

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Tuesday, June 28, 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 joined the meeting at 12:18 p.m.; Patrick Birney, Vice Chairman of the Board; Steve Bafundo; Robert Dakers; Margaret Morton; Natasha Pierre (via teleconference); Michael Thompson (via teleconference); and Diane Winston (via teleconference).

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

Call to Order: Vice Chairman Birney called the meeting to order at 12:02 p.m. noting Chairman Farricker was delayed.

I. Mr. Birney welcomed the Board members to the meeting. He noted that Chairman Farricker was delayed.

II. Approval of Minutes:

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

“Resolved, that the Board hereby approves the June 2, 2016 Board meeting minutes.”

III. Executive Report:

President's Report:

Ms. Noble welcomed and thanked the Board members for attending today's meeting. She shared her appreciation for members' support and attendance. Ms. Noble provided an outline of her agenda which included: Year-End Results, the Fiscal' 17 Budget and Personnel News. 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.

Year End Results:

Ms. Noble stated the first word that comes to mind to describe the CT Lottery Corporation's year-end is absolutely "ginormous" results, and she thanked everyone for their hard work and support to make this a successful year. Sales are about 6% over budget at \$1.213 billion, which is 7%, or \$78 - \$80 million over last year. As of this morning, the CLC transferred \$335 million to the General Fund, which is approximately 9% over budget, and 6% over last year. Ms. Noble reported there will be one final transfer for FY16, and she anticipates it will be in the range of \$3 to \$5 million. These results lead to big expectations for FY17. Ms. Noble stated that the CLC is pleased to play a role in helping to resolve the state's fiscal crisis.

Ms. Noble attributed the increase in transfers to the General Fund to several factors:

- A successful KENO launch; the launch provided the CLC with an increase of \$10-\$12 million in KENO revenue over a two-month time period.
- The CLC had a blockbuster year in the Instant portfolio, driven by solid planning, great games, our partnerships with our vendors, and low gas prices.
- Daily games also did very well.
- A Powerball jackpot of \$1.5 billion also contributed to our success.

The stars certainly aligned for the CLC. The CLC is happy to be able to support the State during these challenging times.

FY 17 Budget

Ms. Noble noted that there are high expectations for next year based on this year's results. She reviewed the assumptions in the budget for next year, sources of growth, and major initiatives.

One key assumption is a laser focus on KENO and growing the base of retailers that sell KENO. The CLC will also focus on the Instant portfolio, which represents two thirds of all the Lottery's sales. The CLC will continue to build on the growth of the Daily games. In terms of assumptions, it is important that gas prices remain under \$3.00 per gallon. If not, the Lottery may see substantial change in the Instant portfolio.

Ms. Noble continued by stating that the budget is based on reasonable jackpot performance. This reflects changes to the matrix that were made and have been seen over the last twelve months in the Powerball and Mega Millions games. The CLC is not planning on another \$1.5 billion jackpot, does not anticipate any other major changes in the terminal games, and is relying on smooth performance of the gaming system.

Ms. Noble noted that sources of growth include KENO Phase II. The CLC will also strive to maintain sales of the Daily games at the same level as last year. The CLC wants to capture and maintain the growth in the Instant portfolio as well, which was as high as 8-10% this year.

Ms. Noble reported that the major initiatives would include: KENO Phase II, support of the Instant portfolio, changes to our financial software system and a report to the Board and to other stakeholders on i-gaming, which includes cashless transactions. She noted that the Lottery of the twenty-first century is e-commerce, and it is already an important part of Lotteries in the U.S. In addition, there is some housekeeping to do as with any good corporation and we are constantly striving to comply with the highest standards of security and integrity.

Personnel Happenings:

Ms. Noble extended congratulations to Mr. Richard Wiszniak, who after 41 years of state service, will retire from his role at the CLC as Lottery Specialist/Drawing Performer on June 30, 2016. She noted that the drawings are at the heart of what the CLC does and extended her appreciation to Mr. Wiszniak for his care and nurture of the process. Ms. Patterson added that Mr. Wiszniak will perform his final draw during the mid-day draw on June 30, 2016.

