

Massachusetts State Lottery Commission

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DATE: Tuesday, August 29, 2017

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Meghan Liddy, Commissioner (Participant by telephone)
Anthony Salvidio, Commissioner
Thomas G. Shack, III, Comptroller
David Solet, Chief Legal 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
Matthew DiFrancesco, Assistant Executive Director, Operations, Lottery
Paul Mandeville, Assistant Executive Director, IT, Lottery
Christian Teja, Assistant Executive Director, Communications, Lottery
Lauren Luttrell, Product Manager, Lottery
Erin Nally, Legal and Financial Analyst, Lottery
Judy Moore, Executive Assistant, Lottery
Joshua Fredette, Overture Partners, LLC, Senior Program Engagement
Manager, under contract with Lottery

James MacDonald, First Deputy Treasurer
Greg Polin, Deputy General Counsel, Treasury
Robin Healey, Chief Information Officer, Treasury
Chandra Allard, Communications Director, Treasury
Shawn Collins, Legislative Director, Treasury
Jeffrey Shapiro, Esquire, First Deputy Comptroller and Chief Operating
Officer

Gin Dumcius, MassLive.com
Colin Young, State House News Service
Phil Wettengel, O'Neill and Associates

I. Opening of the Meeting:

Treasurer Goldberg opened the Massachusetts State Lottery Commission meeting at 10:33 a.m. Treasurer Goldberg 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, Executive Assistant, Lottery, announced that she would be recording to assist in the preparation of the meeting minutes. Colin Young of State House News Service, and Gin Dumcius of MassLive.com, also indicated that they would be making such a recording.

Treasurer Goldberg informed the Commission that Commissioner Liddy was unable to be physically present at the meeting. Treasurer Goldberg stated, “Pursuant to Section 20D of the Massachusetts Open Meeting Law, Commissioner Liddy will be participating remotely for this meeting. A quorum of the Commission is physically present at the meeting location. Lottery Commission by-laws allow remote participation by Commissioners. Commissioner Liddy is participating by telephone and ‘Commissioner, if at any time we are not clearly audible to you, please let us know.’ Commissioner Liddy may participate in any votes scheduled to take place at today’s meeting.”

II. Approval of the Minutes from July 31, 2017

Treasurer Goldberg asked the Commission to accept the minutes of the Massachusetts State Lottery Commission meeting of July 31, 2017 and she took a roll call vote. The Treasurer asked the Commission all those in favor: Chief Legal Counsel Solet abstained from the vote as he was not in attendance for the July meeting. Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. The minutes were approved at 10:38 a.m.

III. Executive Director’s Report

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

Executive Director Sweeney reviewed Lottery sales for July, announcing overall sales for July of 2017 were down \$17.3 million, as compared to July of 2016. He reported that this year, the Lottery has an accrual that must be accounted for. He first reported on the figures that did not include the accrual and announced that the net profit for July 2017 was \$96.8 million as compared to \$90.2 million in July 2016. After adding a one day average net profit figure of \$3.3 million due to a shift in the calendar that resulted in one less day being included in the net profit figure for July 2017, the adjusted change for July 2017 versus July 2016 is a \$9.9 million increase in net profit. Executive Director Sweeney reported that the prize payout of July 2017 was 69.35 percent, as compared to 72.46 percent in July 2016.

Executive Director Sweeney proceeded by reporting on the sales figures for fiscal year 2018, which include accruals. He indicated that the year to date net profit for the first month of FY18 is: \$90.3 million, compared to \$100.1 million for the first month of FY17. After adding a one day average net profit figure of \$3.1 million due to a shift in the calendar that resulted in one less day being included in the net profit figure for the first month of FY18, the adjusted year-over-year change for the first month of FY18 vs. the

month of FY17 is a \$6.7 million decrease in net profit. The year-to-date prize payout for the first month of FY18 is: 70.97 percent, as compared to 70.14 percent for the first month of FY17.

Executive Director Sweeney reported that KENO, The Numbers Game and instant tickets all experienced sales increases in July of 2017 over July of last year. KENO sales were up over \$6.4 million, The Numbers Game sales were up \$133,681 and instant ticket sales were up \$89,368. Due to smaller jackpots, Powerball sales were down \$11.2 million and Mega Millions sales were down \$10.2 million in July of 2017, compared to July of 2016. He reported that, when compared to July of 2016, ALL OR NOTHING sales for July of 2017 were down \$2.2 million, Megabucks Doubler sales were down \$195,636, Lucky for Life sales were down \$117,155 and Mass Cash sales were down \$19,918.

Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month. He reported that KENO, The Numbers Game and instant tickets sales all experienced sales increases in July of 2017 compared to July of 2016. KENO sales were up almost \$6.4 million, The Numbers Game sales were up approximately \$133,000 and instant ticket sales were up, almost \$90,000. Due to smaller jackpots in both Powerball and Mega Millions during July, sales were down just over \$11 million, as compared to July of 2016. Mega Millions sales were down, just over \$10 million, as compared to the previous July. Executive Director Sweeney noted that, during July of 2016, Powerball sales peaked at \$487 million, and Mega Millions peaked at \$540 million. Compared to July of 2016, ALL OR NOTHING sales for July of 2017 were down \$2.2 million. Explaining the loss, Executive Director Sweeney clarified that the game had its initial launch in July of 2016 and it performed very well in July and in August. Because of the newness of the game, and, further, because of the significant advertising dollars that were spent to support the launch, these numbers will be a bit skewed for the year, when comparing July and August of 2016 to July and August of 2017.

Megabucks Doubler sales were slightly down, just under \$200,000., Lucky for Life sales were down, just over \$117,000 and Mass Cash sales were down almost \$20,000., as compared to July of 2016.

Executive Director Sweeney reported that all game monthly sales in July had a healthy month. Referring to the yearly trending line markers in the All Game Monthly Sales chart, Commissioner Salvidio asked what drives sales down in the month of June. Treasurer Goldberg noted that June is a very busy month and cited examples of weddings, vacations and graduations with reduction in disposable income. Executive Director Sweeney noted that another key factor is that upticks in sales are usually experienced when a new series of instant tickets are introduced. With the release around the April and May period, the month of June falls in between instant ticket launches.

Gross Sales Results

Discussing both the Gross Sales Results chart, July FY18 versus FY17 Unadjusted Non-Fiscal Year, and the Year to Date FY18 versus FY17 Executive Director Sweeney reported that both charts will be identical since it is the first month of the new fiscal year. He reported significant losses with Mega Millions and Powerball but reminded the Commission that these games are driven by the jackpot. Instant ticket sales experienced a slight increase and KENO had a healthy month. Mass Cash, Lucky for Life and Megabucks Doubler are within the same normal range. Executive Director Sweeney explained that, one abnormally this year compared to last year, was that ALL OR NOTHING showed a large decrease for the month. He predicted that August will experience the same type of decrease since the game was launched in July of last year with a lot of advertising to support it and more players testing the game out, which produced a great deal of income through July and August of last year. He added that it was important to keep in mind that ALL OR NOTHING is generating three to four times the dollar amount that was brought in by the game it replaced, Jackpot Poker.

Instant Tickets

Executive Director Sweeney continued the discussion by providing a sales update on the instant tickets that went on sale on August 8th. He reported that, overall sales are strong and sales for the 5X Champions instant ticket has been doing very well. Chief Administrator Officer Farley agreed, and introduced the Lottery's instant ticket product manager, Lauren Luttrell, to the Commission, describing her as a key part of the Lottery's success. Chief Administrator Officer Farley added that to support the 5X Champions ticket, radio spots are being run by former New England Patriots legend, Andre Tippett.

As part of the discussion around instant tickets, Executive Director Sweeney delivered a preview of the September instant tickets which will be released on September 19th. He distributed samples of the new \$1 Loose Change instant tickets that revealed two different scenes, as well the 24K Madness with a price point of \$2 and two, new \$5 instant tickets, Creepy Cash and \$1,000,000 Platinum Payout. Executive Director Sweeney was pleased to announce that, for the first time since 2008, the Lottery will be offering a new \$20 instant ticket, \$10 Million Diamond Dazzler that is printed using holographic paper. He explained that the internal design team along with the vendor, worked intensely on this particular ticket, and the Lottery is hopeful that it will have very good success. Chief Administrative Officer Farley expanded on the discussion explaining this is the third introduction of \$1 Loose Change ticket, which sells out each year, and it is a ticket that the Lottery plans to keep.

