

# *Massachusetts State Lottery Commission*

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DATE: Monday, February 27, 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  
Shannon Sullivan, 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  
Matthew DiFrancesco, Director of Operations, Lottery  
Carol-Ann Fraser, General Counsel, Lottery  
Richard Reale, Manager of Facilities, Lottery  
Christian Teja, Director of Communications, Lottery  
Judy Moore, Executive Assistant, Lottery

Jeffrey Shapiro, Esquire, Deputy Comptroller, Chief Operating Officer  
James MacDonald, First Deputy Treasurer, Treasury  
Dave Falcone, Chief of Staff, Treasury  
Sarah Kim, General Counsel, Treasury  
Jon Ostrowsky, Policy Director, Treasury  
Chandra Allard, Communications Director, Treasury

Martha Goldsmith, Director, DCAMM  
Gilles Quintal, Deputy Director, DCAMM  
Michelle McGee, Counselor at Law, KDM  
Colin Young, State House News Service  
Robert Frasca, Interested Member of the Public

**I. Opening of the Meeting:**

Treasurer Goldberg opened the meeting at 10:42 a.m. Treasurer Goldberg made the following statement: “Pursuant to the Open Meetings Laws, as Chair, I am required to inform you that the meeting may be recorded by video or audio. I understand that the State House News Service is making such a recording today. Is anyone else making a recording?” Treasurer Goldberg received no other response.

**II. Approval of the Minutes from January 24, 2017**

Treasurer Goldberg asked the Commission to accept the minutes of the meeting of January 24, 2017. Commissioner Salvidio moved to accept the minutes of the meeting, and Commissioner Shack seconded the motion. The minutes were approved at 10:43 a.m.

**III. Executive Director’s Report**

**a. Sales Update**

**b. Marketing Update**

Executive Director Sweeney reviewed Lottery sales for January, announcing overall sales for January of 2017 were down \$58 million from January 2016. Executive Director Sweeney mentioned that this was due largely to last year’s world-record setting \$1.586 billion Powerball jackpot that drove Powerball sales to unprecedented heights. Net profit for the month was \$105.6 million, compared to \$125.3 million in January 2016, a \$19.7 million decrease in net profit over January 2016. The prize payout for January 2017 was 71.38 percent, as compared to 70.68 percent in January 2016. Executive Director Sweeney explained that, due to lower instant ticket jackpot prizes claimed, and the absence of last year’s fiscal accrual related to the \$20 million end of game Mega Cash prize. The year-to-date prize payout for the first seven months of FY17 is 71.44 percent, as compared to 73.11 percent for the first seven months of FY16.

Executive Director Sweeney reported the year-to-date net profit for the first seven months of FY17 is \$647.1 million compared to \$603.1 million for the first seven months of FY16. After subtracting a five day average net profit figure of \$14.8 million, due to a shift in the calendar that resulted in five more days being included in the net profit figure for the first seven months of FY17, the adjusted year-over-year change for the first seven months of FY17 versus the first seven months of FY16 is a \$29.2 million increase in net profit.

Executive Director Sweeney reported that Instant Ticket sales experienced a \$5.2 million increase in January of 2017 over January of last year. KENO sales were up \$2.2 million, Mega Millions sales were up \$59,789 and the Numbers Games sales were up \$23,531. Executive Director Sweeney reported Powerball sales were down \$65.6 million in January of 2017 compared to January of 2016 due to last year’s \$1.586 billion jackpot. Compared to January of 2016, Megabucks Doubler sales for January of 2017 were down \$352,181, Mass Cash sales were down \$266,229 and Lucky for Life sales were down \$135,668. Executive Director Sweeney reported that sales of the new ALL OR NOTHING monitor game, which was launched on July 18, 2016 totaled \$1,091,127. 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 Instant Ticket sales continue to track a familiar trend and sales were up this January over January of 2016. KENO sales remained strong and the expansion to look for new locations has continued to pay dividends on the revenue stream. ALL OR NOTHING

continues to be a strong performer. Executive Director Sweeney shared a comparison chart showing the sales between Jackpot Poker and the game that has been a success in replacing it, ALL OR NOTHING. He described ALL OR NOTHING as continuing to be a big win for the Lottery as well as the Commonwealth. The Numbers Game and Mass Cash sales have been consistent over the last three years, performing at a familiar trend. Lucky for Life game sales continue to show a small decrease each month. Mega Millions, which is a jackpot dependent game, had a decent month with sales at a little over \$5.4 million. Executive Director Sweeney referred to the spike from the sales of last year's Powerball as, historic with over \$73 million dollars in sales in January 2016, as compared to \$8 million in January 2017.