Ms. Noble then announced that Ms. Chelsea Turner was recently appointed to the Board of Directors of the National Council on Problem Gambling. Responsible Gaming is one of the core values of the CLC and it has been taken to new levels in the last eight to nine years.

Sales Performance and Game Update:

Ms. Patterson shared her appreciation to the Board and to the staff at the CLC.

Ms. Patterson noted that the Board packets contain sales information as of June 18, 2016 and that her presentation today will provide sales results as of June 27, 2016. Ms. Patterson highlighted three new TV spots.

Ms. Patterson, Vice President of Marketing and Sales presented her report using sales charts, which included the highlights below.

- Ms. Patterson stated that the CLC contributed \$335 million to the General Fund which is an average of \$931K in sales each day.
- Through June 27, 2016, All Games sales topped \$1.219 billion for the year and is \$84 million ahead of budget. As of June 18, All Games sales for the month were at \$60.4 million and are currently at \$89.1 million.
- CT Games are currently \$36 million ahead of budget.
- The Multi-State Games are currently at \$155.9 million in sales. Ms. Patterson noted the jackpots are climbing.
- Total Sales as of June 18 were \$1.191 billion and are currently at \$1.219 billion.
- Instant sales for June were \$35.6 million through June 18 and are currently at \$52.5 million and we anticipate an additional \$6 million by June 30, 2016.
- Play3-Play4 Day and Night combined are currently at \$17.2 million.
- Play3 Day is currently at \$3.8 million.
- Play4 Day is currently at \$3.3 million.
- Play3 Night is currently at \$5.1 million.
- Play4 Night is currently at \$4.8 million and no special number combinations have been drawn in recent weeks.
- Lotto is currently at \$1.3 million and averaging \$48K per day in the month of June. The jackpot is slowly climbing.
- Cash5 is at \$2.2 million and averaging \$82K per day.
- Lucky Links Day and Night is at \$582K for the month and averaging \$10,800 per day noting game sales have slowed since the launch of KENO.

This concluded the Executive Report.

IV. Committee Reports:

Finance Committee:

Mr. Birney reported the Finance Committee met on June 15, 2016 to discuss the proposed FY17 Budget and requested Mr. Granato to provide an overview.

Mr. Granato thanked the Finance Committee for their assistance in helping to develop the FY17 budget. He noted that the insight and guidance provided by the Committee is crucial to bringing the budget to completion and ultimately adoption.

Mr. Granato stated that FY17 sales revenue is projected to be \$1,246,000,000. This represents a \$79 million increase from FY16 budget and forecasts a \$16 million increase from year-end estimates. He noted that Instant had a record year in FY16 and the expectation is to maintain and even grow the portfolio in the next fiscal year. Momentum is also expected to be maintained in the Daily numbers games for FY17 and the multistate games are expected to remain in line with prior year budget assumptions. Although another billion-dollar jackpot is not anticipated, the advertised jackpots will reach levels that support the sales forecast.

KENO sales revenue is a primary driver of the FY17 budget projections and is expected to contribute \$65 million. Aside from the large Instant portfolio, the KENO game certainly has the potential to be at or near the top for a sales generator in FY17. Mr. Granato stated there are no new draw games planned for FY17.

Additional highlights from Mr. Granato's report are:

- Prizes across all games are to remain consistent with statistical payouts.
- Total prizes awarded are projected to exceed \$774 million in FY17 and represent 62.1% of total sales revenue, which is a .1% decline from the FY16 budget. Mr. Granato continued by stating no changes to retailer commissions is planned.
- Retailers are expected to earn approximately \$69.9 million in revenue in FY17, up from \$66 million in FY16. Retailers earn a 5% selling commission and one percent cashing commission for a blended rate of 5.6% of total sales revenue.
- The online system with Scientific Games is projected to increase to \$12.8 million in FY17, up from \$11.7 million in FY16. The Lottery pays a rate of 1.57% on all KENO revenue and .84% for all other sales revenue. This represents a blended rate of 1.03% of total sales revenue.
- Marketing and Advertising support is vital to keep the portfolio fresh and engaged. Marketing and Advertising is estimated at \$13.4 million which is down \$1.2 million from the FY16 budget. The Lottery will have emphasis across all major media including television, radio, and billboard.
- Production expenses are estimated at \$7.7 million in FY17, up approximately \$700K from FY16. Production expenses are primarily attributable to the design, delivery and distribution of the Instant ticket portfolio.
- Overall cost of sales will be approximately 70% of total sales revenue, which is consistent with the FY16 budget.

