

Massachusetts State Lottery Commission

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DATE: Tuesday, April 24, 2018

TIME: 10:30 a.m.

MEMBERS PRESENT: Deborah Goldberg, Treasurer and Receiver General
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner
Thomas Shack, Commissioner
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
Judy Moore, Senior Executive Assistant, Lottery

James MacDonald, First Deputy Treasurer
Sarah Kim, General Counsel, Treasury
Dave Falcone, Chief of Staff, Treasury
Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer
Chandra Allard, Communications Director, Treasury
Kathi Reinstein, Director of Policy & Legislative Affairs, Treasury
Michael Bergquist, Policy Analyst, Treasury
Dan Truong, Assistant Communications Director, Treasury

Kathy Bell, Associate, BCB Government Relations
Maggie Cohen, Kearney Donovan and McGee
Coleman Lynds, Associate, Rasky Partners
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 10:35 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.

II. Approval of the Minutes from March 27, 2018

General Counsel Kim asked the Commission to accept the minutes from the Massachusetts State Lottery Commission meeting held on March 27, 2018. Commissioner Anthony Salvidio made a motion to accept the minutes of the meeting and Commissioner Thomas Shack seconded the motion. The motion passed unanimously. The minutes were approved at 10:34 a.m.

III. Executive Director's Report

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

Treasurer Goldberg arrived at 10:38 a.m. and Executive Director Michael Sweeney provided the Commission with the Lottery sales update for March 2018. He announced that overall sales for March 2018 were up \$50.6 million from March 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 high rate of cashing, the net profit for March 2018 was \$65.6 million, as compared to \$70.7 million in March 2017, a decrease of \$5.1 million. He reported that the prize payout for March 2018 was at an astronomical 77.51 percent, as compared to 74.64 percent in March 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 accruals that have been set aside, most particularly a \$1 million a year for life prize in the Billion Dollar Blockbuster instant ticket that is expected to be awarded in FY18. The year-to-date net profit for the first nine months of FY18 currently stands at \$741.6 million, compared to \$807.8 million for the first nine 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 nine months of FY18, the adjusted year-over-year change for the first nine months of FY18 versus the first nine months of FY17 is a \$66.2 million decrease in net profit. The year-to-date prize payout for the first nine months of FY18 is 73.79 percent, as compared to 71.61 percent for the first nine months of FY17.

Executive Director Sweeney provided a robust sales breakdown for March 2018, and noted that instant tickets, Mega Millions, KENO, Powerball, Mass Cash and Lucky for Life all experienced sales increases in March of 2018 compared to March of 2017. Driven by a much higher jackpot compared to March of 2017, Mega Millions sales were up \$12.2 million. Instant tickets sales were up \$25.7 million, KENO sales continue to be strong and were up \$7.2 million, Powerball sales were up \$5.7 million, Mass Cash sales were up \$194,934 and Lucky for Life sales were up \$46,474. Compared to March of 2017, ALL OR NOTHING sales were down \$217,290, Megabucks Doubler sales were down \$148,306 and The Numbers Game sales were down \$29,232.

Five Year Comparison Chart

Executive Director Sweeney reported on the prize payout as a percentage of sales, informing the Commission that, although sales were robust for the second half of the year, the prize payout figure continues to go up. Through March, the figure was at 73.8 percent, which is an increase of .4 percent from February. A comparison to the prior three fiscal years during this same time period shows a significant jump. Executive Director Sweeney informed the Commission that he intends to provide a deeper breakdown of these figures, in June or July to further examine the significant acceleration of the trend where consumer preferences continue to strongly move towards the \$10 and \$30 price point instant game tickets. These tickets, at a higher price point, have approximately an 80 to 81 percent payout, as compared to the \$1, \$2, and \$5 instant tickets, which usually have a 70 to 72 percent payout. The more 80 percent payout tickets that are purchased, the more the negative affect to the net profit.

Gross Sales Results

Executive Director Sweeney presented the numbers on the Gross Sales Results chart, March FY18 versus FY17 Unadjusted Non-Fiscal Year, and also the Year-to-Date FY18 versus FY17. Executive Director Sweeney reported that overall, it was a strong month. Sales were up 12.8 percent compared to March of last year. Instant ticket sales did well and were helped by the Mega Millions and Powerball jackpots. The expansion of the KENO program continues to pay dividends and sales were up 9.5 percent compared to last year at this time during March.

