Commissioner Salvidio: yes; First Deputy Comptroller Shapiro: yes; Commissioner Liddy: 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 other business to discuss, Treasurer Goldberg sought a motion to adjourn the meeting. Commissioner Liddy moved to adjourn and First Deputy Comptroller Shapiro seconded the motion. The motion carried unanimously. The meeting adjourned at 11:25 a.m.