Executive Director Sweeney reported that, not factoring in the Powerball jackpot, overall, all game monthly sales performed well. Monthly net profit continues to be a moving target, which can fluctuate greatly depending on a variety of factors from month to month. Commissioner Shack referred to the monthly net profit chart and stated that based upon the Powerball jackpot in January 2016, net profitability should have been higher last year from a practical standpoint than it is from this year. Treasurer Goldberg explained that the reason for this is the accrual, the prize payout, and many areas where the Lottery has squeezed in order to save or increase profits. She discussed that revenues are still driven by the majority of Instant Ticket sales, which are down. The prize payout is a variable that the Lottery cannot control because it's never clear when a winner will cash in a ticket, what the payout of those tickets will be and what kind of impact the accruals will have. Executive Director Sweeney explained that, the dynamic can be seen month to month, as shown in the five year comparison prize payout chart, along with factoring in the accrual. He concluded that Instant Tickets are responsible for the Lottery's highest prize payouts.

#### 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 has remained steady from December and was at 71.4%, commenting that it will be interesting to find out where that percentage will end up over the next couple of months. Executive Director Sweeney stated that, historically, the percentage has gone up during the second half of the fiscal year and he was curious to see if that trend continues.

#### Gross Sales Results

Referring to the Gross Sales Results chart, January FY17 vs. FY16 Unadjusted Non-Fiscal Year, Executive Director Sweeney reported that the good news is that January was a strong month with Instant Ticket sales up 1.6%. He drew attention to the enormous impact made by Powerball sales compared to last January, down 89%. KENO and ALL OR NOTHING both continue to be strong performers with an increase in sales and a good, strong steady flow. Overall for the month, compared to last January, sales were down approximately 10.7%. Executive Director Sweeney stressed that, Powerball sales were down 89%, and if that number was not a factor, January would have been a very strong month. Commissioner Salvidio inquired if the sales from ALL OR NOTHING have taken away the sales from KENO. Executive Director Sweeney stated that this was one of the concerns when the game was first launched, but the key to ALL OR NOTHING's success was the way in which ALL OR NOTHING was rolled out, as well as the Treasurer's direction to expand KENO in other areas. Commissioner Shack suggested that the charts paint a bleaker picture from what it really is. Treasurer Goldberg stated that the Lottery is an unpredictable business, and one has to constantly look at the best, the medium and the worst scenarios. She explained that what can be controlled is cost, structure and to be able to expand in areas that would be more profitable. One concept that was behind the ALL OR NOTHING game was, if a machine happens to be in between KENO games, a player may lose interest, and, although ALL OR NOTHING cannot match KENO in revenue or in profits, it creates an environment where consumers can continue their interest in playing. These are the areas the Lottery can control and these are the areas the Lottery continues to emphasize as long as the business model remains the same. Commissioner Shack agreed and added that you cannot cut the marketing on these issues without the unknowns catching up with you. Commissioner Shack explained that it is critical that the people of the Commonwealth, as well as the Legislature, understand that you cannot ignore the issues of electronic opportunities and marketing. Executive Director Sweeney agreed, reporting it is one of the concerns facing the Lottery, due to the budget cuts. He went on

to state that, you may not see a difference two months out, but, year over year, you will see the impact of the profits being affected. Treasurer Goldberg added that, relying on free media has taught the Lottery a great deal of where the Lottery can go moving forward. Treasurer Goldberg reminded the Commission that the Lottery had \$3.5 million cut out from the budget for advertising last year, and the fact that the numbers being shown are this good, is surprising. She stated the Lottery's advertising budget is the smallest she has ever seen in an industry with such a successful business. Commissioner Shack asked what kind of business would cut marketing and still expect growth in sales. Commissioner Salvidio agreed, stating that if you don't continue to invest in the Lottery, the Legislature shouldn't expect to continue to see the profits that they've been seeing. Commissioner Salvidio remarked that the Lottery is very well run and the more invested in it, the more you'll receive in returns to distribute back into the communities of the Commonwealth. Executive Director Sweeney explained that more evidence of this could be seen in the year to date gross sales results, where the driving force is in Instant Tickets and KENO. Instant Ticket sales for the year through the first week in February were down 2.6%, and after the January impact, Powerball was down 46.3%. KENO for the year is in positive territory, up \$1.1 million and the Lottery brought in \$14.3 million from ALL OR NOTHING. For the year, with a combined total through to February 4<sup>th</sup>, overall gross sales were down 3.1% or \$97.9 million.

