



DRAFT MEETING TRANSCRIPTION

Executive Committee

Special Meeting

May 28, 2020 at 11:00 a.m.
via teleconference

Committee Members: Robert Simmelkjaer, Board Chair; Wilfred Blanchette, Jr., Chair of the Personnel Committee; Patti Maroney, Chair of the Finance Committee; Margaret Morton, Chair of the Legislative & Games Committee; and Michael Thompson, Chair of the Audit Committee.

Invited Guest: James Shea, Jackson Lewis P.C.

Staff Members: Greg Smith, President & CEO; Matthew Stone; and Annmarie Daigle.

I. Welcome:

(R. Simmelkjaer): Good morning, this is Rob Simmelkjaer, the newly-appointed Board Chairman of the Connecticut Lottery Corporation. I want to thank everyone for joining us for this the Special Meeting of the Executive Committee on Thursday, May 28 at 11:05 a.m. I want to say how happy I am to be part of this organization. The work that the Connecticut Lottery Corporation does is so important to the state and never more so than right now given what is going on with our state's economy. With the fiscal challenges that we are all going to be facing, the importance and frankly, the opportunities that exist for the Connecticut Lottery Corporation to make a difference in the state have never been greater. I'm really pleased to be with all of you and I thank everyone for the work you've already done and I look forward to working with all of you on the Board who are part of this meeting, the staff, I just want to thank you. And of course I want to thank Governor Lamont for his nomination and the opportunity. With that, I'll give it to Matt to go through where we are with the Executive Order, to take us through the protocol for conducting this meeting telephonically.

(M. Stone): Thank you Mr. Chairman. This is Matt Stone, General Counsel for the Lottery, and we are operating under Governor Lamont's Executive Order regarding public access to meetings. There is no in person public attendance at these types of meetings these days. The public is listening in on their own phone line, and that phone line will be taken out of the room during Executive Session. That line will be kept open and active and then brought back into the room after Executive Session. We ask that everyone identify themselves by name each time they speak, this is particularly important for Board members when making motions, seconding motions, voting or abstaining, so that the public knows who is speaking. This meeting is being recorded and will be posted on our website after the meeting, per public meeting requirements. That is it for now, thank you.

(R. Simmelkjaer): Thank you very much. We are fortunate to have Margaret and Will in the room with us today so that may make things a little easier for motions and seconding, but we will proceed as needed per the Executive Order.

II. Approval of the January 9, 2020 Executive Committee Meeting Minutes:

(R. Simmelkjaer): The first item on the agenda is to approve the minutes of the January 9, 2020 Executive Committee Special Meeting. Of course, I was not present at that meeting, so I will abstain from voting, but will ask for a motion to approve.

(M. Morton): So moved. Peg Morton.

(W. Blanchette): Will Blanchette, second.

(R. Simmelkjaer): Thank you very much. All those in favor?

(All): Aye.

(R. Simmelkjaer): Opposed? Hearing none. Abstention from me. Thank you very much.

III. Update on Operations:

(R. Simmelkjaer): Next we're going to go through a couple of updates – Operations, Office Lease and Gaming System Replacement. For that I'll turn it over to our CEO, Greg Smith.

(G. Smith): Thanks. This is Greg. From the standpoint of having you here prior to the Board meeting, we wanted to provide a quick update on the next three topics. First on operations, we continue to perform our day-to-day and week-to-week work with about one-third of our staff coming into the office each day, about a third doing telework and another third either designated nonessential or intermittent in terms of their work. Some of that is the field sales staff who are not physically calling on their stores and have not since that latter part of March. That continues as we move forward through this and there are a few other parts of the operation that we're experiencing either no or lower volume on, an example being opening of new stores and training retailers – we've only had a very few stores come into existence or transition ownership and those training classes are not happening so the people doing those things are not coming in. And some of the licensing application processing is at a lower volume due to the situation. Interestingly, we will make a few comments about sales numbers because they provide a certain perspective of operations. Initially, in the first four weeks of the pandemic we were down in the neighborhood of 20% of our weekly sales volume compared to normal. For the last three weeks we have been ahead; we have recovered all of that back and just for a comparative for you, there have been no significant national game jackpots. Our sales for the last three weeks were \$84 million; last year those same three weeks were \$79 million. So we are effectively ahead about 6% on a weekly basis year-over-year and the games that have been leading that have been our daily games, the Play3 and Play4, and our instant ticket games. When I look at the last five weeks of the fiscal year, last year's weekly sales average was about \$25 million and if we are to keep the pace we're on we will be ahead of that by potentially \$1-\$1.5 million dollars per week, assuming normal moving forward. That is a measure of understanding where we are and how we've recovered that decline that initially came into play.

