Commonwealth of Massachusetts

Massachusetts State Lottery Commission
(MSLC)

REQUEST FOR RESPONSE (RFR)

For

PRE-QUALIFICATION OF ANNUITY BID PARTICIPATING FIRMS

RFR #LOT 1003

Release Date: April 12, 2010

Response Due Date: May 27, 2010 3:00PM

MSLC U.S. Treasury STRIPS Specifications rev: 1/21/10

Definitions:

1. Annual/Annuitized/Annuity Payment Option - The manner in which the Grand/Jackpot Prize is paid: currently in twenty (20), twenty six (26) or thirty (30) annual installments.

2. Cash Payment Option - The manner in which the Grand/Jackpot Prize may be paid in a single payment from the Grand/Jackpot Prize Pool or from the proceeds from the sale of securities.

3. Cash Equivalent Grand/Jackpot Prize - Is the cash held in the Grand/Jackpot Prize Pool

4. Grand/Jackpot Prize - The top prize awarded in the game.

Summary:

The Massachusetts State Lottery Commission (the "Lottery") is seeking qualified firms to be one of a pool of firms eligible to provide zero coupon non-callable U.S. Government securities commonly referred to as STRIPS (Separate Trading of Registered Interest and Principal of Securities) to the Lottery via a competitive offering process. In Fiscal Year 2009 there were 164 security purchases. Of these, 158 (or 96%) were "Instant Ticket" prizes for $1 million or more, (annual installments of $50,000 or more). This document outlines the Lottery's interest in purchasing zero coupon non-callable U.S. Government securities (STRIPS) and the offering parameters and procedures the Lottery will use to affect such purchases.

The current investment policy of the Lottery calls for the purchase of STRIPS, but each qualified firm must demonstrate that it has the capability to offer other investments should the Lottery change its investment policy. Any Lottery investment purchase, whether it is a STRIPS bond or alternative investment, will be done by a competitive offering process. This RFR will be primarily focused on STRIPS purchases, but in your response, detail any material changes necessary if the Lottery was to change its investment policy for one or more games.

Background:

The Lottery currently operates one on-line lotto game called Megabucks "Doubler" and participates in two multi-state on-line lotto games called Mega Millions and Powerball. In addition, numerous Instant Ticket games are available for which Grand/Jackpot Prizes are awarded and paid as an annuity. The number, timing and amount of the Grand/Jackpot Prizes awarded cannot be predicted with accuracy due to the inherently random nature of these lottery games. The Grand/Jackpot Prizes currently related to these games are paid in 20, 26 and 30 annual installments, with the first payment being made by the Lottery following validation of the winning ticket and payment election (cash option or annuitized grand/jackpot prize) by the winner. STRIPS trades will only be conducted for prizes to be paid as an annuity.
The annuitized Grand/Jackpot Prizes for Instant Ticket games and the on-line game Megabucks "Doubler" are paid over twenty (20) years. The annuitized Grand/Jackpot Prize for the multi-state on-line game Mega Millions is paid over twenty-six (26) years and the annuitized Grand/Jackpot Prize for the multi-state on-line game Powerball is paid over thirty (30) years. The Lottery makes the first such payment when the prize is claimed, with the balance being paid annually in the following manner: nineteen (19) years for Instant Ticket games and the on-line game Megabucks "Doubler"; twenty-five years (25) for Mega Millions; and twenty-nine (29) years for Powerball.

The out year annual payments for the Instant Ticket games and the on-line games Megabucks "Doubler" and Mega Millions are paid in equal annual installments. The first payments shall be at least equal to each of the remaining out-year payments and all out-year payments shall be equal and must be in $1,000 denominations to facilitate the securities purchase. The annual payments for Powerball will escalate each year (graduated annuity) and may be rounded to the nearest $1,000 value to facilitate investment purchases. Any amount remaining from the cash equivalent Grand/Jackpot Prize pool allocated to the winning ticket at the time of purchase will be added to the first payment, such that the entire cash equivalent Grand/Jackpot Prize pool is utilized to fund the total payments to the winner (6.1 from Ops Proc for PP).

