

CONNECTICUT LOTTERY CORPORATION

Minutes of Board of Directors Meeting

Held on  
Thursday, September 15, 2011  
at 1:30 p.m.

at the  
Connecticut Lottery Corporation  
777 Brook Street  
Rocky Hill, Connecticut 06067

Board Members Present: Frank Farricker, Chairman of the Board, Gale Mattison, Vice Chairman of the Board; Robert Morgan, designee of ex-officio member, Denise Nappier, State Treasurer; Steve Bafundo; Natasha Pierre; Robert Dakers, designee of ex-officio member, Benjamin Barnes, Secretary, Office of Policy and Management; Martin Stauffer; Kenneth Saccente; Patrick Birney; Joseph Kaliko; and James Farrell.

Absent: Margaret Morton and Michael Thompson.

Staff Members: Anne M. Noble, President & CEO; Diane Patterson; John Ramadei (before Executive Session); Barbara Porto; Chelsea Turner; and Helen Duffy.

Visitors: Kenneth Flatto, Division of Special Revenue; Kendra Eckhart, Cashman + Katz Integrated Communications; Tom Muller, Scientific Games; Louis Roberts, Senior Manager, Ernst & Young, LLP; and Adam Osmond, as a member of the public.

Call to Order: Chairman Farricker called the meeting to order at 1:30 p.m.

I. Approval of Minutes:

On motion made by Mr. Stauffer, seconded by Vice-Chairperson Mattison, and unanimously approved, it was:

RESOLVED, That the minutes of the June 23, 2011 Board Meeting are approved.

II. Audit Committee Report:

Mr. Stauffer reported that the Lottery's auditing firm, Ernst & Young, LLP ("E&Y") had completed their examination of the Lottery's finances and internal controls and subsequently met with the Audit Committee and Lottery management on September 8, 2011 to report their findings. Mr. Stauffer noted that E&Y had made three recommendations in the prior year's audit and that all three recommendations had been addressed by the Lottery. As part of the audit process, the Audit Committee met independently with the auditors to allow for candid discussion of any issues without management presence. Mr. Stauffer reported that there were none related to the audit. There were no recommendations, weaknesses or concerns to report. Consequently, E&Y rendered a clean opinion of both the Lottery's financial statements and the report on internal controls over financial reporting for the year ended June 30, 2011.

Mr. Stauffer thanked E&Y for concluding their report in such a timely manner. He also thanked Lottery staff for their cooperation throughout the audit process.

Chairperson Farricker thanked the Audit Committee and E&Y for providing a sound and thorough report.

III. President's Report:

Ms. Noble thanked the Board for attending today's meeting. In her opening remarks, she thanked Board Committees, especially the Audit Committee, for their efforts in helping finalize this year's Audit process. She continued her report and stated that there were record sales exceeding \$1.016 billion for last fiscal year. General Fund ("GF") transfers also reached record levels of \$289 million, in addition to record commissions paid to retailers and record prize payouts paid to players.

Currently, sales are ahead of budget by 1% to 2% and by 3% as compared to last year's actuals. The Lottery is on track for GF transfers this year, but transfers are subject to weekly fluctuations.

Mr. Birney asked what amount had been budgeted for GF transfers. Ms. Noble responded that it was \$285 million.

Ms. Noble welcomed Mr. Solomon Ramsey in his new role as the Director of Sales for the Lottery. Mr. Ramsey replaces Ms. Gloria Donnelly, who retired from the Lottery last month. Mr. Ramsey has worked for both the Georgia and Tennessee Lotteries and is also a graduate of the Citadel.

Ms. Noble conveyed her best wishes to Ms. Donnelly and to other Lottery employees in their retirement. Ms. Noble then announced that Barbara Porto, the Lottery's Vice President of Operations and Administration, had decided to retire from the Lottery. Ms. Noble noted that Ms. Porto began her career at the Lottery in 1971 and leaves an impressive legacy after 40 years of service to the Corporation. She noted too that Ms. Porto has agreed to assist the organization to ensure a smooth transition of her responsibilities.