#### Instant Tickets

Executive Director Sweeney informed the Commission that January Instant Tickets sales were off to a good start, with a series of tickets running from a \$1.00 price point through a \$10.00 price point. The World Poker Tour (WPT) and the \$200,000 A Year for Life Instant Tickets have been well received.

As part of the discussion around Instant Tickets, Executive Director Sweeney presented a preview of the new Instant Tickets that launch on February 28. He handed out samples of the \$1.00, \$2.00, \$5.00 and \$10.00 tickets and explained that the tickets are based on a bonus cash concept with \$4,000,000 as the top prize on the \$10.00 ticket. Executive Director Sweeney also introduced the point of sale advertising pieces that support the February Instant Tickets. He stated that these tickets tested well in focus groups and expects them to be well received.

#### Promotions

Executive Director Sweeney shared with the Commission the ALL OR NOTHING promotion, which began on February 19<sup>th</sup> and will run until March 4<sup>th</sup>. During this promotional period, the Lottery will add an additional multiplier of 2X to ALL OR NOTHING Bonus. Every non-winning, ALL OR NOTHING or ALL OR NOTHING to-go ticket sold during this promotion period will have a bonus chance to win \$2017. On March 6<sup>th</sup>, twenty winning promotional ticket serial numbers will be randomly selected and posted on masslottery.com. Executive Director Sweeney added that he thought that one of the key factors that helped with KENO, as well as ALL OR NOTHING, is that the Lottery added KENO-to-go, which has seen a good consumer response. The KENO-to-go component enables players to track the numbers that come up on their mobile devices as well as on-line.

The Lucky for Life promotion will run from March 5<sup>th</sup> through March 18<sup>th</sup>. Players who spend \$6 or more on a single Lucky for Life ticket will receive a promotional ticket for a chance to win \$2017. On March 20<sup>th</sup>, twenty winning promotional ticket serial numbers will be randomly selected and posted on masslottery.com.

The KENO St. Patrick's Day promotion will run from March 15<sup>th</sup> through March 19<sup>th</sup>. Every non-winning KENO, KENO Bonus and KENO to-go ticket will have a bonus chance to win \$2017. On March 20<sup>th</sup>, twenty winning promotional ticket serial numbers will be randomly selected and posted on masslottery.com.

#### UMass Community Salute

Executive Director Sweeney continued the discussion by updating the Commission on the UMass Community Salute program. He explained that, in an attempt to market through customer outreach, the

Lottery entered into a relationship with UMass and described the association as an enormous success. He explained that this program replicated a similar program, Heroes Among Us, done between the Lottery and the Boston Celtics. The UMass Community Salute is a program presented by the Massachusetts State Lottery and honors individuals who have made a significant and positive impact in the UMass and greater Western Mass communities. Recipients will be recognized at UMass men's basketball home games this season during in-game presentations.

#### Social Media Messaging

Executive Director Sweeney informed the Commission that the Lottery continues to be aggressive with social media and reported on a series of creative events that were well received throughout the 351 cities and towns of the Commonwealth. He spoke about the Boston Bruins Tickets social media promotion that was published on both Facebook and Twitter. He explained it was a five day promotion with two winners each day, each winning a pair of tickets to a Boston Bruins game at TD Garden. In the lead up to the Super Bowl, the Lottery also promoted the Patriots Instant Tickets by redistributing them to agents and engaging the public through a number of creative Facebook and Twitter postings. He thanked Director of Communications, Christian Teja, and all of the Lottery's regional managers, commenting that they accepted the challenge of decorating the lobby interiors to promote the Patriot's ticket and similar tickets, including the Boston Bruins ticket. Social media was used to draw attention to the three \$1,000,000 winners from Berkshire County, as well as to promote Instant Tickets and Lottery Wheel Spins.