- Total operating expenses are projected at \$24.9 million in FY17, up \$800K from FY16 budget projections. Salaries and wages are flat as there are no salary adjustments planned in FY17. However, fringe benefit costs are rising.
- There is \$3.6 million budgeted for other operating expenses, which include the building, office costs, data processing and costs associated with operations.
- Depreciation on capital equipment and leasehold improvements are budgeted at \$385K for facility changes and upgrades.
- Bad debt expense is expected to increase and is budgeted at \$200K in FY17.
- Total operating income for FY17 is projected at \$343 million. After payments of \$2.3 million to the Chronic Gamblers Fund and \$2.7 million to the Department of Consumer Protection for regulatory costs, there will be a transfer of approximately \$338 million to the General Fund.

This completed Mr. Granato's report.

Mr. Birney stated the Finance Committee would make a recommendation to the Board regarding the FY17 Budget later in the meeting.

Personnel Committee:

Mr. Bafundo stated that the Committee met on June 8, 2016. The Committee reviewed the Draft Management Compensation Plan and Managerial Positions for FY17 as well as the Performance, Evaluation, and Compensation for Senior Management. The Committee also reviewed the Personnel positions in FY' 17 and will make recommendation for the hiring of an Assistant General Counsel later in the meeting.

Audit Committee:

Mr. Thompson noted that the Audit Committee met on June 16, via teleconference. Except for administrative matters, the substance of the meeting occurred in Executive Session where the Committee discussed attorney/client privileged communications regarding the Corporation's legal rights in connection with the 5 Card Cash investigation and potential recovery. The Committee's discussion will be shared in detail during today's Executive Session. There were no votes or actions taken. The Audit Committee continues to be satisfied with and supports the efforts of the Lottery's management, particularly its President and General Counsel, with regard to the 5 Card Cash litigation.

V. Executive Session:

At 12:32 p.m., on motion made by Chairman Farricker and seconded by Mr. Birney, the Board moved into Executive Session to discuss:

- Attorney/Client Communication Re:
 - Corporation's legal rights in connection with 5 Card Cash recovery.
- Performance Evaluation and Compensation of Senior Management, including review of Draft FY' 17 Compensation Plans.

Ms. Noble and Ms. Glovach were invited to stay for the Attorney/Client Communication regarding the Corporation's legal rights in connection with 5 Card Cash recovery. At 12:50 p.m. Ms. Glovach, exited the Executive Session and Ms. Noble remained for the discussion regarding Performance Evaluation and Compensation of Senior Management, including review of draft FY17 Compensation Plans.

The Board reconvened in regular session at 12:57 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

VI. Old Business:

There was no old business.

VII. New Business:

FY17 Budget

On motion made by Mr. Birney and seconded by Ms. Morton, the following resolution was made:

Resolved, that after due consideration and based upon the recommendation of the Finance Committee, the Board of Directors hereby approves the FY17 budget.

The motion unanimously passed.

Compensation Plan

On motion made by Mr. Bafundo and seconded by Ms. Morton, the following resolution was made:

Resolved, that after due consideration and based on the recommendation of the Personnel Committee, the Board of Directors hereby adopts the FY17 Management Compensation Plan, which is the same as the FY16 Management Compensation Plan with no changes to salary ranges. The plan includes one additional position of an Assistant General Counsel.

The motion unanimously passed.

Incentive Compensation Plans

On motion made by Mr. Birney and seconded by Mr. Thompson, the following resolution was made:

Resolved, that after due consideration and based upon the recommendation of the Finance Committee, the Board of Directors hereby suspends the corporation's incentive compensation plans for FY17.

The motion unanimously passed.

VII. Adjournment:

On motion made by Mr. Farricker, seconded by Mr. Birney, and unanimously approved, the meeting was adjourned at 1:00 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.