Promotions and Agent Incentives

Executive Director Sweeney shared with the Commission an agent promotion centered around instant tickets with a price point of \$20.00. For every book of any \$20 instant ticket game that an agent settles from August 27 through October 7, the agent will earn one entry into a drawing for cash prizes, ranging from \$100 to \$5,000. From September 19 through October 7, the Lottery will visit 250 randomly selected agents. If the \$10 Million Diamond Dazzler poster is on display when visited, the agent will win \$100. Additionally, if any employee is wearing the Diamond Dazzler button or sticker when visited, he or she will win \$100. Executive Director Sweeney revealed that there are great prizes still remaining on a lot of the \$20 tickets and his hope with this promotion is to incentivize agents to close out some of the older stock during the fiscal year, which will help with inventory control. Treasurer Goldberg took a minute to remind the Commission that this is a good example of marketing and the kinds of things that can be controlled in terms of the Lottery's mission of maximizing profits for every city and town. She expressed that these agent incentives are the kinds of things that are at a diminished cost to the Lottery but drive a lot of promotion. She believes point of sale is very important and one of the things that she emphasizes is that the relationship among the sales people, the marketing people and the retailers is very important. The \$100.00 incentive will create sales and excitement greater than the promotional cost and is worth the investment.

Executive Director Sweeney also shared a KENO Labor Day promotion where, from August 31 through September 5, every non-winning KENO, KENO Bonus and KENO to-go ticket will have a bonus chance to win \$1,000. On September 6, twenty winning promotional ticket serial numbers will be randomly selected and posted on masslottery.com.

Social Media Messaging

Executive Director Sweeney updated the Commission on ways in which the Lottery has been aggressive in reinforcing social media to gain customer insight and to increase awareness of Lottery products while building on customer relationships. Executive Director Sweeney brought attention to the promotion that was done around the Patriots 5X Champion instant ticket with over 87,000 impressions on Twitter. He also mentioned that the Lottery has been experiencing a lot more activity on social media and experiencing increased engagement with the people who use social media. Executive Director Sweeney also commented on a message that was sent out on Instagram to remind players about Responsible Gaming Education Week and the importance of playing responsibly.

As part of the discussion around Responsible Gaming, Executive Director Sweeney was pleased to share with the Commission that the Lottery was recently notified by two national organizations, North American Association of State and Provincial Lotteries (NASPL) and the National Conference on Problem Gambling (NCPG), as being assessed and in compliance with the standards for responsible gaming. He emphasized that there is still a lot more work to be done and that the Lottery would be going through significant planning to continue to increase efforts in this area.

KENO in New Hampshire

Executive Director Sweeney reminded the Commission that last month he reported on the information surrounding the New Hampshire State Lottery's authorization by the New Hampshire State Legislature to be able to sell Lottery products online. He continued by disclosing that, for the first time, New Hampshire has also been authorized to sell KENO. He described New Hampshire's Lottery Executive Director, Charlie McIntyre, as having a great deal of experience in the Lottery industry and the way in which it operates. Referring to a recent news article, Executive Director Sweeney thought it was important to share the information, that with New Hampshire being more aggressive and receiving more empowerment from their state legislature, it will have a negative impact as far as revenue on the Lottery here in Massachusetts. Executive Director Sweeney pointed out that, as of now, six of the top ten KENO locations in Massachusetts are within 10 miles of the New Hampshire border. The article quoted Executive Director McIntyre as saying, "This represents the base potential revenue stream and we just go get that right back and then some we hope." Executive Director McIntyre is aware of Massachusetts residents who pass into New Hampshire for work, shopping and other reasons which then brings them into restaurants and bars. Executive Director McIntyre also highlighted in the article that in New Hampshire, players will win five percent more because, unlike Massachusetts, players aren't required to pay income tax and he plans to market that message in a big way. Executive Director Sweeney believes this will be another business pressure which will impact the Lottery's net revenue. KENO is one of Massachusetts higher net profit games and already fifty percent of New Hampshire's betting base say they play KENO regularly, and Executive Director Sweeney trusts that they play in Massachusetts. Commissioner Shack asserted that he doesn't know how much of a clearer message the Lottery needs to send to the legislature relative to this issue and that we are now starting to see the troops on the borders. He believes this will have a devastating effect on the Lottery and it will be profound in the cities and towns who will be the ultimate recipients of that negative impact. Treasurer Goldberg added that the legislature needs to realize that KENO drove last year's profit. Further, the legislature needs to recognize that New Hampshire will be able to deliver a double hit, and that is, the authorization to sell KENO and the power to purchase Lottery products online. Commissioner Salvidio added that, he did not know how many more months the Lottery will have with sales declining before the legislature wakes up on this issue.

