

Massachusetts State Lottery Commission

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DATE: Tuesday, April 25, 2017

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner
Thomas G. Shack, III, Comptroller
Doug Levine, Special 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
Christian Gonsalves, Deputy General Counsel, Lottery
Judy Moore, Executive Assistant, Lottery

Dave Falcone, Chief of Staff, Treasury
Sarah Kim, General Counsel, Treasury
Chandra Allard, Communications Director, Treasury
Shawn Collins, Legislative Director, Treasury
Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer

Colin Young, State House News Service
Robert Frasca, Interested Member of the Public

I. Opening of the Meeting:

Treasurer Goldberg opened the meeting at 10:34 a.m.

II. Approval of the Minutes from March 28, 2017

Treasurer Goldberg asked the Commission to accept the minutes of the meeting of March 28, 2017. Commissioner Shack moved to accept the minutes of the meeting, and Commissioner Liddy seconded the motion. The minutes were approved at 10:35 a.m.

III. Executive Director's Report

a. Sales Update

b. Marketing Update

Executive Director Sweeney presented the Lottery Commission with its March sales update, reporting overall sales for March of 2017 were down \$4.4 million from March 2016. Net profit for the month was \$70.7 million, compared to \$61.2 million in March 2016, a \$9.5 million increase in net profit over March 2016. The prize payout for March 2017 was 74.64 percent, as compared to 76.36 percent in March 2016. The year-to-date prize payout for the first nine months of FY17 is 71.61 percent, as compared to 73.00 percent for the first eight months of FY16.

Executive Director Sweeney reported the year-to-date net profit for the first nine months of FY17 is \$807.8 million compared to \$758.3 million for the first nine months of FY16. After subtracting a five day average net profit figure of \$14.7 million due to a shift in the calendar that resulted in five more days being included in the net profit figure for the first nine months of FY17, the adjusted year-over-year change for the first nine months of FY17 versus the first nine months of FY16 is a \$34.8 million increase in net profit over last year.

Executive Director Sweeney reported that KENO sales were up, experiencing an additional \$2.6 million in March 2017 compared to March 2016. Mega Millions sales were up \$1.1 million, Megabucks Doubler sales were up \$176,487, Powerball sales were up \$47,685, and Lucky for Life sales were up \$7,958 over March of 2016. Executive Director Sweeney reported instant ticket sales were down \$8.4 million in March of 2017 compared to March of 2016. Numbers Game sales were down \$580,889 and Mass Cash sales were down \$309,728. Sales for the All or Nothing Game continue to do well and totaled \$938,145 for the month.

Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month. He reported that through the last three fiscal years, instant ticket sales continue to follow a historical track. KENO continues to be a strong performer, which is largely due to the expansion implemented by Treasurer Goldberg. ALL OR NOTHING sales continue to be strong and continue to be two to three times the amount of what was brought in on an average month when compared to Jackpot Poker. The Numbers Game sales continue to hold steady with an uptick from last month. Lucky for Life, which had been on a decline, experienced a strong month with sales slightly over last month and holding its own. Mega Millions, as well as Powerball, which are jackpot dependent games, both did well. Mega Millions is starting with a new jackpot with an opportunity to see some increased revenue.

Executive Director Sweeney reported that overall, all game monthly sales were fairly strong at \$395 million for the month. Net profit was also strong, however, Executive Director Sweeney stated that there were a number of large cashes during the first two weeks of April and he would have a better insight of how that will affect the prize payout at next month's meeting.

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 that the prize payout is currently at 71.4 percent and is expected to go up. He explained that although it's hard to predict, it may end up at around 72 percent depending on what cashes walk through the door.

