

**Finance Committee
Special Meeting Minutes**

Held on
Tuesday, May 12, 2015 at 2:00 p.m.

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

Committee Members: Patrick Birney, Chairperson of the Finance Committee; Robert Dakers; Kia Murrell; and Bob Morgan (via teleconference)

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 2:02 p.m.

I. Approval of the November 6, 2014 Minutes:

On motion made by Mr. Dakers and seconded by Mr. Morgan, the minutes of the November 6, 2014 Special Joint Meeting of the Finance Committee and Audit Committee were unanimously approved.

Ms. Murrell abstained from voting since she was not a member of the Finance Committee at that time and did not attend the meeting.

II. Approval of the February 19, 2015 Minutes:

On motion made by Mr. Morgan and seconded by Mr. Birney, the minutes of the February 19, 2015 Special Meeting of the Finance Committee were unanimously approved.

Mr. Dakers abstained from voting since he did not attend the meeting.

III. Review of Draft Financial Statements for the Period ended March 31, 2015:

Mr. Granato began the meeting with a brief overview. Sales were strong in the third quarter of FY'15 due to a strong instant ticket portfolio and the continued success of 5 Card Cash.

Mr. Granato presented the following highlights:

Highlights – For 3 months ended March 31, 2015 (*Actual vs. Prior Year*):

- Sales for the quarter were \$287.5 million, up \$20.0 million or 7.5% from the same period last year.
- Instant ticket sales of \$169.6 million accounted for approximately 59% of total sales. Compared to last year at this time, instant ticket sales increased \$7.8 million or 4.8%.
- The Daily 3/4 games rebounded this quarter with sales of \$58.7 million. Compared to last year at this time, the Daily 3/4 games were up \$2.1 million or 3.9%.

- 5 Card Cash contributed \$9.7 million in sales and continues to perform well.
- Powerball had a strong quarter with \$23.1 million in sales, up \$3.4 million or 17.3% from the same time last year. The remaining Draw games saw a slight decrease in sales.
- Overall prize expense totaled \$180.5 million, an increase of \$24.0 million or 15.3% compared to the same period a year ago. Due to an increase in popular number combinations being drawn in the Daily 3/4 games this quarter, prize expense increased \$6.9 million or 6.3% over last year.
- Retailer Commissions this quarter increased \$1.2 million or 8.3% due to higher sales and incentives.
- On-Line systems increased proportionally to sales. Vendors are paid a percentage of total sales.
- Marketing & Advertising expense totaled \$3.0 million, up \$500,000 or 20.9% compared to last year.
- Production expenses totaled \$1.3 million for the quarter which was a slight increase from the same period a year ago. Production expenses relate largely to instant ticket production and will fluctuate depending on how many instant tickets are being produced and available.
- Overall Costs of Sales totaled \$203.7 million, an increase of \$25.9 million or 14.6% compared to the prior year. This increase was primarily driven by a \$24.0 million increase in prize expense.
- Total operating expenses for the quarter were \$5.1 million, up \$156,000 or 3.1% from a year ago. The increase was primarily driven by an increase in salaries and benefits due to collective bargaining unit contract provisions.
- Other operating expenses were up \$10,000, primarily due to additional software licenses.
- Depreciation on capital assets increased \$3,000.
- Bad debt decreased \$20,000 compared to last year. In response to questions asked by Ms. Murrell, Mr. Granato explained that bad debt is retailer delinquency and is written off after all avenues for collection have been exhausted.
- General Fund transfers totaled \$77.1 million for the quarter which was slightly less than the year before. This is partly due to higher prize payout.

Highlights - For 9 months ended March 31, 2015 (*Actual vs. Prior Year*):

- As of March 31, 2015, year-to-date sales were \$847.1 million, up \$17.2 million or 2.1% from last year.
- Instant ticket sales increased \$13.8 million or 2.8% from the same period last year. Instant ticket sales were driven by a strong instant portfolio.
- Draw games, except 5 Card Cash, experienced a decline in sales. Powerball and MegaMillions combined had a \$20.4 million decrease in sales. Multi-State games continue to be negatively impacted by the lack of large jackpots. 5 Card Cash continued performing well with \$36.4 million in sales.
- Prize expense totaled \$525.6 million, an increase of \$31.0 million or 6.3% from the same period a year ago. The increase in prize expense was largely driven by the Daily 3/4 prize payouts.
- Retailer commissions increased \$1.3 million or 2.8% from last year. Retailer

Commissions typically increase when sales increase.