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 August 18, 2017, the Executive Director is hereby authorized to extend, by a term of five (5) years, the current lease at MSLC's Canton warehouse and distribution facility.

The total maximum obligation assumed hereunder shall be one million four hundred and sixty thousand six hundred and eighty-four dollars (\$1,460,684.00).

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

Executive Director Sweeney introduced the vote by informing the Commissioner that the Lottery's Assistant Executive Director of Operations Matthew DiFrancesco was in attendance to answer any questions. Executive Director Sweeney stated that the Lottery has been at the Canton location for a while and the Lottery, along with DCAMM, came to the determination that it would be in the Lottery's best interest to extend the lease. The current lease is set to expire in September of this year. There are some improvements associated with the new lease and the landowner has agreed to provide the Lottery with two months of free rent during the current fiscal year. The Lottery stores all of its excess inventory in the facility and it also serves as a backup for the Lottery and a staging area for IT.

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a roll call vote. Chief Legal Counsel Solet: yes; Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. 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 August 21, 2017, the Executive Director is hereby authorized to enter into contracts with the following firms, which are under state contract, to provide information technology expertise:

NTT Data Services

100 City Square
Charlestown, MA 02129

Rolta AdvizeX Technologies, LLC

164 Middlesex Turnpike
Burlington, MA 01803

The aggregate total maximum obligation assumed hereunder shall be two million one hundred thousand dollars (\$2,100,000.00).

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

Executive Director Sweeney introduced Assistant Executive Director of IT, Paul Mandeville, and Joshua Fredette from Overture Partners, LLC, who is a Senior Program Engagement Manager on assignment at the Lottery. Joshua Fredette will be presenting status updates at future meetings on the overall status of the IT projects. Executive Director Sweeney stated that during the course of this project, the management team realized that the Lottery would be required to add additional team members. Both of the companies have had past experience on significant IT projects within the Commonwealth. Executive Director Sweeney anticipates between eight and ten people with subject matter expertise in certain areas from these two companies will be supplementing the team at the Lottery. Joshua Fredette added that, on a large scale technology refresh project, the Lottery wants to make sure that they have the additional expertise to support daily operations as well as to match the vendor who is doing the complete system overhaul. This is a large modernization project and it's important to have the appropriate level of staff to help the Lottery staff balance the daily level of operations as well as to provide risk mitigation. Treasurer Goldberg took a minute to compliment Assistant Executive Director Mandeville and his team, recognizing that he has done an amazing job with limited staff and in providing the support to get the Lottery through this exciting time in a timely fashion. She added that this is a critical vote and the investment will pay for itself in many significant ways.

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. Chief Legal Counsel Solet: yes; Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. 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 August 21, 2017, the Executive Director is hereby authorized to enter into three (3) separate one (1) year contracts, each with two (2) one (1) year extension options, for instant tickets, game designs and research and marketing services, with the following companies:

IGT Global Solutions

10 Memorial Blvd.
Providence, RI 02903

Pollard Banknote Ltd.

1499 Buffalo Place
Winnipeg, Manitoba, CN R3T 1L7

Scientific Games Lottery

1600 Bluegrass Lakes Parkway
Alpharetta, GA 30004

The award is being made pursuant to a competitive bid process (RFR LOT # 1705).

The aggregate maximum obligation under the contracts shall not exceed nineteen million dollars (\$19,000,000.00) for fiscal year 2018.

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

Executive Director Sweeney described this vote as a critical component of the Lottery's business and that the current contracts with these vendors are set to expire this October. The companies chosen are industry leaders and all had solid proposals. The Lottery would like to place all three under contract instead of awarding the contract to just one vendor. He explained that, the Lottery has worked successfully with all three vendors, and is anticipating spending \$19 million this fiscal year. Treasurer Goldberg added that it is important that none of the vendors become complacent and they should compete for our business and give us their best. She explained that, as the Lottery examines declining instant ticket sales, vendors need to be creative.

