



**Finance Committee
Special Meeting Minutes**

Held on
Tuesday, February 25, 2014 at 1:30 p.m.

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

Committee Members: Patrick Birney, Chairperson of the Finance Committee; Bob Morgan; and Robert Dakers.

Board Members: Frank Farricker, Chairman of the Board (via teleconference). Mr. Farricker exited the meeting at 1:51 p.m.

Staff Members: Anne Noble, President & CEO; Diane Patterson; Paul Granato; Lana Glovach; Chelsea Turner; Michael Hunter; and Jessica Hayton.

Call to Order: Mr. Birney called the meeting to order at 1:34 p.m.

I. Approval of Minutes:
On a motion made by Mr. Morgan and seconded by Mr. Dakers, the minutes of the November 13, 2013 meeting were unanimously approved.

II. Review of Draft Financial Statements for the Period ended December 31, 2013:
Ms. Noble began the meeting with a brief overview. The months of November and December 2013 were challenging due, in part, to the short holiday season and lack of consumer confidence. We are however, beginning to see an upward trend in sales. Sales are up \$12 million, and the most recent General Fund transfer was close to \$8 million, bringing the Lottery just \$1.2 million shy of the budget.

Mr. Granato presented the following highlights:

Highlights - For 3 months ended December 31, 2013 (*Actual vs. Prior Year*):

- Sales for the quarter were \$282 million. This is down \$4.9 million or 1.7% from last year.
- Instant tickets saw a decline of \$1.7 million or 1% compared to the prior year.
- The Daily 3/4 games continued their strong sales performance and were up \$1.2 million or 2% compared to the prior year.
- MegaMillions sales outpaced Powerball during the quarter. These multi-state games are dependent on large jackpots to drive sales revenue. The MegaMillions matrix change implemented October 2013 increased the overall odds of hitting the jackpot. This occurred in the middle of a run and the jackpot subsequently reached 648 million just before the holiday.

Powerball did not have a similar run and the jackpot was hit in October, November and twice in December.

- Overall prize expense was down \$8.2 million or 4.8% compared to the prior year.
- Most games performed in relation to their sales performance; however the Daily 3/4 games had a \$3.9 million decline in prize expense while posting overall increased sales during the quarter.
- Retailer commissions totaled \$15.5 million for the quarter down approximately \$400,000 from a year earlier.
- Online systems totaled \$2.6 million for the quarter, up approximately \$100,000 from the prior year. Mr. Granato indicated the expense increase is due to assessment of liquidated damages in the prior year.
- Marketing & advertising expenses totaled \$3.5 million and were up \$800,000 compared to the prior year. Most of the increase is attributable to production expenses of commercials.
- Overall cost of sales totaled \$187.3 million. This is a decline of \$8.2 million or 4.2% compared to the prior year.
- Operating expenses were \$5.1 million for the quarter, up \$305,000 from the prior year.
- Salaries and benefits were both up from the prior year, while all other operating expenses including bad debt were lower than the prior year.
- General Fund transfers totaled \$78.3 million for the quarter, down slightly from the prior year.

Highlights – For 3 months ended December 31, 2013 (*Actual vs. Budget*):

- Sales were down \$3.9 million or 1.7%.
- The Daily 3/4 games performed better than expectations with an increase in sales and a decline in prize payouts compared to budget.
- Cost of sales totaled \$187.3 million which is \$8.8 million below budget and is primarily related to lower prize expense.
- Operating expenses totaled \$5.1 million and is monitored closely.
- General Fund transfers are \$4.9 million below budget for the quarter.

Mr. Granato pointed out the large increase in the change in net assets of \$10 million. This was in part due to the result of increasing cash on hand to meet short term needs. Mr. Granato stated that the cash option consumers now have may require more cash on hand. The possibility of a line of credit was discussed. The Committee expressed a desire to discuss a line of credit in more detail.

Highlights – For 6 months ended December 31, 2013 (*Actual vs. Prior Year*):

- Sales totaled \$562.5 million up \$12 million or 2.2% from the same period a year earlier.
- Instant portfolio, daily games and MegaMillions all showed positive gains compared to the prior year.
- Powerball sales were down 13.3% compared to the prior year due to near record jackpots in the prior year.
- Lucky for Life sales were down \$2.7 million. Mr. Granato noted that the re-launch of Lucky for Life in September 2013 helped stabilize the sales.
- The prize expense for Daily 3/4 games was down \$1.8 million compared to the prior year. Typically lower prize expense would be associated with a decline in sales revenue; however, there was a \$7.7 million increase in sales revenue over the period.
- Retailer commissions, online systems and marketing expenses all showed modest increases year over year, while production expenses had a modest decline due to the timing of creation of the instant ticket portfolio.

- Overall cost of sales was \$385.3 million up \$4.4 million from the prior period one year ago.
- Operating expenses totaled \$10.3 million, up \$224,000 from last year. Salaries and benefits increased year over year due to higher costs associated with retirement and health benefits.
- General Fund transfers totaled \$157.8 million and were \$1.1 million ahead of the same period one year ago.

Highlights – For 6 months ended December 31, 2013 (*Actual vs. Budget*):

- Sales were up \$5.6 million compared to budget.
- Daily 3/4 games and MegaMillions continue to outperform the budgeted expectations.
- Sales of instant tickets for December 2013 were lower than expected and as a result are \$2.1 million below budget.
- Powerball and Lucky for Life are below budget.
- Operating expenses were \$430,000 below budget. All operating expenses were favorable variances compared to budget.

Mr. Birney commented that Lotto and Daily 3/4 games are strong and wondered if too much confidence was placed in Lucky for Life in respect to the budget. Mr. Granato noted that the budget is based on statistical odds and can be difficult to predict. Ms. Noble added that prize expense and sales are both below budget relating to a number of factors including the soft re-launch of the game in September, the regional decline in sales, and a no top-prize winner.

Ms. Noble also added that the prediction of sales revenue, particularly for Powerball and MegaMillions, can be behind budget but one large jackpot roll can balance the budget shortfall. Mr. Morgan commented on the news coverage of large jackpots. Ms. Noble said research shows it is not necessarily the size of the jackpot but the news media coverage surrounding it that garners public interest in purchase. Ms. Patterson said that the Sales/Marketing department is working hard to get local media to showcase Connecticut winners.

Mr. Morgan inquired about the changed profitability of Connecticut Super Draw. Ms. Noble responded that discussions are taking place to consider changing the game parameters in the near future.

III. Old Business: None

IV. New Business: Keno Update

Ms. Noble began the discussion by informing the Committee that a tribal agreement has not been executed. In addition, Governor Malloy indicated that he would sign a Keno repeal bill if one was presented by the legislature to him. Ms. Turner informed the Committee that there are currently three Keno repeal bills before the legislature. The Keno repeal bills were proposed by Senator Andrea Stillman, Senator John McKinney and House Speaker J. Brendan Sharkey. The Public Safety and Security Committee will hold a public hearing on March 4, 2014 on the Speaker's bill. The Committee asked if Ms. Noble would attend the public hearing. Ms. Turner indicated that was the expectation at this time. Ms. Noble remarked that the Lottery has respected the will of the legislature in the past and will continue to do so in an open and transparent fashion. The Committee was in agreement and Ms. Noble indicated that she will continue to seek guidance from the Board of Directors as necessary.

V. Adjournment:

On a motion made by Mr. Dakers and seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 2:30 p.m.

Respectfully Submitted,

By: Paul A. Granato
Chief Financial Officer
Connecticut Lottery Corporation