- On-line systems, marketing and advertising expense, and production expenses are on par with last year.
- Overall Costs of Sales totaled \$595.3 million, up 32.3 million or 5.7% due largely to the increase in prize payout of \$31.0 million.
- Operating expenses increased \$348,000 or 2.3%, primarily due to an increase in salaries and benefits in accordance with collective bargaining unit contracts.
- General Fund transfers, as of March 31, 2015, totaled \$233 million, down \$4.8 million from this time last year.

Highlights - For 3 months ended March 31, 2015 (*Actual vs. Budget*):

- Sales totaled \$287.5 million, \$14.6 million or 5.4% greater than budget.
- Instant ticket portfolio outperformed budget expectations by 2.8%. This can be largely attributed to the strong holiday portfolio.
- Powerball outperformed budget expectations by \$1.9 million or 8.8%.
- 5 Card Cash continued performing well with \$9.7 million in sales.
- Prize expense was \$13.2 million ahead of budget and largely driven by a higher than normal prize payout for the Daily 3/4 games.
- Retailer commissions and on-line systems increased 5.5% and 3.0% respectively.
- Marketing and Advertising expense was on track with budget expectations.
- Production expenses were under budget by \$200,000.
- Overall Costs of Sales were up \$13.8 million or 7.3% compared to budget. This increase was largely driven by an increase in prize expense.
- Operating expenses were \$5.2 million or 5.7% under budget. All categories, except bad debt, had a positive spend variance; meaning we spent less than anticipated. Bad debt was more than expected due to additional delinquencies during the quarter.
- General Fund transfers, for the quarter ended March 31, totaled \$77.1 million.

Highlights - For 9 months ended March 31, 2015 (*Actual vs. Budget*):

- Sales, for the 9 months ended March 31, totaled \$847.1 million, \$26.1 million or 3.2% ahead of budget.
- The instant ticket portfolio and 5 Card Cash performed beyond budget expectations.
- Multi-State games did not perform to expectations. The bottom line suffers when multi-state games, especially Powerball, do not perform strongly.
- Overall prize expense totaled \$525.6 million, 4.7% ahead of budget. All draw games, except 5 Card Cash, had lower than expected prize payouts.
- Retailer commissions totaled \$47.5 million, 2.7% ahead of budget expectations. Retailer commissions and sales had a similar increase.
- On-line systems were on target with budget expectations.
- Marketing and Advertising expense was \$1.3 million or 13% under budget. Variance to budget was due, in part, to the collective effort of the Lucky for Life participants to share marketing costs. In addition, one budgeted commercial was put on hold.
- Costs of Sales were 4.1% ahead of budget which was mostly driven by higher prize payout.
- Operating expenses totaled \$15.7 million, \$616,000 or 3.8% below budget.

- General Fund transfers, for the 9 months ended March 31, totaled \$233.0 million, \$3.5 million or 1.5% ahead of budget.

Mr. Birney asked if there were any strategic plans in place to increase sales for Lucky for Life. Ms. Noble commented that a good way to increase sales is to create a larger population and that the Lottery does have a plan in place to hopefully help drive sales for Lucky for Life. Ms. Patterson commented that the Lottery has also reached out to the other states participating in the Lucky for Life game and suggested that they promote winners more heavily to generate more excitement for the game.

IV. Executive Session:

On motion made by Ms. Murrell and seconded by Mr. Dakers, and unanimously approved, the Committee moved into Executive Session at 2:31 p.m. Ms. Noble, Ms. Patterson, Mr. Granato, Ms. Glovach, Ms. Turner, and Mr. Hunter were invited to stay for the Executive Session to discuss the following:

- Review of Draft Budget FY16

The Committee reconvened in regular session at 3:28 p.m. Mr. Birney stated that no actions or votes were taken during Executive Session.

V. Old Business:

- Line of Credit

Mr. Granato provided the Committee with a brief overview. The Lottery has obtained proposals from several banks in order to compare costs and determine competitive pricing. Mr. Granato will continue to report his findings to the Committee.

VI. New Business:

- Status of System Conversion

Mr. Granato presented the Committee with a status update regarding the financial software conversion from Lawson. The project team is led by Mr. Sheftel, Financial Manager, and consists of individuals from Finance, Information Technology and Purchasing. An RFP was issued and interviews with prospective vendors were held on May 7, 2015. The project team hopes to be ready to make a recommendation to the President & CEO soon.

- Procedures for Weekly and Year-End General Fund Transfers

Mr. Birney tabled this item.

VII. Adjournment:

On motion made by Mr. Dakers and seconded by Mr. Birney, and unanimously approved, the meeting was adjourned at 3:37 p.m.

Respectfully Submitted,

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