The new Powerball game will be rolled out in January 2012; the matrix, jackpot and the odds of winning in the game will change. Additionally, a regional game will be rolled out in spring of next year. The regional game is a collaborative effort on the part of the New England states.

The mobile website was recently enhanced to support the use of handheld devices.

The Lottery has been working hard on its Supplier Diversity Program. The Lottery is a sponsor of the GNEMSDC's conference in October, and Lottery management plans to attend the event. The Lottery is working on RFPs related to supplier diversity and marketing. The Lottery is completing Diversity Training for management.

The Lottery continues to collaborate with the Department of Consumer Protection ("DCP") on revising the administrative regulations. Revisions may be finalized during the 2<sup>nd</sup> or 3<sup>rd</sup> quarter of the fiscal year.

The Lottery is also providing input and assistance to the Department of Consumer Protection in the installation of their new licensing system.

The Lottery is working with the Department of Revenue Services (“DRS”) on implementing the new law regarding collection of delinquent taxes from lottery winnings. The new law takes effect on January 1, 2012.

Ms. Noble reported that Hurricane Irene had contributed to a sales decrease of approximately 5% and a corresponding reduction in GF transfers. However, the storm also revealed some positive items. First, the Lottery was able to conduct drawings without incident in the middle of the storm. Power was converted to the generators, and operation of the on-line systems continued without incident. While there were some reports of retailer outages, the vast majority of outages were due to power failures and not due to communication problems. Ms. Noble noted that the storm was a good test of the Lottery’s COOP program.

Mr. Birney asked about licensing and whether the DCP e-licenses other entities. Ms. Noble affirmed that the DCP is responsible for licensing entities other than the Lottery and is also responsible for licensing lottery retailers.

Mr. Kaliko asked if the Division of Special Revenue (“DOSR”) had yet been incorporated into the DCP. Ms. Noble responded affirmatively. Mr. Kaliko asked about the startup date of Powerball with the Power Play option. Ms. Noble responded that sales would begin on January 15, 2012, with the first drawing scheduled for January 18, 2012.

Sales and Marketing Report:

In her opening statement, Ms. Patterson was happy to report that a resident from Windsor won the \$2 Max-A-Millions game prize. The Set for Life game was also won during the summer; retailers who sold the winning tickets received sales bonuses for their efforts.

With the addition of Mr. Ramsey, the Lottery’s new Director of Sales, and present marketing, sales and public relations team, Ms. Patterson anticipates a solid 1<sup>st</sup> quarter finish.

Using several sales charts, Ms. Patterson presented an overview of sales trends as compared to the same period last year. Her summary follows:

With respect to draw game sales, several popular number sequences were drawn (such as: 333; 500; 411; 911; and 123), which helped boost sales in this category. Sales of the CT Super Draw game are ahead of budget by 10.2%, primarily due to the Classic Lotto game. Instant ticket sales are ahead of budget and last year’s actuals. Concerning multi-state games in FY 11, the average jackpot for Powerball was \$95 million and for Mega Millions it was \$108 million. Mega Millions is gaining some traction and Powerball sales are ahead of last year’s actuals. Total sales for all games are ahead of last year and ahead of budget. Returns to the GF are presently up by 2% when compared to budget.

Instant game sales proved strong in July. Players continue to respond very well to the new 2-sided ticket, Red Hot 5’s. The \$200,000 Jewels ticket has also seen very strong sales. When sold out, the game will have contributed in excess of \$5 million to the GF. Play3 Night was off slightly from last year but payouts for number sequences 411 and 911 should also enhance sales in this category. Play4 Day sales were up over last year’s totals and Play4 Night sales remain even. Combined sales in this category remain steady. Classic Lotto sales saw a positive increase, boosted by radio and billboard advertising. Cash5 sales saw a slight drop due in part to cannibalization. Lucky-4-Life held steady.

