

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, February 27, 2014
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; Gale Mattison, Vice Chairman of the Board (via telephone); Robert Morgan; Patrick Birney; Robert Dakers; Natasha Pierre; James Farrell; Margaret Morton; and Jennifer Hamilton.

Ms. Murrell's absence, duly noted in advance by the Corporation, was due to a scheduling conflict.

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

Call to Order: Chairman Farricker called the meeting to order at 12:10 p.m. He welcomed Ms. Jennifer Hamilton, the newly appointed member of the Board, to today's meeting,

I. Approval of Minutes:

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

Resolved, that the Board hereby approves the November 21, 2013 Board meeting minutes.

II. Executive Report:

President's Report:

Ms. Noble thanked Board members for attending today's meeting. She welcomed Ms. Jennifer Hamilton, the newly appointed member of the Board. Ms. Noble then reviewed the meeting agenda, and she updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

- The Lottery completed the first half of the year in a good position. To-date, the Lottery is \$12 million ahead of last year's sales, and General Fund transfers are approximately \$6 million ahead of last year's transfers, which is close to target in relation to budgeted sales and General Fund transfers. Bad weather conditions have negatively impacted sales. Other lotteries reported similar results. Consumer confidence, unfavorable shopping calendar and the loss of benefits may have also impacted sales since November. We expect revenue to improve as the weather gets better.

- The Lottery's social media plan is up and running and we are ranking close to other lotteries who have had social media programs in place for some time. We currently have close to 15,000 Facebook fans.
- The Lottery is working on some enhancements in the draw games category, which will be discussed further in today's Executive Session.
- The Lottery has not seen or received the state tribal agreement that would authorize the Lottery to move forward on Keno. There are several bills pending to repeal the law authorizing the Lottery to operate Keno. There is a public hearing on March 4th. We are and will continue to make ourselves readily available to the legislature to provide any information needed, including our operational readiness and the growth impact Keno could have on the Lottery. We are well prepared to operate Keno. We are ready to generate as much revenue for the state as possible.
- Discussions are taking place at the Legislature concerning VLTs. No bill has been submitted yet. Bills have also been introduced to prohibit internet sweepstakes cafes. These bills pose interesting legal issues. The question is whether the money patrons pay for an internet card that contains a pre-determined sweepstakes entry is for the use of the internet or for the sweepstakes. The Lottery will continue to monitor these bills.
- Activity at the Federal level on igaming has quieted but we are monitoring increased activity on a state by state level. Earlier this week, Delaware and Nevada announced they will compact to operate igaming in their jurisdictions. We are also monitoring other states that are looking to authorize sports betting.
- An omnibus federal bill, referred to as the "Farm Bill", recently passed which included a provision that will affect lotteries. The provision prohibits SNAP recipients from receiving "substantial lottery or gambling winnings". The Lottery is working with other states to better understand the implications of the bill and potential implementation.
- There is a lot happening in regards to corporate social responsibility:
 - The Lottery completed its eighteen month contract with Winston Strategic Partners to assist the Lottery in its efforts in developing a robust, best-in-class supplier diversity program. Highlights included: an automated online portal on our website, our first supplier diversity open house, a formalized communication program, changes to procurement and inclusion in our strategic plan.
 - The Lottery has also continued to move forward on its green initiatives. Lights in Lottery parking lots will be changed to a more eco friendly type, which will result in an annual savings of approximately \$7,000 each year for the Lottery after a three year period.
 - The Lottery is working with our multi-cultural ad agency, Bauza & Associates, on a dynamic retailer responsible training video. In addition, the Lottery is planning and preparing for Problem Gambling Awareness Month. As part of our efforts, the Chairman has responsible gaming resolution for your consideration. The Lottery is diligently working toward attaining Level III with the World Lottery Association for its Corporate Responsibility Programs. This would be a major accomplishment.
 - Lori Ruggle, the Director of the Problem Gambling Services at DMHAS, has accepted a new position in Maryland. Her departure is bittersweet. Lori has been a wonderful resource, and we are grateful for the valuable expertise she provided while in Connecticut. We wish her well.
- The Lottery began its annual budget and strategic planning process. A preliminary budget will be provided to the Finance Committee by the end of March.

Sales Performance Report:

Using sales charts, Ms. Patterson provided an overview of Lottery revenues and sales trends as of January 31, 2013. Her report follows:

- Highlights since the last meeting included:
 - “Lottery University” presentation by Pollard Banknote regarding innovative merchandising ideas and new sales techniques. Their suggestions will help us to make more enhancements in our retail space. We are currently working with our travel centers to implement some of these new ideas.
 - The Lottery’s social media program is moving forward. In collaboration with WFSB, five free Kindles were awarded to Facebook fans.
 - The Lottery held a promotion for our Whalers scratch ticket with Jeff Sanderson, a retired Whalers player. This included a media tour.
 - A new feature was added to Lucky for Life in September. The game offers a new \$25,000/year second chance prize. Sixteen second chance prizes have already been awarded, 5 in CT.
- Your packets indicate that All Game sales were \$646 million, but as of February 26th, sales reached \$726 million. The impact on the General Fund is moving in the right direction.
- CT Game sales remain strong and are ahead approximately .8%.
- Multi-state games saw a 2% improvement in sales. In answer to Chairman Farricker’s question concerning performance during the \$400 million Powerball jackpot, Ms. Noble noted that sales were impacted by jackpot fatigue and weather conditions among all member states and according to data provided by MUSL, CT performed better compared to other states. Other trade associations are noticing similar trends.
- General Fund transfers are on target, though there was some fluctuation during the year. However, we are optimistic we will reach our goal by the end of the fiscal year.
- Instant tickets sales were softer than expected during the holiday period, but are improving. Recent launches include: “\$”, “777”, “Deuces Wild”, “Golden Casino” and “BlackJack.”
- Sales of Play3/Play4 games day and night combined performed very well and are 6.5% ahead of budget.
- The Lotto’s \$3.4 million jackpot was won on February 18th, but the winner has not yet claimed their prize. In Spring ‘14, we expect to launch a Lotto Cash instant ticket that will feature a free draw game ticket as one of the prizes.
- Cash5 sales were steady.
- The Super Draw 8 raffle was held on New Year’s Day. There was a record number of more than 61,000 tickets sold on the last day, bolstered in part by social media. This game has a loyal following and is a niche in our games portfolio. Sales for Super Draw 9, our 50/50 raffle have begun and we are already discussing some new twists for Super Draw 10.
- In October `13, a matrix change was made to the Mega Millions game. We are experiencing jackpot fatigue in both Mega Millions and Powerball.
- The Lucky for Life game has had five \$25,000 for life winners in CT since the game change in September 2013. Four selected the cash option prize. Our goal is to work with other lotteries in New England to increase sales and awareness through social media efforts.

This concluded the Executive Report.

III. Committee Reports:

Finance:

Mr. Birney reported that the Finance Committee met to review financial statements for the six months ended December 31, 2013. He then asked Mr. Granato to provide the Board with the financial report:

- Sales totaled \$562.5 million, up \$12 million or 2.2% from the same period a year earlier. The 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.
- Prize expense was up by \$2.8 million. Most games performed in relation to their sales performance; however the Daily 3/4 games had a \$1.8 million decline in prize expense while posting overall increased sales.
- Retailer commissions were up \$600,000. This increase is proportionate to the increase in sales.
- On-line expense was up \$300,000 due to increased sales, the number of retailers, and the expansion of terminals and ticket checkers in retailer locations.
- Marketing and Advertising expenses were up \$900,000. Most of the increase is attributable to production expenses of commercials.
- MUSL expenses are down compared to last year. Production expenses were down \$300,000 due to timing of instant ticket production.
- Overall cost of sales was \$385.3 million, up \$4.4 million compared to last year.
- 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.

Mr. Granato detailed the performance compared to budget for the first 6 months of FY14:

- Sales were up \$5.6 million compared to budget.
- Daily 3/4 games and Mega Millions 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 sales are below budget.
- Prize expense has a favorable variance due to lower payouts in the Daily 3/4 games.
- Retailer commissions and online systems are on budget, while advertising and production expenses show modest variances.
- Operating expenses were \$430,000 below budget. All operating expenses have favorable variances compared to budget.

Mr. Birney applauded Lottery management for their cost containment measures during the first 6 months of the fiscal year.

Legislative & Games:

Ms. Morton reported that the Games Committee met to discuss the performance of games, which would be discussed further in today's Executive Session.

IV. Executive Session:

At 12:55 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Ms. Morton, seconded by Mr. Farrell, and unanimously approved, the Board moved into Executive Session to discuss new game initiatives.

Ms. Noble, Ms. Glovach, Ms. Patterson, Ms. Turner, and Mr. Hunter were invited to join Executive Session.

The Board reconvened in regular session at 1:10 p.m. Chairman Farricker stated that no votes nor actions took place during Executive Session.

V. Old Business:

Chairman Farricker provided an update on Keno: He reported that the Board of Directors authorized the Lottery to move forward with Keno, subject to the delivery of a state-tribal agreement from OPM. However, in the absence of a tribal agreement, the Lottery is not in a position to implement Keno at this time. To-date, expenditures by the Lottery related to Keno are \$52,199. There are currently some bills before the legislature suggesting repeal. Right now, in the absence of an executed tribal agreement, we are not in a position to do anything.

VI. New Business:

Chairman Farricker called for a motion to endorse Problem Gambling Awareness Month in Connecticut and he presented the following resolution:

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

Resolved, that the Board of Directors of the Connecticut Lottery Corporation endorses the Lottery's observance of and participation in Problem Gambling Awareness Month in Connecticut, from March 1, through March 31, 2014 as an opportunity to promote healthy gambling as integral to the State's economy, to raise public awareness about the potential risks of gambling, and to strengthen the Lottery's role as a good corporate citizen, dedicated to the well-being of all Connecticut citizens.

Chairman Farricker called for a motion to move the date of the next Board of Directors meeting.

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

Resolved, that the April 10, 2014 Board of Directors meeting at twelve o'clock be moved out to April 24, 2014.

Chairman Farricker reminded all Board members that their Statement of Financial Interests are due to the Office of State Ethics by May 1, 2014, and to contact Lana Glovach with any questions they might have.

VII. Adjournment:

Chairman Farricker called for a motion to adjourn today's meeting.

On motion made by Ms. Morton, seconded by Mr. Birney, and unanimously approved, the meeting was adjourned at 1:20 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.

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