On the year-to-date numbers, Executive Director Sweeney reported that overall, it has been a strong year with sales up 3.2 percent. Instant tickets were up just over 1 percent. Executive Director Sweeney announced that the big driver for the Lottery this year has been KENO and was up almost 9 percent over last year, which was a record setting year. Overall, at a minimum, the Lottery is on track to have a top three all-time year in record sales and hopefully the best year ever.

Recent Grand Prize Winners

Executive Director Sweeney shared some of the recent grand prize winners with the Commission and described them as a reflection of the population of those who play the Lottery. The winners ranged in a variety of occupations, such as a waitress from Shirley, a vice president of operations from Methuen, and a machine operator from Worcester. These are all individuals from the last thirty days who purchased Lottery products and won a significant prize. They are all working people who enjoy playing the Lottery.

Instant Ticket Sales Update and POS Advertising

Executive Director Sweeney provided a sales update on the \$10 price point - \$50, \$100 and \$500 Blowout instant ticket. He characterized this ticket as an enormous success. The ticket was launched on February 27th and has generated almost \$90 million in sales. It is the highest sales for a \$10 game in over a decade. Eighty-eight percent of the tickets have been sold and all books are out of the warehouse.

The Cash Vault instant ticket, which was launched on April 3rd with a \$5 price point, has had three week sales of \$9,326, 145. Executive Director Sweeney described this ticket as having a different type of play dynamic and said it has been received very well by the public. Chief Administrative Officer Edward Farley agreed, adding that this ticket has had more than three times the sales of the \$5 ticket at this same time last year within the first three weeks.

As part of the discussion around instant tickets, Executive Director Sweeney introduced a new family of instant tickets being released on April 24, with price points of \$1, \$2 and \$5, as well as a new \$30 ticket - The Fastest Road to \$1 Million, which he noted did well during initial testing. He passed out samples of

the Year for Life family of tickets, with price points of \$1, \$2, and \$5. He stated that based on similar tickets from previous years, he was optimistic that these would perform well.

Executive Director Sweeney reported on some of the point of sale advertising (POS) being distributed to each of the retail agents to support the April launch. He mentioned that members of the marketing team plan to visit some of the retailers to obtain direct feedback on the type of products being introduced as well as on the POS advertising that is being asked to be displayed. Chief Administrative Officer Edward Farley added that it's been awhile since members of the marketing team have accompanied the account representatives on their daily visits and it will provide valuable feedback on inventory control.

Referring to the advertising on The Fastest Road to \$1 Million poster, Commissioner Meghan Liddy remarked that the ticket offers up to \$610,089,192 million in cash prizes and asked if this ticket is anticipated to be a long running ticket. Executive Director Sweeney explained that it is projected to be in the market place for a while with a twenty-five million print run. Chief Administrative Officer Farley added that previous \$30 tickets had a print run of thirty million and a top prize of \$15 million. He concluded that the play style on this ticket is a little different and offers players a greater chance of winning \$1 million, with 126 \$1 million prizes, which includes four Second Chance Drawings.

Promotions

Executive Director Sweeney shared with the Commission the promotion surrounding KENO and ALL OR NOTHING. From May 13 through June 2, 2018, the Lottery will add an additional multiplier of 2X to KENO and ALL OR NOTHING Bonus, which will result in more games having a bonus multiplier. Playing KENO and ALL OR NOTHING Bonus doubles the price of a wager, while offering players the chance to multiply their prizes 2 through 10 times.

Executive Director Sweeney also discussed the Corvette Cash Player Promotion as well as the Corvette Cash Retailer Incentive. From May 7 through June 15, 2018, all Corvette Cash non-winning tickets entered into the Second Chance Drawing website will have a chance to win cash prizes in addition to being entered into the next Corvette Cash Second Chance Drawing. Up to thirty-three cash prizes will be awarded. Cash prizes will range from \$250 to \$1,000. Internally, a decision was made regarding Second Chance Drawings, and where appropriate, the Lottery will try to move the prizes towards a direct cash payment as opposed to tangible, physical items. From May 6 through June 9, 2018, for each settled book of Corvette Cash instant tickets, retailers will earn an entry into a drawing for a chance to win one of four \$1,000 Visa gift cards. The drawing will be conducted the week of June 15th.

Social Media Messaging

Continuing the Lottery's strong efforts on social media messaging Executive Director Sweeney shared the cost effective ways taking place to reach Lottery players. He showed examples of recent strategies used on Twitter, Facebook and Instagram. He mentioned a variety of examples including a post on Twitter highlighting a recent winner as well as an instructional video posted on Facebook that teaches players the correct way to play the Cash Vault instant ticket.