He spoke about the success of the ongoing activity that is done on a monthly basis with the Lottery's engagement with the Mass Council of Compulsive Gambling, (MCCG). Executive Director Sweeney mentioned that, as part of the annual holiday advertising campaign, the Lottery promoted the MCCG using PSA's on radio stations across the state. This advertising was done using bonus inventory as part of the Lottery's ad buys.

#### DCAMM Procurement

Executive Director Sweeney went on to update the Commission on leases and RFR's that have gone out relating to space, and mentioned that the Lottery has a number of significant contracts. The most significant one involves the Lottery's current headquarters in Braintree, which also houses a major warehouse operation as well as IT. He explained that Lottery headquarters has been at the same location for over twenty-two years. Lottery Chief Administrative Officer, Ed Farley, General Counsel, Carol-Ann Fraser, Director of Operations, Matthew DiFrancesco, and Facilities Manager, Richard Reale, have been working closely with DCAMM representatives, Martha Goldsmith, Director, and Gilles Quintal, Deputy Director, who were all in attendance at the Commission meeting. Executive Director Sweeney stated that the Lottery is in the process of crafting appropriate RFRs. The current facility in Braintree has 99,168 square feet and the lease currently runs approximately \$2.2 million per year and ends on January 31, 2019. An RFR will be issued, seeking a 10-year lease, with a five year option. Executive Director Sweeney emphasized that DCAMM Director, Martha Goldsmith and Deputy Director Gilles Quintal have provided much guidance to the team regarding space options, and numerous internal meetings have taken place with all of the Assistant Executive Directors and department managers to address anticipated needs. Multiple business models are being pursued, including a headquarters in the greater Boston area. Treasurer Goldberg commented that she would like to support a neighborhood that a state government business, such as the Lottery, would benefit from, and preferably a site south of downtown Boston that is accessible by public transportation. She explained that the Lottery is a South Shore operation and that many lottery employees live south of the city and would be inconvenienced by a commute through Boston. DCAMM Director Goldsmith commented that DCAMM values public transportation access. Commissioner Shack added that the Commonwealth is a phenomenal tenant. Commissioner Salvidio remarked that the move should take into account the impact on employees of the Lottery.

**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 February 1, 2017, the Executive Director is hereby authorized to enter into a contract for a three (3) year period, with two one year extension options, for custodial services at seven (7) Lottery office locations, with the following company:

**FM&M, Inc.**  
East Boston, MA

The award is made pursuant to a competitive bid process from a state contract (BID #17-30).

The maximum obligation assumed hereunder for the first year of the contract shall not exceed three hundred thirty-four thousand eight hundred and thirty-six dollars (\$334,836.00).

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

Treasurer Goldberg asked Executive Director Sweeney how this vote compared in cost from the prior contract. Executive Director Sweeney informed the Commission that there will be a cost savings of almost \$5,000. Commissioner Shack inquired about the square footage of each of the seven MSLC properties, which were provided by Director of Operations Matthew DiFrancesco.

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 in favor of the motion. The motion carried.

**VOTE 2:** For the reasons set forth in the attached memorandum dated February 21, 2017, the Executive Director is hereby authorized to extend the contract, for a period not to exceed five months, and to increase the maximum obligation under the contract by nine hundred fifteen thousand ninety-eight dollars (\$915,098.00), for Self-Service Player Activated Terminals, with the following company:

**IGT Global Solutions Corporation**  
10 Memorial Boulevard  
Providence, RI 02093

The original award was made pursuant to a competitive bid process (RFR Lot #1113).

The maximum obligation assumed hereunder the contract shall be ten million nineteen thousand thirty-nine dollars (\$10,019,039.00).

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

Treasurer Goldberg informed the Commission that these Player Activated Terminals pay for themselves in a year. The typical price of this particular purchase is about \$15,000 per machine, and on the average brings in about \$196,000.00 each year. Executive Director Sweeney explained this would be a third authorization on this contract, which expires in March. Executive Director Sweeney explained the budget negotiations that were discussed with IGT and the proposed cost has about a \$450.00 price reduction, compared to prior purchases. Executive Director Sweeney opined that it is a good investment for the Lottery and that the machines are well received by both customers and certain retailers, particularly supermarkets. Commissioner Salvidio stated that you have to invest in your business, and thought this was a good investment to return more dollars to the 351 cities and towns of the Commonwealth.

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 in favor of the motion. The motion carried.

**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 11:34 a.m.