

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, June 2, 2016
At 12:00 p.m.
at the
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut 06067

Board Members Present: Frank Farricker, Chairman of the Board; Patrick Birney, Vice Chairman of the Board; Meghan Culmo; Robert Dakers; Kia Floyd; Robert Morgan; Margaret Morton (via teleconference); and Natasha Pierre (via teleconference)

Staff Members Present: Anne M. Noble, President & CEO; Lana Glovach; Paul Granato; Michael Hunter; Diane Patterson; Chelsea Turner; Cynthia Hadden; and Rebecca Lambert.

Call to Order: Chairman Farricker called the meeting to order at 12:05 p.m.

I. Mr. Farricker welcomed the Board members to the meeting.

II. Approval of Minutes:

On motion made by Mr. Birney, seconded by Mr. Morgan, and unanimously approved, it was:

“Resolved, that the Board hereby approves the April 21, 2016 Board meeting minutes.”

III. Executive Report:

President’s Report:

Ms. Noble welcomed and thanked the Board members for attending today’s meeting. She emphasized how much the administration and staff at the CLC appreciates the contributions of the Board. Ms. Noble provided an outline of her agenda which included a Corporate Performance update, KENO, Budget, and a Capitol update. A PowerPoint presentation guided the discussion. Highlights from her report follow:

All sales numbers are approximated and based on information currently available to the CLC.

- Corporate Performance:
 - The state of the Lottery is excellent. Sales are up 6% to budget and 7.9% over of last year.

- General Fund transfers for the year to date are \$308 million up 8.7% to budget and 6.4% ahead of last year. The CLC budgeted \$312 million in General Fund transfers for this year. At this time of year, close attention is paid to sales and prize expense to bring as much money to the State's General Fund as possible.
- Instant games are good. There was a slight softening during the month of May in the games, which may be seasonal, or due to rising gas prices. It will be a challenge to maintain these sales at the rate they have performed this year.
- KENO Update:
 - Recruitment efforts began after receipt of the Memorandum of Agreements with the tribes from the Office of Policy Management in the fall. Currently there are 340 monitor locations and 150 social establishments, and a very robust pipeline.
 - KENO launched at \$.38 weekly per capita, which exceeded expectations. This exceeds launches in other states.
 - Ms. Noble anticipates the CLC will finish the year with \$12 million in KENO revenue. Next year's revenue projections for KENO are approximately \$60 - \$70 million. Adding KENO to the CLC's portfolio of games was part of its long-term growth strategy. The Board's support of KENO helped place the CLC on a sustainable path of growth for the next two to three years.
 - Ms. Noble noted that the CLC has received very positive feedback from Scientific Games, the CLC's gaming system vendor, in connection with the success of the KENO launch. Ms. Noble is very pleased with KENO's performance, as well as the advertising and marketing campaigns, retailer support, and recruitment in KENO Phase I.
 - Ms. Noble explained that Phase II for KENO would be to keep the weekly per capita above what is expected, which means more recruitment, more retailer education, and adding more monitor locations. In the Legislative and Games Committee meeting today, it was mentioned how strongly social locations perform that have monitors compared with the social establishments that do not have monitors. The goal is to place as many monitors in social establishments as possible in FY17.
 - Ms. Noble noted the efforts that went into making the KENO monitors appealing and stated that the CLC partnered closely with Scientific Games to develop monitors that are colorful and exciting, with advertisements in between the drawings and also the ability to promote our new Responsible Gaming program, "GameSense." Ms. Noble noted that players are also using the CLC website and mobile app regularly.
 - KENO Phase II will also require new marketing and advertising campaigns. These campaigns will focus on awareness, more retailer training, education and promotional events. The CLC will also consider player-activated terminals to replace the aging instant ticket vending machines.
- Budget:
 - The FY17 budget will be presented to the Finance Committee and the Board by the end of June. The Finance Committee has completed its initial review of two drafts and they will meet again before the final Board meeting. There is a very healthy outlook for next year based primarily on the addition of KENO. The instant portfolio will continue to be a challenge as we watch disposable income shrinking as gas prices rise.

- Capitol update:
 - Senate Bill 192, which addressed daily fantasy sports, died. Ms. Noble stated that there was speculation that it would be included in an implementer. This did not happen. There was a provision in the implementer that would have required the CLC to provide a report on the potential of selling lottery over the internet to the Finance, Revenue and Bonding Committee next session. Ultimately, this provision was removed by an amendment. The CLC technically does not need this language in order to conduct a study, but the CLC was supportive.
 - Ms. Noble mentioned that there is a significant amount of discussion at the legislature regarding the CLC's involvement in e-commerce going forward. Ms. Noble stated this is positive given that its future is a blend of ecommerce and brick and mortar sales.