Executive Director Sweeney also discussed the positive relationship with the Boston Celtics' Heroes Among Us program and illustrated how it continues to be a great partnership for the Lottery. In addition, over the last year, the Lottery entered into a partnership with the UMass Sports Athletic Community Salute program. This program recognizes individuals in the greater Springfield area who have been nominated for special recognition. Both of these partnerships have been well received and the highlights of both programs were presented using social media.

iLottery Testimonials

Executive Director Sweeney shared portions of two testimonial letters received from two retail vendor organizations with regard to the introduction of iLottery in Michigan. Scott Ellis, who is the Executive Director of the Michigan Licensed Beverage Association, sent a letter outlining the positive impact that iLottery has had on bars and restaurants and that Lottery sales have continued to increase year over year. In addition, the President and CEO of Michigan's Associated Food and Petroleum Dealers, Auday Arabo, wrote that as a multi-state trade association that represents thousands of retailers in Michigan, Ohio and Illinois, initially, they were very worried about the negative effect that iLottery sales would have on the brick and mortar stores. Conversely, Lottery sales have continued to increase in Michigan year over year. This is a proof of concept from Michigan retailers who represent a significant array of brick and mortar locations throughout the state, and similar to the dynamic throughout the Commonwealth of Massachusetts.

Commissioner Shack stated that this is symptomatic of the misunderstanding in businesses today. It's an outdated concept that if you expand to sell in a particular area, that it will have a dramatic and negative impact on your business model which doesn't hold true. Commissioner Salvidio agreed and stated that we need iLottery to preserve the expansion of the Lottery. Month after month, the demographics are changing, and there has to be an expansion in order to attract new customers and to preserve and expand the customer base. Executive Director Sweeney explained the various obstacles that the Treasurer has been aggressively exploring that are facing the Lottery. He described the changing technology dynamic and the challenge of getting the Lottery into the frictionless sales aspect to further help the retail partners in a way that is reasonable to both the consumer and the retail agent without losing profit. Executive Director Sweeney emphasized that the Lottery has been engaging in good conversations with retail partners and there have been some business dynamics that both sides have agreed to do a better job in sharing in order to benefit the point of sale. The Treasurer has made this a clear directive and these discussions will be ongoing.

High Frequency Cashers Update

Executive Director Sweeney provided a high level update on high frequency cashers. Focusing on the retail partners, the Lottery detected five retail agents back in August of 2017, who showed a high frequency of cashing. Hearings on those individuals were conducted and they were placed on thirty day suspensions as well as receiving a probation period of one year. Three of the five have served their suspensions and two are pending appeals. At the end of 2017, the Lottery conducted another review and identified seven additional licensed retail agents with an abnormally high level of cashing on their own. Each individual has been offered a hearing and the hearings are scheduled for late April and into May. The Lottery is continuing these types of efforts with law enforcement agencies at the federal and state level to clarify the larger picture of those individuals who show a high frequency of cashing and possible other types of unlawful activity. Executive Director Sweeney anticipates to be dealing with those individuals by the end of the summer, or early fall.

MSLC Technology Modernization Program Update

Executive Director Sweeney asked Paul Mandeville, Assistant Executive Director of IT, to deliver an update on the MSLC Technology Modernization Project. Mr. Mandeville explained that as of now, the Lottery is approximately halfway through the process of installing the new terminals. The process is going smoothly and the Lottery is making sure there is a good balance between inventory and installations. The terminals have been well received by the agents with some software modifications made along the way. The Lottery has begun the development process for the host system application. He reported that the project is moving along according to schedule with no major flaws.

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 April 4, 2018, the Executive Director is authorized, under state contract OFF46, to contract for 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 Salvidio moved to enter into the contract and Commissioner Liddy seconded the motion.

Executive Director Sweeney presented the vote by explaining to the Commission that this is a longstanding contract and relationship that the Lottery has had with UPS. This vote involves the direct delivery to approximately 7500 retail agents throughout the year. This involves everything from instant tickets to betting slips and other supplies. The Lottery has had a good working relationship with UPS and this vote would be off of a state contract.

Executive Director Sweeney stated that Matt DiFrancesco, Assistant Executive Director of Operations, has asked for level funding from the current budget year and he is confident to be able to work within those parameters. Mr. DiFrancesco will be contacting UPS to meet in either July or August to give a high level review of their business with the Lottery, and to gain their insight on more efficient ways to manage shipping, returns and business of that nature. Commissioner Shack asked if there was any type of analysis done on alternatives such as the U.S. Postal Service. Executive Director Sweeney will speak with AED DiFrancesco and update the Commission with that information.

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 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 11:13 a.m.