Gross Sales Results

Discussing the Gross Sales Results chart, March FY17 vs. FY16 Unadjusted Non-Fiscal Year, Executive Director Sweeney referred to the red figures posted, and reported that the significant amount of decreases were mostly driven by instant tickets, which were down a solid three percent. He disclosed that a number of Lottery games performed well this month, including Mega Millions and ALL OR NOTHING. KENO also did well, bringing in an additional \$2.6 million in sales which will help to mitigate some of the losses seen with the instant tickets. Executive Director Sweeney explained that instant tickets range anywhere from sixty-nine percent to seventy percent of the Lottery's total revenue and as the instant ticket play mechanism continues to experience decreases, not only in Massachusetts, but across the country. It is incumbent upon the Lottery to strengthen and further diversify the ways in which it is offered, as appropriate. For the month, sales were down 1.1 percent in comparison to last year.

Commissioner Salvidio asked Executive Director Sweeney if instant ticket sales are experiencing the effects of the Plainridge Casino. Executive Director Sweeney explained that he didn't think the Lottery could tie any type of negativity from the instant ticket sales to Plainridge, but explained that a number of the corporate chains have either had buyouts or revamped their stores and he thought that eighteen percent to twenty-two percent of the decrease through the first two quarters of FY17, seen in instant tickets could be directly tied to the stores that have been closed because of either ownership change or renovations.

Commissioner Shack asked about the impact from the expansion of some of the non-traditional sundry sellers who are now competing with the 7-11 type of businesses and the local market on the corner. Executive Director Sweeney explained that the Lottery has had several healthy meetings with representatives from CVS and Walmart, which normally do not offer the Lottery as part of their business model. The Lottery has conducted testing in a handful of CVS stores with automated machines and is revamping the Lottery's interaction with these types of retailers. He told the Commission that he will have more to report on in the next six months.

Commissioner Liddy asked for a legislative update on where the Lottery stands in terms of gaining iLottery. Executive Director Sweeney explained that Treasurer Goldberg has been extremely proactive and the Lottery is willing to engage in any conversations that either the House or the Senate wants. He added that, although the Lottery senior staff knows they are facing an uphill fight, they remain optimistic. Executive Director Sweeney stated that the former Executive Director of Michigan did a successful job of introducing on-line lottery in Michigan, and has offered to speak to any group about best practices and the real life issues that they faced as they introduced iLottery and also its positive impact on retailers.

Commissioner Shack expressed that the paradigm shift from brick and mortar is obvious in every aspect of retail and viewed it as a complete business model change. Executive Director Sweeney agreed and added that, part of the decrease is that consumers don't carry the same level of cash that they used to. Treasurer Goldberg stated she believes that the push needs to come from the local level with emphasis on the unrestricted dollars that go to each community. It is critical for boards of selectmen and mayors to be speaking to their state representatives before the dollars are cut. She continued explaining that, although the Lottery's cost savings approaches are working this year, it is at a point that unless you modernize, the options will run out and you will fail to make the next jump up into profits. She stated that even though the Commission is managing the slow decline of what was the most successful lottery in the country, without modernizing, it will still continue to decline. There is increased competition, technology is changing and customer's desires are changing. There is an opportunity, and the hope is that the opportunity doesn't get blocked and boxes the Lottery out by the competition. Commissioner Liddy expressed that although the Lottery is a revenue generator, it is mission based to give the money back to the cities and towns throughout the Commonwealth and it's discouraging that the Lottery is unable to maximize the operation.

Treasurer Goldberg concluded that when the Lottery is rerouting cars to cut back on gasoline and continuously creating more of those kinds of efficiencies, we know we're down to the wire. She stated that moving forward, the Lottery needs to create a more robust marketing department. The Lottery has been running lean and mean for a very long time and because there wasn't a lot of competition, we owned the market. We don't own the market anymore and as gaming becomes more and more available on-line, we are going to own it less and less.

Executive Director Sweeney reported that, year to date, KENO has done very well despite the fact that the Lottery introduced a successful second monitor game. He emphasized that this was no small achievement and credited the marketing department, sales representatives, as well as the vision that Treasurer Goldberg had in expanding KENO. He announced that the KENO sales are up almost \$4 million for the year and ALL OR NOTHING sales are up over \$16 million. So far this fiscal year, the Lottery was successful in squeezing out an additional \$20 million with monitor games, which alleviated some of the losses from instant ticket sales. Overall for the year, compared to last year, sales were down about \$108 million.