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. Chief Legal Counsel Solet: yes; Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. 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 August 18, 2017, the Executive Director is hereby authorized to enter into a contract with the following company, which is under state contract, to procure electronic devices and cellular services:

MCI Communications Service, Inc. d/b/a Verizon Business

PO Box 660794
Dallas, TX 75266

The total maximum obligation assumed hereunder shall not exceed two hundred and twenty-five thousand dollars (\$225,000.00).

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

Executive Director Sweeney introduced the vote by informing the Commission that this is a straightforward vote that is for the cellular services and the electronic devices that will need to be replaced throughout the year.

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. Chief Legal Counsel Solet: yes; Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. 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 August 18, 2017, the Executive Director is hereby authorized to enter into three (3) separate three (3) year contracts with two (2) one (1) year extension options on each, for thermal roll ticket stock with the following firms:

RMF Printing Technologies, Inc.

50 Pearl Street
Lancaster, NY 14086

Total Business Systems d/b/a Deluxe Data Printers

30800 Montpelier
Madison Heights, MI 48071

PAP Technologies, Inc.

1813 Colonial Village Lane
Lancaster, PA 17601

The award was made pursuant to a competitive bid process (RFR LOT # 1714).

The aggregate total maximum obligation assumed under the contracts shall not exceed five million and ten thousand dollars (\$5,010,000.00) for the three year contract term.

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

Executive Director Sweeney introduced the vote by explaining to the Commission that the subject of this vote is something that is not often thought about but explained that some of the smaller items such as paper, are critically important to the daily operations of the Lottery. The thermal roll ticket stock business has seen a lot of consolidation and a lot of changes over the last ten years and it can at times, be difficult to find appropriate vendors. This RFR went through a very competitive process and these are three very viable companies. The thermal roll ticket stock that the Lottery uses is for a variety of purposes from the Powerball and Mega Millions tickets to KENO operations which are all critical to the Lottery.

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. Chief Legal Counsel Solet: yes; Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. For the reasons stated above and in the meeting materials, the Commission voted unanimously to adopt the motion.

VOTED (6): For the reasons set forth in the attached memorandum dated August 2017, the Executive Director is hereby authorized to purchase a total of two thousand and one (2,001) full service lottery terminals from the following firm:

IGT, Inc.

IGT Center

10 Memorial Blvd
Providence, RI 02903

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 four million one hundred and sixteen thousand and fifty-seven dollars (\$4,116,057.00) for the purchase of two thousand and one (2,001) full service lottery terminals.

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

Executive Director Sweeney introduced the vote, explaining to the Commission that when the paperwork for the terminals was reviewed, the Lottery realized that, by ordering 2,001 terminals instead of the original 2,000, there was a significant discount in pricing. The Lottery has begun the process of initiating the terminal roll-out. The roll-out has already been completed at the Braintree headquarters as well as at all of the regional offices and at about twenty of the retail agents in the Braintree and Quincy area. The process will continue to expand but more slowly throughout the holiday sales season, thereby enabling the Lottery to concentrate on holiday sales at that critical time. Executive Director Sweeney stressed the importance of having another 2001 terminals ready in the queue so that, during the latter part of winter or early spring, the terminals can continue to be aggressively rolled out across the Commonwealth to the remaining retail agents. There is a five to six month lead time, from purchase to delivery, and that is why the Lottery is in front of the Commission now to ensure the planned delivery time.

Treasurer Goldberg, recognizing there was no further discussion, moved the motion to a vote. Chief Legal Counsel Solet: yes; Commissioner Shack: yes; Commissioner Salvidio: yes; Commissioner Liddy: yes; and, Treasurer Goldberg: yes. 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

Executive Director Sweeney took a moment to mention to the Commission that the Lottery always focuses on the profit that goes back to the 351 cities and towns and he also wanted to remind everyone that, every month, the Lottery is bringing in additional tax revenue from cash prizes that are over \$600.00. He stated that people may sometimes forget about the Lottery's mission and he wanted to bring awareness to that fact that, by having the winning Powerball jackpot here in the Commonwealth, the Commonwealth unexpectedly brought in about \$24 million in additional tax revenue.

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 Commissioner Salvidio seconded the motion. The motion carried unanimously. The meeting adjourned at 11:38 a.m.