The Lottery is seeking to fund the above annual installments through the purchase of STRIPS. As stated above, the annual installment payments funded by STRIPS are rounded down to the nearest thousand and any amount remaining will be added to the first payment made by the MSLC. With the exception to Powerball, the first payment shall be at least equal to each of the annual installment payments. All of the annual installment payments shall be equal and must be in $1,000 denominations to facilitate the securities purchase.

Drawings for Megabucks "Doubler", Mega Millions and Powerball are held twice weekly (Megabucks "Doubler" and Powerball drawings are Wednesday and Saturday / MegaMillions drawings are Tuesday and Friday). Grand/Jackpot Prizes may or may not be awarded for each drawing depending on whether or not a winning ticket was purchased. The timing of Instant Ticket game Grand/Jackpot Prize awards depends on when a winning ticket is presented and claimed at the Lottery. The STRIPS transaction for Instant Ticket game prizes will take place after a winning ticket has been presented to and validated by the Lottery and the claimant elects the annuity payment option (election by winner is only required if a cash option is also offered in the prize structure for that specific Instant Ticket game). For the in-state lotto game Megabucks "Doubler", a STRIPS trade will be executed if the annuity payment option is selected after validation of the winning ticket. For the multi-state lotto games, "Mega Millions" and "Powerball", the STRIPS trade will be executed if a winning ticket was sold in Massachusetts and if the annuity payment option is selected after validation of the winning ticket. In accordance with federal regulations, the Lottery allows up to 60 calendar days for the claimant to exercise a cash option, paid out in a single lump sum, or the annualized payment.

MSLC regulations require that all prizes be paid out after they are claimed by the winner and the claims have been validated by the Lottery. The date of the first Grand/Jackpot Prize annuity payment shall be the drawing or claim date and a payment shall be made thereafter on or about the anniversary date of the drawing or claim in accordance with the type of prize awarded.

Jackpot Prizes for Lotto-Style Games:

For Megabucks Doubler, the estimated Grand/Jackpot Prize amount is set the night of a draw by multiplying the estimated Cash Equivalent Grand/Jackpot prize amount by an established annuity factor calculated by the Lottery which reflects current financial market conditions for that day. For Powerball the Annuitized Grand/Jackpot Prize amount is estimated prior to each drawing by multiplying the estimated Cash Equivalent Grand/Jackpot Prize amount by an established annuity factor calculated by MUSL, For Mega Millions, the Annuitized Grand/Jackpot Prize is forecasted on each drawing day by the Party Lotteries. Mega Millions Jackpot is also estimated based on an annuity factor that reflects current financial market conditions. For Megabucks Doubler, a STRIPS trade will be executed if the annuity payment option is selected. For the multi-state games Powerball and Mega Millions, the STRIPS trade will only be executed if a winning ticket was sold in Massachusetts and the annuity payment option is selected.

In accordance with federal regulations, the Lottery allows up to sixty (60) calendar days from the draw date for the claimant to exercise a cash option, paid out in a single lump sum, or an annualized payment funded over 20 years, 26 years or 30 years (Lottery makes first payment). After 60 days, the Grand/Jackpot Prize will only be paid as an annuity.

The amount of each lotto prize award varies. In the past, Lotto prize awards for Megabucks Doubler have reached in excess of $20 million ($1 million annual payments). The Lottery has established a minimum prize of $500,000 for Megabucks Doubler ($25,000 annual payments). The multi-state game Mega Millions jackpots have grown to as high as $390 Million. The guaranteed minimum

jackpot for Mega Millions is set at $12 Million (first payment made by MSLC $475,000 and each annual payment thereafter would be $461,000).
The multi-state game Powerball jackpots have grown to as high as $365 Million. The guaranteed minimum jackpot for Powerball is set at $20 Million (first payment made by MSLC and each annual payment thereafter would escalate according to a graduated annuity schedule).