Instant Tickets

Executive Director Sweeney provided a sales update on the Corvette Cash instant ticket that was released in early April. He noted that the tickets have been selling strongly with three weeks of sales just over \$5 million. Chief Administrative Officer Ed Farley presented examples of the radio spots supporting these tickets. He announced that the Lottery has engaged four local Corvette dealerships who have purchased tickets to hand out to customers when they come in to test drive a Corvette.

Executive Director Sweeney introduced a new series of instant tickets with price points of \$1.00, \$2.00, and a \$5.00 ticket which includes an extra play on the back area of the ticket. He explained that this is the first time the Lottery has done a ticket like this and will closely monitor the sales of this ticket.

Chief Administrative Officer Ed Farley, presented samples of the new \$30 ticket and announced that this will be the fourth time the Massachusetts State Lottery has launched an instant ticket at this price point. He was optimistic that it would perform well.

Promotions

Executive Director Sweeney shared with the Commission, a Mega Millions promotion which will begin April 30th and run through May 13th. Players who spend \$4 or more on a single Mega Millions ticket will receive a promotional ticket for a chance to win \$2,017. Twenty winning promotional ticket serial numbers will be randomly selected on May 15th and posted on masslottery.com.

Executive Director Sweeney also gave details on the enhancements that are being planned for Mega Millions through the Mega Millions Executive Directors Group, with an aggressive launch date of October 28, 2017. He explained that the new features included a lot of moving parts and highlighted the key changes that will occur. He mentioned that the new enhancements will result in significantly higher jackpot odds and the feedback from testing groups had been positive.

Social Media Messaging

Executive Director Sweeney updated the Commission on a number of ways the Lottery has been using social media to promote daily active engagement, build customer relationships and generate feedback on Lottery products. He explained the efforts that ramped up the exposure on the Bruins Instant Ticket and engaged the Boston Bruins for some additional advertising and added promotional materials. The Boston Bruins sponsored a day and handed out instant tickets to individuals attending games, and the Lottery offered an incentive to sales agents where every book of Boston Bruins instant tickets that were settled before April 30, 2017, would earn them one entry into a drawing to win \$500. Social media messaging was used to create interaction with fans, and the Bruins provided the Lottery with promotional material, including a signed jersey which was promoted on Facebook, which received a great response. Executive Director Sweeney credited the success of the promotion to the Lottery's marketing department.

Executive Director Sweeney continued the update, reminding the Commission that March was Problem Gambling Awareness month and the Lottery hosted the Council at the Braintree headquarters,

which enabled them to engage and hand out information to Lottery players directly. Additionally, the Lottery posted this information across Facebook and other social media domains.

Executive Director Sweeney complimented the Worcester office of doing a great job in promoting the Red Sox instant ticket in the Worcester Lobby. Treasurer Goldberg praised Worcester Regional Manager Michael Lanava, for his superb efforts in promoting Lottery products and in taking his position at the Lottery both from a management side and from a marketing side in a serious and enjoyable way. Photos of the Worcester office were promoted on social media to encourage players to stop by for a visit during opening day and throughout the first week of the season. Executive Director Sweeney and Treasurer Goldberg congratulated all of the regional managers who continuously give one hundred percent in every aspect of their jobs.

Chief Administrative Officer Ed Farley informed the Commission that the Lottery Banner was again flown twice over the Boston Marathon this year with great response and great exposure for the Lottery.

Partnership Assessment

Executive Director Sweeney updated the Commission on a new efficiency aimed to improve individual performances within the regions in certain retail sectors. A number of meetings were conducted with each regional manager to discuss issues related to individual retailers and locations in an attempt to gain a clearer understanding of why some stores underperformed compared to the prior year. Six months of year over year sales by agent locations were examined and managers were asked to identify ten to twelve retail agents in each of their regions who were experiencing a year over year decrease.