Next Saturday's Powerball with Powerplay jackpot will be \$20 million; it was noted that the largest Powerball jackpot in FY11 was \$221 million. Generally, larger jackpots translate into larger sales, and we are hopeful that jackpots will continue to increase to help boost sales. Regulatory constraints in the Connecticut Superdraw game hinder sales. Total game sales of all categories were ahead of budget and plans are in place to maximize sales at existing retailers and to increase retail distribution outlets. Two draw games (new Powerball and Regional Lucky For Life) are planned for spring 2012.

Mr. Kaliko asked about GF transfer fluctuations. Ms. Noble responded that it was a combination of variable revenue and variable prize expense.

Mr. Stauffer asked if Hurricane Irene had impacted sales and whether problems were reported with retailer terminals and ticket sales. Ms. Porto responded that there were a few CDMA outages reported because of non-operational cell towers. Mr. DuPuis, the Lottery's Security Director, sent terminal messages to retailers instructing them to deactivate packs and to take other precautionary measures. Mr. DuPuis added that Mr. Ramsey and Ms. Patterson also worked hard to communicate instructions to retailers. There were reports that some retailers abandoned their locations, which resulted in some break-ins, but no tickets had been stolen. Beyond that, no major issues were reported.

Mr. Kaliko asked about the timeframe for the 1% increase (Ms. Noble stated that it was a year-to-date figure). Chairperson Farricker commented that sales today are positive.

This concluded the President's Report.

#### IV. Committee Reports - Continued:

##### Games & Marketing:

Mr. Kaliko reported that the Games and Marketing Committee met on September 8, 2011 to discuss primarily the amendment to the Powerball Game rules. He stated that the amended rules changed the ticket price and would also decrease odds of winning in the game. Additionally, prize levels for Power Play would also change. Mr. Kaliko stated that a resolution would be proposed following today's Executive Session.

##### Personnel:

Vice-Chairperson Mattison reported that the Personnel Committee held two meetings over the summer to review Lottery Policies, including: Life and Disability Insurance, Retirement Plan Contribution Policy, and Managerial Tuition Reimbursement Policy. Mr. Mattison also reported that changes need to be made to CHET Accounts set up after the 1998 tragedy. The Personnel Committee was satisfied with the decisions made about the CHET Accounts, which would be detailed in a resolution to be proposed following Executive Session. The Committee also reviewed the Lottery's Ethical Conduct Policy. The policy would prohibit employees and Board members from playing the Powerball game out-of-state. This is in keeping with the Mega Million Game Rules. Vice-Chairperson Mattison stated that a resolution would be proposed concerning the prohibition of Powerball play following today's Executive Session.

#### V. Executive Session:

At 2:05 p.m., Chairperson Farricker called for a motion to enter into Executive Session to discuss: new game initiatives; evaluations, performance and compensation for senior management; draft compensation plans for FY12; and draft Powerball Game rules. He invited Ms. Noble, Ms. Turner, Ms. Patterson and Ms. Porto to remain for the new game initiatives and Powerball game rules portions

of Executive Session. He invited only Ms. Noble to join Executive Session to discuss evaluations, performance and compensation for senior management and to discuss draft compensation plans for FY 12.

The Board reconvened in regular session at 3:05p.m. Chairman Farricker stated that no votes nor actions had taken place during Executive Session.

VI. Resolutions:

Vice-Chairperson Mattison proposed a motion to amend the agenda to include discussion on Lottery compensation. This motion was seconded by Mr. Bafundo and approved.

On motion made by Vice-Chairperson Mattison, seconded by Mr. Stauffer, and unanimously approved, it was:

RESOLVED, That the Connecticut Lottery Corporation will issue a Request for Proposals to select a consultant to assist the Board of Directors concerning the organization's Management Compensation Plan and Incentive Compensation Plans, and to review management compensation for individual salary levels and ranges.