(R. Simmelkjaer): This is Rob. So when you say recovered that decline – net-net are we a little bit ahead or was the decline so steep when it was there that we are not quite there?

(G. Smith): When I talk about recovering I'm talking about the week compared to the prior year. The total decline we have not recovered completely and while I know we will fall short of last year's revenue where we had some very significant national game jackpots -- we never

expected to hit last year's sales -- we will fall short of our budgeted sales probably by about \$40-50 million. We were about \$30 million down before the pandemic, so we will have lost another \$10-20 million in revenue at the end of the fiscal year. Just some ballpark numbers for you, but to let you know we are back to full weekly sales performance from the initial decline.

(M. Thompson): Greg, this is Michael Thompson. A quick question, when was the last time we did not make our budgeted sales numbers? Has that happened in the recent past?

(G. Smith): I did not look back to see when that would have happened. We've been very steady in equaling or exceeding prior year profits but for fiscal 2020 we actually projected less than fiscal 2019 because we had that billion dollar Mega Millions jackpot. We did \$370 million in fiscal 2019, we projected \$358 in fiscal 2020. We are right now about \$6 million below our projection. We expect to be in the low \$350s or around \$350 million at the end of the fiscal year so performing pretty close to our plan from a profit standpoint even though our sales are a bit lower than that as a ratio. I can look into that Michael as I don't recall what we budgeted each year but I know we've been on a pretty steady run of always exceeding last year. The 2016 Powerball billion dollar jackpot was another example of that -- hard to keep pace with the year when you had a jump like that.

(M. Thompson): Sure, thanks Greg.

(G. Smith): And one last comment from an operations point of view. We continue to evaluate our processes and procedures as needed while many of the staff remain away from the office so that we understand if we need to look into doing something different and if it's a procedural change then we engage in the Department of Consumer Protection to make sure that they are in agreement with some of the temporary moves we make. An example might be extending our prize payout time period as we've done over the course of the last couple of Board meetings to get that approval. And also extending the settlement of the ticket packs so that we don't punish some of the lower retailers where their volume had slowed down or they had to close down over a period of time. We continue to evaluate those and will as we continue to stay out of normal operation always with an eye to how we get back to normal.

(W. Blanchette): This is Will Blanchette. What is the status of that third group of employees who are not coming into work, are they on unemployment, are they still employees, are they losing benefits?

(G. Smith): All state employees' pay has been maintained at normal since about somewhere in the end of March. That was established as people were deemed essential, required, nonessential or intermittent. As we need anyone who is intermittent or nonessential, think the sales reps, we have assigned them all to call each of their retailers to keep them engaged. They do not call them every day, but every couple of weeks, reaching out and making contact even with the office staff calling and taking orders. Their compensation has been maintained as normal, no change with that. I'm sure the administration is trying to evaluate how do and when do people get asked to come back into the office.

(W. Blanchette): Thank you.

IV. Update on Office Lease and Gaming System Replacement:

(G. Smith): Moving on to the next topics of the lease and gaming system replacement, just a couple of points to mention in that both the lease of this building and our gaming system

contract with Scientific Games, terminate in April of 2023, just under three years out. No one would ever design a plan to say 'you may have to move out of your building and change your enterprise operating system in the same month'. That would be very difficult to encounter. So we are looking at that as we prepare for the gaming system change -- that will happen, we will have a new gaming system regardless of who the vendor is and that will be a significant undertaking. We have already started the RFP preparation on that. As for the lease for this building, the initial period ends at that time as well but it does have some extensions on it. What we are doing is taking the four pronged view: this building, would we buy it or continue to lease it; another building, would we buy or lease it? So would we move or not, and then what would be the use of the building document? We need to evaluate that because we will need to give nine months' advance notice to extend this lease. We will already be working on the new gaming system and getting that new gaming system in place in April of 2023 which is a very critical matter for us. It might cause us to talk to our landlord but also look at other location opportunities to see if we would make a decision before April of 2023 and choose to either buy or extend or go somewhere else. I'm just giving you a heads up on that. I won't say the timing is unfortunate, but you wouldn't design it that way.

(R. Simmelkjaer): This is Rob. The enterprise system, the window to change that, is that moveable or is that going to happen in that period in the months leading up to it?