Instant Ticket game prizes for which STRIPS will be purchased will be $1 million or more ($50,000 annual payments).

Periodically, the Lottery may offer to sell selected maturities for the purposes of liquidation. This procedure will follow the same basic offering parameters except that the largest dollar amount offered will constitute the winning bid.

Qualified Firms:

A qualified firm is one which: (a) is designated as a Government Securities Dealer; (b) maintains a rating of investment grade or better by a nationally recognized rating agency; (c) maintains excess net capital of $250 million or greater; (d) is authorized to conduct the business of dealing securities in the Commonwealth of Massachusetts; and (e) submits its most recent audited financial statements, and SEC Form 10K.

All firms will be required to execute the Commonwealth of Massachusetts Terms and Conditions and Standard Contract. Failure to do so will automatically disqualify your firm.

Subsequent to execution of the Commonwealth of Massachusetts Terms and Conditions and Standard Contract, if a qualified firm no longer meets any of the above conditions, it must inform the Lottery immediately. In such event, a previously qualified firm will no longer be considered qualified and the contract will be terminated.

At its sole discretion, the Lottery reserves the right to remove firms from the pool, conduct additional searches for qualified firms, and add qualified firms to the pool.

Offering Parameters:

The Lottery will solicit proposals from each of the qualified firms to provide the Lottery with U.S. Government Securities on an as needed basis. The securities offered must be non-callable U.S. Treasury STRIPS (either interest or principal) available in book entry form ("Eligible Securities").

For most offers, the Lottery will request proposals to fund a specified annual cash flow (e.g., $50,000 per year). All firms will be notified of the amount and timing of the desired annual payments. For nineteen (19) year STRIPS, proposals must be submitted on an "Official Offer Form A". For twenty-five (25) year STRIPS for Mega Millions, proposals must be submitted on an "Official Offer Form B". For twenty-nine (29) year STRIPS for Powerball, proposals must be submitted on an "Official Offer Form C". The winning proposal will be that which offers to provide a portfolio of Eligible Securities, which produces the desired cash flow at the lowest total cost. In the case of a tie, the winning proposal will be the offer received first by the Lottery.

No fees, charges or expenses other than the direct cost of the securities being purchased, as provided for on either "Official Offer Form", will be recognized by the Lottery. Firms must make their own arrangements for any registration or transfer fees or other expenses that may be applicable to the securities being purchased. Proposals may not include any conditions not otherwise expressly provided for herein.

The Lottery reserves the right to reject any or all proposals or to waive any irregularity or informality with respect to any such proposals.

Trade Procedures:

Days on which the Lottery requests offers, participating firms will be e-mailed and faxed, by 9:15 AM Eastern Standard Time for Morning Trades and 1:15 PM Eastern Standard Time for Afternoon Trades, an "Official Offering Form" containing the following information: annual maturity date of securities; settlement date; and amount of annual cash payments. Proposals will be due no later than 10:30 AM Eastern Standard Time for Morning Trades and 2:30 PM Eastern Standard Time for Afternoon Trades. The Mega Millions and Powerball games will require a trade time of 9:30 a.m. to meet the settlement requirements of the Party Lotteries and MUSL. Proposals must be signed and submitted by e-mail or fax on the Official Offer Form to (781) 849-5501 or (781) 849-5554 if primary fax number is busy. The Official Offer Form must include the Total Cost of the 19, 25 or 29 securities purchased and the Total Maturity Amount. The Official Offer Form must be signed by an authorized dealer of U.S. securities of the firm. The proposal must remain firm until 10:45 AM Eastern Standard Time for Morning Trades and 2:45 PM Eastern Standard Time for Afternoon

Trades, by which time the Lottery will notify the winning firm by phone that their offer was accepted, followed by an email confirmation of the winning proposal signed by an authorized representative of the Lottery by 12:00 AM Eastern Standard Time for Morning Trades and 4:00 PM Eastern Standard Time for Afternoon Trades.