Each regional office will engage with each of the owner operators of those locations and increase site visits at each location. An evaluation will be performed at each location using an agent checklist. Executive Director Sweeney gave some examples of what would be on the checklist, including, product merchandising and a review of any business issues. By doing this, the Lottery is hoping to learn if improvements can be made and if there are any commonalities between locations. This assessment will run through the remainder of the fiscal year and changes will be implemented. The Lottery will continue to gather feedback and solidify lessons learned and apply them to other locations. Executive Director Sweeney's goal is to continue assessing locations on a quarterly basis.

Jackpot Awareness Signage

Executive Director Sweeney concluded the Executive Director's report by updating the Commission on one of the votes seeking approval, the new jackpot awareness signs. He explained that these jackpot awareness signs are critical to Lottery business. These signs have a billion dollar feature which will be significant for Powerball and may also become necessary for Mega Millions in the future. Executive Director Sweeney explained that these signs will provide increased customer awareness, particularly in gas store locations.

IV. Matters Requiring Massachusetts State Lottery Commission Approval

Votes Presented to the Commission

VOTE 1: For the reasons set forth in the attached memorandum dated April 4, 2017, the Executive Director is hereby authorized, under state contract OFF46, to utilize a state consortium contract to provide next business day delivery services with the following firm:

United Parcel Service, Inc.
55 Glenlake Parkway, NE
Atlanta, GA 30328

The total maximum obligation assumed hereunder shall be two million seven hundred and fifty thousand dollars. (\$2,750,000.00).

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

Commissioner Shack asked if overnight delivery services were needed for certain items versus second or third day deliveries. Executive Director Sweeney explained that some items, such as instant ticket products, arrive just in time as the Lottery attempts to saturate the market simultaneously on the day of a release. He said that it also makes sense with bet slips when there's an increase in the Powerball jackpot. Executive Director Sweeney informed the Commission that there will be a deeper drill down next fiscal year for opportunities to squeeze the margin further.

Treasurer Goldberg, 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.

VOTE 2: For reasons set forth in the attached memorandum dated April 12, 2017, the Executive Director is hereby authorized to issue a Notice of Intent for procurement under RFR Lot#1209 for terminal printer ribbon cartridges with the following firm:

IGT, Global Solutions Corp. (formerly known as GTECH)
10 Memorial Boulevard
Providence, RI 02903

This original award was made pursuant to a competitive bid process (RFR LOT #1209).

The total maximum obligation assumed hereunder shall not exceed six hundred seventy thousand dollars (\$670,000.00).

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

Executive Director Sweeney informed the Commission that the terminal paper is used for all of the printing required at the retail agent locations. This includes everything from Powerball, Mega Millions and the Numbers game tickets and the paper is also utilized by the agents when they run reports. The need for this paper will start to be phased out as the new terminals arrive. This may not be the last purchase, but the Lottery is heading towards the end of life cycle regarding this type of purchase. Executive Director Sweeney noted that in keeping with the Treasurer's and Commission's mandate, the Lottery asked IGT to hold their pricing to be the same as it was last year, to which they agreed to do.

Treasurer Goldberg, 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.

VOTE 3: For reasons set forth in the attached memorandum dated April 18, 2017, the Executive Director is hereby authorized to exercise the second one-year contract option for Double Jackpot Window LED signs and parts with the following firm:

Pro-Lite, Inc.
3505D Cadillac Avenue
Costa Mesa, CA 92626

This original award was made pursuant to a competitive bid process (RFR LOT #1304).

The total maximum obligation assumed for the second one-year contract option shall not exceed two hundred forty thousand dollars (\$240,000.00).

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

Executive Director Sweeney did not have any additional information to add and Treasurer Goldberg, 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.

VOTE 4: For reasons set forth in the attached memorandum date April 19, 2017, and pursuant to M.G.L. c. 10, §24A, the Executive Director is hereby authorized to enter into such agreement(s) as may be necessary for the Massachusetts State Lottery to approve of changes to the Amended and Restated Mega Millions Official Game Rules (with a proposed effective date of October 28, 2017). The Executive Director is further authorized to draft amended C.M.R. Regulations for further consideration by the Commission.

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

Executive Director Sweeney did not have any additional information to add and Treasurer Goldberg, 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 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 11:38 a.m.