(G. Smith): At this point in time I would consider the gaming system the dominant of the two. We will likely have a vendor chosen for that new system whether it's the same vendor or another vendor by the summer of 2021, so next summer, and they will need that remaining time to build the system, have us all test it and bring it to life. They will actually have to place new terminals and equipment in all of our 2,900 retail locations during that time period. So I consider that the larger dog in the fight and it's just keeping you up to speed as we move forward. We have spoken to a commercial broker, we are preparing and close to finalizing the RFP for those broker services so we can at least know what we are looking at, see what our interests are, and then if we want we can certainly lease another place if that was our choice but it is important to understand, would we buy a building and would the state purchase a location as an operation. We are a 50 year old company, is there any reason for us not to consider buying a location? That is part of the conversation we are engaging, with the State Properties Review Board, what does this look like. We just wanted to let you know these are the beginning steps that we will need to address. We have no suggestions or recommendations at this point in time.

(R. Simmelkjaer): This is Rob. I guess the easiest would be to extend here if it seems like it's competitive.

(G. Smith): Yes, but not until we tell them we're interested will they come up with the rent price, there is no predetermined extended rent price. That's all I have to say on this, I wanted to let you know so that we can properly evaluate and explore what our next steps are and what steps potentially require approval.

(M. Morton): I do have one question, this is Peg. When picking a broker that is outside of DAS, and we have that authority to do that because we are a quasi-state agency.

(G. Smith): Yes.

V. Update on FY21 Budget Progress:

(G. Smith): Regarding the next topic, a quick update for the Executive Committee members on the budget process, we have had one meeting already with the Finance Committee to review the first draft of the budget in early May. We have just completed draft two and have another meeting scheduled with the Finance Committee for next Friday, a week from tomorrow, to review that. We have done a good job in fine-tuning all of the expense lines for that budget. One of the interesting parts is the revenue, thinking about our earlier discussion regarding where we are with our sales, it's how do we project revenue. We put some numbers in place, we've also put some highly conservative – not recovered – revenue numbers as a model. We are aware that the casinos might open in a week and I know that with lacking the casinos being open now and there's been no sporting events, it's not unlikely that we've been experiencing some of those gamers' participation with lottery games. We may feel the need after we experience a couple of weeks with casinos open to revisit some of our revenue numbers. So to let you know where we are in that process, we'll be bringing something to the Finance Committee and we'll talk about what that recommendation to the Board will be and then what the Board might do as options for getting the budget approved by the end of June if we feel the need to revisit the revenue, we'll have the expenses lined up. I'm not sure if Patti Maroney wants to add anything to that?

(P. Maroney): This is Patti Maroney. I was wondering when you would have the revised draft ready?

(G. Smith): That is going out to you tomorrow.

(P. Maroney): Ok. The first draft in my opinion was very good, close to what I would consider the final. There were no big issues, just the decision making on the revenue piece.

(G. Smith): We have what I would say are light edits, not significant edits to that, just fine-tuning some numbers. Even with the revenue projections because the first pass you saw, we projected revenue in late March and the second pass you'll see, we've already started some of the recovery. You will see that they are not significant changes from what you first saw.

(P. Maroney): Thank you.

VI. Executive Session:

a. Discussion of pending claims and litigation: Civil Suits and CHRO Matter

(R. Simmelkjaer): Thank you Patti; thank you Greg for those updates. The next item on the agenda is the Executive Session to discuss pending matters of litigation. At this time I'll ask for a motion to go into Executive Session.

(W. Blanchette): So moved. This is Will.

(M. Morton): Second, Peg.

(R. Simmelkjaer): Thank you very much. All those in favor of going into Executive Session?

(All): Aye.

(R. Simmelkjaer): Thank you, with that we will remove the public line for Executive Session at 11:26 a.m. and then bring it back for item seven of the agenda.

(G. Smith): This is Greg Smith. We are going to take the public phone line out of the room now and will bring it back in when we come out of Executive Session. I am going to ask Matt Stone and Jim Shea to stay for Executive Session.

(R. Simmelkjaer): This is Chairman Simmelkjaer. We are back in public session at 12:34 p.m., no votes were taken during the Executive Session and we are back in the main agenda of the meeting, item number seven.

VII. Discussion and action, if any, on items discussed during Executive Session

(R. Simmelkjaer): As we've just discussed, no action or votes were taken in Executive Session.

VIII. Adjournment:

(R. Simmelkjaer): Hearing nothing further, I'd like to ask for a motion to adjourn.

(W. Blanchette): So moved, Will.

(M. Morton): Second, Peg.

(R. Simmelkjaer): All those in favor of adjourning?

(All): Aye.p

(R. Simmelkjaer): Opposed? Ok, that adjourns our special meeting of the Executive Committee at 12:35 p.m. Thanks to those who've joined. The next meeting that I'll be chairing will be the meeting of the main Board on June 11th; I know there are some committee meetings happening between now and then so you can check the usual communication channels for that. Thank you very much.

Respectfully submitted,

Matthew Stone
Corporate Secretary
Connecticut Lottery Corporation