Sales Performance and Game Update:

Ms. Patterson began her report by sharing samples of several instant tickets launched during the spring. She also shared a recent KENO winner's story regarding the Powerball jackpot set to expire tonight at midnight. The CLC has been very diligent with publicity trying to find the owner. A new KENO player stopped at a retail location, noticed a flyer regarding the expiring ticket and decided to play the numbers on the poster in KENO. He won \$2,250. The customer had also played the KENO bonus multiplier for an additional 5X for a total prize of \$11,250. Mr. Birney mentioned that he was pleased that WTNH was present to hear about the expiring ticket. Ms. Patterson mentioned that WFSB was also promoting the expiring ticket.

Using sales charts, Ms. Diane Patterson, Vice President of Sales and Marketing provided the following report for the period ended May 31. All sales figures are unaudited estimates.

- Regarding All Games, sales are at \$1.13 billion year to date. The CLC anticipates that the amount of sales in the budget will be reached on or around June 11, 2016.
- Sales for CT Games are at \$985 million year to date, or 3.8% ahead of budget.
- Multi-State Games are at \$145 million year to date, or 22.7% ahead of budget.
- Last year at this time the CLC was averaging \$21.8 million per week compared to the currently weekly average of \$23.5 in FY16. General Fund transfers are currently at \$308 million year to date.
- Instant Games are doing very well, with sales at \$683 million year to date, or 9.6% ahead of budget. "Escape to Margaritaville" launched on May 31, 2016 and is the first of the CLC's summer season instant games. It is a licensed game. The CLC will explore the options for more licensed property games in FY17. Ms. Patterson also shared "Winning Numbers," another new game that has been added to the instant portfolio.
- Play3 and Play4 Day and Night Combined sales are at \$226 million year to date, or 9.4% ahead of budget.
- Play3 Day sales are at \$50 million year to date.
- Play4 Day sales are at \$44 million year to date.
- Play4 Night sales are at \$64 million year to date.
- Lotto's sales are at \$18 million year to date, or 1.8% behind budget. This can be attributed in part to the \$5.2 million jackpot that was won on April 8, 2016. The jackpot is currently rebuilding.
- Cash5 sales are at \$28.6 million year to date, which is right on track with budget.

- Lucky Links with 2XPOWER sales are at \$9.4 million year to date. The slight decline in sales in May could be attributed to players shifting their focus from this game to KENO. The CLC will continue to monitor sales of this game.
- KENO sales are at \$7.2 million since the game launched in April. There are currently 340 monitor locations, which is approximately 12% of the retailer base. Locations with KENO monitors are averaging \$2,300 in KENO sales per week, compared to locations without KENO monitors averaging \$220 in KENO sales per week. The CLC is working to evaluate and recruit retailers where more monitors can be installed. Approximately 44% of KENO tickets sold include the Bonus Multiplier option. There have been 14,000 draws in the game since it began. Ms. Patterson informed the Board about the promotion on both the Lottery's mobile app and the ticket checker, encouraging players to scan their tickets to see if have won. Use of these tools is proving helpful to both players and retailers. Ms. Patterson mentioned that CLC collaborated with WFSB for an Apple Watch giveaway on their Facebook page. She noted that 3,332 entries were received. There were 1,597 Facebook shares and 144 tweets in addition to 110 email shares and 1,440 email opt-ins.
- Powerball and Mega Millions sales are at \$145 million combined for the year, and jackpots for each of these games continue to grow.
- Powerball currently has a jackpot of \$110 million. Ms. Patterson noted that reason for the increased sales in May of FY13 was due to a \$590 million jackpot.
- Mega Millions currently has a \$251 million jackpot. This jackpot has been growing since it was last won on March 8, 2016, and it has taken 23 rolls to get to the current level.
- Lucky for Life sales are at \$19.9 million for the year. Since the current game launched in January 2015, there have been three top prizewinners and sixty second prizewinners. To date, the game has had 14.8 million prize winning experiences across all participating Lucky for Life lotteries. Ms. Patterson was pleased to report that it is expected that Colorado and Wyoming will be the next two states to join the Lucky for Life game.

This concluded the Sales Performance and Game Update and the Executive Report.

IV. Committee Reports:

Finance Committee:

Mr. Birney stated that the Finance Committee met on May 19 and May 24, 2016. He asked Mr. Granato to review the third quarter financial statements for the nine-month period ended March 31, 2016.

Mr. Granato began his report by noting this was the best quarter ever for the CLC and the first time sales revenue exceeded \$300 million.

Unaudited results for the nine-month period ended March 31, 2016

Mr. Granato reminded Board members that in January, the \$1.5 billion Powerball jackpot run had a significant impact on the third quarter performance.

Profit and Loss:

- Total sales were \$921 million thru March, up \$74 million or 8.7% from the prior year. Mr. Granato stated there were three key drivers of this outstanding performance, the

Instant Portfolio, Powerball and the Daily games. Sales for Lucky Links partially offset the ending of the 5 Card Cash game.

