

**Finance Committee
Special Meeting Minutes**

Held on
Wednesday, November 4, 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; Bob Morgan (teleconference), Robert Dakers; Kia Floyd; and Jim Farrell (teleconference)

Board Members: None

Staff Members: Anne Noble, President & CEO; Diane Patterson; Paul Granato; Cynthia Hadden; and Jessica Hayton.

Call to Order: Mr. Birney called the meeting to order at 2:03 p.m.

I. Approval of Minutes:

On motion made by Mr. Dakers and seconded by Ms. Floyd, the minutes of the June 12, 2015 meeting were unanimously approved.

II. Review of Financial Statements for the Period ended September 30, 2015:

Mr. Granato began the meeting with a brief overview of the first quarter financials. Mr. Granato reported that the Lottery experienced an excellent first quarter with \$291.3 million in sales.

Mr. Granato presented the following highlights:

Highlights - For 3 months ended September 30, 2015 (*Prior Year Comparison*):

- Sales for the quarter are \$291.3 million, a significant increase of \$19.4 million or 7.1% from this time last year. Mr. Granato mentioned that it was an excellent start to the fiscal year and was the second highest total sales eclipsed by only the quarter ended June 30, 2013 (record MegaMillions jackpot).
- Instant ticket sales totaled \$177.5 million. Compared to last year at this time, instant ticket sales are up \$16.8 million or 10.4%.
- The Daily 3/4 games sales totaled \$61.3 million. Sales are up across all four of the daily games. In total, the category is up \$5.8 million or 10.5%.
- Powerball sales increased modestly by \$2 million. Increase may be attributable to the two Powerball jackpots of \$110 million and \$310 million.
- MegaMillions sales are down \$500,000 or 6.8% from this time last year. MegaMillions did have three jackpots in the amounts of \$153 million, \$25 million, and \$105 million.

- Lucky for Life sales increased \$200,000 or 3.9%. The game continues to perform well despite not having a top prize winner.
- Five Card Cash sales are down \$6.7 million or 44% compared to this time last year. The decline was expected as there is a natural decay of a new game over time. The game is now settling into its base players. To increase sales, the game was modified to include an "All In" option. Mr. Granato expects that the base sales and "All In" sales will begin to increase.
- Cash 5 continues to perform steadily with \$7.7 million in sales.
- Lotto continues to perform well even though jackpot levels are low. Lotto contributed \$4.6 million in sales.
- Lucky Links added \$2.9 million in sales. This game did not exist at this point in time last year so there are no year-over-year comparisons.
- Prize expense for the quarter totaled \$189.3 million, up \$24 million or 14.5% from this time last year. Prize expense for this quarter increased greater than sales due to large prize payouts in the month of September. For example, the Daily 3/4 games are designed to have a 50% payout; the payout for this quarter was 60%. Mr. Birney inquired on the impact on the Corporation's cash position. The Committee briefly discussed the concept of a Line of Credit and other cash management tools.
- Ms. Noble stated that the Lottery is reviewing the Five Card Cash prize payouts. At this time, the game is paying out statistically higher than designed. The Lottery is examining what could be causing this and will report back.
- Mr. Granato reported that Lotto Augmentation was needed in September. At the request of the Committee, Mr. Granato briefly explained the concept of Lotto Augmentation. Augmentation allows the Lottery to supplement the Lotto jackpot using unclaimed prizes when the game is not yet fully funded.
- Retailer Commissions are proportionate to sales revenue.
- On-Line Systems are up slightly due to liquidated damages in the prior year.
- Marketing & Advertising expenses totaled \$2.6 million, down \$200,000 or 8% from last year.
- Production expenses totaled \$2.7 million, down \$200,000 or 8.5% compared to the prior year. The decrease is due to fewer instant tickets produced.
- Overall Costs of Sales totaled \$213.7 million, up \$25 million or 13.3% compared to last year. The increase was led by the \$24 million increase in prize expense.
- Total Operating expenses for the quarter totaled \$5.5 million, up \$212,000 or 4% from last year. Salaries and benefits increased year over year due to wage increases and healthcare costs. Other operating expenses saw a decrease of \$61,000 due, in part, to the lower cost of utilities, data processing materials (e.g. toner) and leased vehicles.
- General Fund transfers totaled \$71.4 million for the quarter which is \$5.2 million less than the prior year due to higher prize expense particularly in September 2015. The gap is closing gradually. Mr. Granato clarified that DMHAS is the Lottery's required statutory contribution to the Chronic Gambling Fund.

The Committee discussed the impact and importance of Keno on draw sales.

Highlights – For 3 months ended September 30, 2015 (*Budget Comparison*):

- Sales for the quarter totaled \$291.3 million which is \$12.7 million or 4.6% ahead of budget. Increased sales are driven by the success of the instant ticket portfolio which is performing 9.2% better than budget expectations and the steady performance of the Daily games which outpaced budget expectations by 9.8%.
- Jackpot games are performing under budget. MegaMillions is \$2.3 million behind budget and Powerball is \$1.9 million behind budget.
- The decline in sales for Five Card Cash was expected and the uptick in sales due to the “All In” option is planned for in the budget.
- Lucky Links is behind budget by \$1.4 million.
- Prize Expense is outpacing sales and is ahead of budget \$16.2 million or 9.3%.
- Operating expenses are under budget by \$355,000 or 6%. All categories had a positive spend variance which means we spent less than anticipated. Salaries and benefits were under budget due to vacant positions, including those positions for Keno rollout.
- General Fund transfers, for the quarter ended September 30, totaled \$71.4 million and is 3.3% behind budget. This is due to the increase in prize expense.

III. Old Business:

Mr. Granato and Ms. Noble reported to the Committee the RFP process has been completed for a financial system conversion vendor. Contract negotiations are currently taking place. The conversion may take place in the Spring but that is dependent on available resources. At the request of Mr. Birney, Mr. Granato gave an overview of the process to close the books.

IV. New Business:

None

V. Adjournment:

On motion made by Mr. Dakers and seconded by Ms. Floyd, and unanimously approved, the meeting was adjourned at 2:54 p.m.

Respectfully Submitted,

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