Settlement:

The winning firm will acknowledge the transaction via e-mail to the Lottery at pmcconville@masslottery.com. A written confirmation for each security to be purchased must be provided within 48 hours of acceptance of a proposal. The confirmations must include maturity dates, face value, total cost and CUSIP number. Confirmations should be sent to:

Massachusetts State Lottery Commission
60 Columbian Street
Braintree, MA 02184
Attn: Paul McConville, Financial Projects Administrator

Settlement of the securities purchased will be based on trade date plus three business days (t+3). The winning firm will deliver the securities to the Lottery's custodial bank on the required settlement date at the agreed upon purchase price of the securities. Currently, the Lottery's custodial bank is:

Citibank NYC CUST - ABA#021000089
Account Number: 200378
Account Name: Massachusetts State Lottery Commission
Account Contact: Roshan Ramdeen 813-604-1433

Other Information:

The Lottery reserves the right to modify its current game portfolio by retiring games and/or introducing new games with the same or different annuitized payment terms as the current games listed above.

Mass General Law c. 10 §28 permits winners to voluntarily assign the right to receive future (annuitized) prize payments, in whole or in part, if the assignment is made to a person or entity named as the assignee in an appropriate judicial order of a court. This has no impact on the Lottery's intent under this RFR to purchase STRIPS to fund Grand/Jackpot Prizes paid as an annuity nor does it impact the payment of the STRIPS upon maturity to the Lottery by the Lottery's custodial bank.

Written Inquiries:

Interested firms may submit questions concerning this RFR no later than Tuesday, May 4, 2010 @ 4:00 p.m., as noted on the Procurement Calendar. They may be mailed, emailed, faxed or delivered. The Procurement Management Team will review and consolidate inquiries received before the deadline, prepare written answers and post them on the Commonwealth Procurement Access and Solicitation Site; www.comm-pass.com, on or before Thursday, May 6, 2010 (est.). We will also forward them to each firm that submitted inquiries. The source(s) of the question(s) will not be revealed.

All inquiries **must** be made in writing to:

Donna M. Walsh
Massachusetts State Lottery Commission
60 Columbian Street
Braintree, MA 02184
Tel: (781) 849-5674
Fax #: (781) 849-5579
Lotteryprocurement@masslottery.com

Response:

All interested firms must sign and return the following: Standard Contract, Standard Terms and Conditions, Request for Verification of Taxation Reporting Information (W-9 Form) and a written letter expressing your interest in participating in this program and your firm's ability to meet the conditions as outlined above. All responses must be sealed in an envelope and received at the Lottery Headquarters, 60 Columbian Street, Braintree, MA 02184, no later than 3:00 p.m. Thursday, May 27, 2010. Envelopes containing this response must be clearly marked, RFR #LOT 1003.

THE RFR MUST BE CLEARLY MARKED ON THE OUTERMOST ENVELOPE

RFR #LOT 1003

Send or deliver bids to:
Donna M. Walsh
Massachusetts State Lottery Commission
60 Columbian Street
Braintree, MA 02184
781-849-5674

Attachments:

1. Sample Offer Forms for STRIPS Transactions.
2. List of Lottery Personnel Authorized to Conduct Securities Transactions.
3. Standard Contract.
4. Standard Terms and Conditions.
5. Request for Verification of Taxation Reporting Information (W-9 Form).

Procurement Calendar:

The dates and times for certain critical events relative to this RFR, including the release of this RFR, submission of bids, etc., are as follows:

	Day	Date	Time
Release of RFR	Monday	April 12, 2010	
Submission of Written Inquiries	Tuesday	May 4, 2010	4:00 p.m.
Response to written Inquiries (est.)	Thursday	May 6, 2010	
Response Due Date	Thursday	May 27, 2010	3:00 p.m.