Vice-Chairperson Mattison proposed a motion to amend the agenda to include a discussion of Lottery Compensation Plans for FY12. The motion was seconded by Mr. Saccente and approved.

On motion made by Vice-Chairperson Mattison, seconded by Mr. Kaliko, and unanimously approved, it was:

RESOLVED, That the Board of Directors approves the Management Compensation Plan and the Management Incentive Compensation Plan for FY 12.

On motion made by Mr. Kaliko, seconded by Vice-Chairperson Mattison, and unanimously approved, it was:

RESOLVED, That after due consideration, and based upon the recommendation of the Games and Marketing Committee, the Connecticut Lottery Corporation Board of Directors hereby approves the amendments to the Connecticut Powerball Game Rules.

On motion made by Chairperson Farricker, seconded by Vice-Chairperson Mattison, and unanimously approved, it was:

WHEREAS, By prior resolution, the Connecticut Lottery Corporation Board of Directors provided for the continuation of healthcare benefits of dependents of those killed on March 6, 1998 in accordance with then applicable laws and with the intent to provide comprehensive healthcare coverage for the victims' minor dependents; and

WHEREAS, State and federal law have undergone certain changes since 1998.

RESOLVED, In keeping with the intent of the original resolution, the Connecticut Lottery Corporation hereby resolves to provide healthcare coverage for eligible

dependent children of the victims in accordance with the Public Health Service Act, as added by the Affordable Care Act and amended by the Reconciliation Act and Connecticut Public Act 08-147.

Mr. Stauffer asked why the Lottery owned the trust accounts for the March 6<sup>th</sup> victims' minor dependents, and Mr. McCormack explained the process set up in 1998.

On motion made by Chairperson Farricker, seconded by Mr. Kaliko, and unanimously approved, it was:

WHEREAS, The Connecticut Lottery Corporation Board of Directors authorized the establishment and funding of accounts under the Connecticut Higher Education Trust (CHET) for the children of the unfortunate victims of an incident that occurred on March 6, 1998, for educational purposes; and

WHEREAS, A request has been made to the Connecticut Lottery Corporation regarding the disposition of the funds in a CHET account set up for one of the children who is over twenty-one years of age; and

WHEREAS, certain rules and procedures exist under the CHET program that allow for the transfer of ownership of existing CHET accounts.

THEREFORE, BE IT RESOLVED, That the Connecticut Lottery Corporation shall transfer ownership of the existing CHET account to this individual beneficiary provided such transfer is performed in accordance with existing CHET rules and procedures governing such transfers; and

BE IT FURTHER RESOLVED, that the Board authorizes the transfer of the CHET account and that the President of the Connecticut Lottery Corporation is authorized to take whatever action is necessary and appropriate, including the execution of documentation required by CHET, to transfer ownership of the CHET account from the Connecticut Lottery Corporation to the beneficiary of the account.

On motion made by Chairperson Farricker, seconded by Mr. Saccente, and unanimously approved, it was:

RESOLVED: That after due consideration, and based upon the recommendation of the Personnel Committee, the Board of Directors hereby approves and adopts, effective January 15, 2012, the amendments to the Connecticut Lottery Corporation Ethical Conduct Policy, regarding the identification of the newly-created Office of Government Accountability, the Connecticut Lottery Corporation's Ethics Liaison Officer and the prohibition against Connecticut Lottery Corporation Directors, Officers and employees playing the Powerball draw game.

VII. Old Business:  
None.

VIII. New Business:

None.

IX. Next Scheduled Board Meeting Date:

The next Board of Directors Meeting is scheduled for November 17, 2011.

X. Adjournment:

On motion made by Chairperson Farricker, seconded by Vice-Chairperson Mattison, and unanimously approved, the meeting was adjourned at 3:15 p.m.

Respectfully submitted,

Barbara Porto  
Corporation Secretary

By: Helen Duffy  
Secretary to Anne M. Noble  
President & CEO/Connecticut Lottery Corporation