- Prize expense was \$573 million for the first nine months which represents an increase of \$47.7 million from the prior year. This is a 62.2% prize expense ratio.
- Retailer commissions totaled \$51.4 million up commensurate with the increase in sales.
- Online Vendor systems totaled \$8.3 million
- Marketing and advertising expenses were \$8.6 million compared to \$8.7 million due to the delay of the launch of KENO.
- Production expenses totaled \$5.5 million compared to \$5.7 million in the prior year primarily related to the timing of production of Instant tickets.
- This brings the total cost of sales to \$647.1 million up \$51.8 million and 8.7% from the prior year.
- Operating Expenses totaled \$16.6 million compared to \$15.7 million driven largely by the salaries and benefits. Fringe benefits are increasing at a significantly faster rate.
- Other operating expenses and depreciation were lower compared to the prior year and bad debt was up slightly based on outstanding receivables.
- From a profit and loss perspective, the transfers to General Fund totaled \$252 million up \$18.9 million or 8.1% from prior year.

Compared to Budget:

- Sales were up \$58 million compared to budget and that is notwithstanding the termination of the 5 Card Cash game and the delay in KENO sales.
- Sales for the Instant, Powerball and Daily games all experienced sales that exceeded budget.
- Overall prizes were up \$37 million compared to budget. Mr. Granato again stated there were three key drivers of this outstanding performance, the Instant Portfolio, Powerball and the Daily games.
- There were no sales for 5 Card Cash and KENO even though the games were anticipated in the budget.
- Actual prize expense compared to the budgeted statistical payout was right on track at 62.2%.
- Retailer commissions are up \$2.5 million compared to budget based on the increase in sales.
- The vendor and online system fees are down \$200K and marketing and advertising are down \$2.8 million compared to budget due to the late launch of KENO. The budget was created based on the expectation of a January KENO launch.
- Operating expenses are \$1.1 million under budget driven largely by salaries and benefits on vacant positions.
- There are small favorable variances on other operating expenses.
- General Fund transfers were up \$20.3 million or 8.8% compared to budget.

This concluded Mr. Granato's report.

Mr. Birney continued the Finance Committee report by stating that at the Board's April 21, 2016 meeting, Chairman Farricker, based upon the current fiscal conditions of the state government, requested that the Finance Committee meet for the purposes of reviewing the Corporation's Incentive Compensation Program, which was budgeted in the Corporation's 2015-2016 budget.

The Finance Committee met on May 19, 2016 and May 24, 2016. In addition to covering year-to-date results, the third quarter financial results and the draft FY17 budget, the Finance Committee reviewed the Corporation's Incentive Compensation Program, including advice from outside counsel regarding the potential liability to the corporation if the Board elected to eliminate or reduce the amounts budgeted in the Incentive Compensation Program in the current fiscal year.

Mr. Birney reiterated that the Corporation's revised year-to-date results for the period ending May 31, 2016 reflects an increase in revenue year over year of 7.8%, or approximately \$83 million. For the same period, General Fund transfers were up 6.4% or \$18.4 million. The Corporation has also made transfers to the Department of Mental Health's Chronic Gamblers Fund in the amount of \$2.3 million through May 31, 2016. Mr. Birney noted that during both meetings, Mr. Dakers expressed his desire to freeze payments under the Incentive Compensation Program to FY15 levels, based on our state government's current fiscal condition. He continued by stating there were no votes or actions of the Committee regarding the Corporations' Incentive Compensation Program for FY16.

Audit Committee:

Mr. Dakers reported that the Audit Committee met on May 19, 2016. The Committee was updated on the restitution efforts regarding 5 Card Cash which will be covered in Executive Session. He noted that management reported that they are continuing to work on updates to the Purchasing Policy and that Ms. Noble reviewed two purchasing justifications with the Committee. Mr. Dakers was pleased to report that the CLC received a draft of the FY15 Public Auditors' Report, which had no findings or recommendations. Mr. Dakers noted this was a great accomplishment and congratulated all involved.

Legislative & Games Committee:

Ms. Morton reported that the Legislative and Games Committee met earlier today. She reported that Ms. Patterson presented the Sales and Game Performance update and Ms. Turner provided a Capitol update. The Committee met in Executive Session to discuss New Lottery Games and no votes or actions were taken. Ms. Morton congratulated and shared her appreciation for Ms. Noble and the CLC team for the successful rollout of the KENO game and to Ms. Turner for successful representation of the CLC at the Legislature.

V. Executive Session:

At 12:41 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Mr. Birney, seconded by Ms. Floyd, and unanimously approved the Board moved into Executive Session to discuss:

- New Game Initiatives
- Attorney/Client Communications Re:
 - New Lottery Game
 - Compensation
 - Corporation's legal rights in connection with 5 Card Cash recovery

Ms. Noble, Ms. Patterson, Mr. Hunter, Ms. Glovach, Mr. Granato and Ms. Turner were invited to stay for the New Games Initiatives and New Lottery Game portion of the Executive Session. Ms. Noble, and Ms. Glovach, were invited to remain for the Compensation and the Corporation's legal rights in connection with 5 Card Cash recovery portion of Executive Session.

Ms. Morton exited the meeting at 1:22 p.m.

The Board reconvened in regular session at 1:22 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

VI. Old Business:

VII. New Business:

VII. Adjournment:

Mr. Farricker then called for a motion to adjourn the meeting.

On motion made by Mr. Birney, seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 1:22 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.