



**Special Meeting  
of the Finance Committee of the  
Connecticut Lottery Corporation**

Held on  
Thursday, February 16, 2017 at 4:00 p.m.  
at the  
Connecticut Lottery Corporation  
777 Brook Street  
Rocky Hill, Connecticut 06067

Committee Members: Patrick Birney, Chairperson of the Finance Committee;  
Robert Dakers; and Bob Morgan (each attending by  
teleconference).

Staff Members: Frank Farricker, Interim President & CEO (attending by  
teleconference; joined meeting at 4:07 p.m.); Chelsea  
Turner; Matthew Stone; Paul Granato; Bryan Figueroa;  
Lydia Pac; and Annmarie Daigle.

Call to Order: Mr. Birney called the meeting to order at 4:03 p.m.

I. Approval of Minutes:

On motion made by Mr. Morgan and seconded by Mr. Dakers, the minutes of the  
October 31, 2016 Special Meeting of the Finance Committee were unanimously  
approved.

II. Review of Financial Statements for the Period ended December 31, 2016:

Mr. Birney requested that Mr. Granato give an overview of the second quarter  
financials. Mr. Granato reported that the Lottery experienced a very good second  
quarter with \$302.2 million in sales.

Mr. Granato presented the following highlights:

Highlights – For 3 months ended December 31, 2016 (*Actual vs. Prior Year*):

- Total sales (unaudited results are used throughout this report), for the  
quarter were \$302.2 million, an increase of \$2.3 million or 0.8% from the

comparable period a year ago.

- Mr. Granato highlighted the performance of Keno which added \$17.1 million of revenue for the quarter. The instant portfolio and daily games saw a modest decline from the prior year of approximately \$10 million. Powerball games sales were \$18.7 million, up \$3.1 million or 19.5% from the prior year.
- Prize expense overall totaled \$189.2 million for the quarter, up \$5.2 million or 2.8% from the prior year. This equates to a 62.6% prize expense ratio.
- The instant portfolio prize expense was \$125.2 million, down \$5.2 million or 4.0%. Prize expense for the daily games was \$30.3 million compared to \$28.4 million in the prior year or a 6.6% increase. Powerball prizes in the quarter were \$9.1 compared to \$7.7 million in the prior year, up \$1.4 million or 18.2%.
- Retailer commissions totaled \$16.8 million compared to \$16.7 million, up \$100k and commensurate with sales.
- Gaming system fees totaled \$3.1 million compared to \$2.7 million in the prior year, up slightly due to fees associated with Keno.
- Marketing and advertising expenses totaled \$3.1 million compared to \$2.8 million in the prior year due to the timing and production of Keno and Gold Premium Play commercials.
- Production expenses totaled \$1.5 million compared to \$1.7 million in the prior year, primarily related to timing of the production of instant tickets.
- The overall cost of sales totaled \$213.7 million, down \$5.9 million and 2.8% from the prior year.
- Operating expenses increased approximately \$282K during the quarter. Salaries and benefits were down \$51K as a result of more staff than prior year offset by a vacant executive position. Fringe benefits costs continue to rise and saw a \$111K increase over prior year. Other operating expenses were \$267K higher than prior year as a result of higher legal expenses. Depreciation was similar to prior year and bad debt totaled \$30K, down \$40K from prior year.
- Transfers to the General Fund totaled \$79.1 million, down \$8.3 million when compared to the \$87.3 million from prior year.

Highlights – For 3 months ended December 31, 2016 (*Actual vs. Budget*):

- Total sales were under budget by \$12.7 million or 4.0% largely driven by a softening in the instant portfolio. All other games, except for daily games and Keno saw a modest decline compared to budget.
- Overall prize expense was under budget by \$6.4 million primarily due to missing sales projections.
- Retailer commissions and gaming system fees are proportional to sales and below budget due to lower sales levels than budgeted.
- Marketing and advertising expenses were lower due to lower spends across media for TV and radio, as well as point of sale. Production expenses were

also lower due to fewer instant ticket production.

- All other operating expenses were below budget primarily relating to vacant positions, slightly offset by higher legal expenses.
- General Fund transfers were down \$6.3 million compared to budget.

Highlights – For 6 months ended December 31, 2016 (*Actual vs. Prior Year*):

- Through the first six months total sales were \$597.8 million, an increase of \$6.6 million or 1.1% ahead of prior year.
- Keno added \$33.3 million of revenue for the first six months. The instant portfolio and daily games saw a modest decline from the prior year of approximately \$21 million. Powerball and MegaMillions game sales were up \$10 million from prior year.
- Prize expense overall totaled \$367.2 million for the six months, down \$6.1 million from prior year.
- Overall sales revenue was higher than prior year and prize expense was lower than prior year.
- The instant portfolio prize expense was \$243.0 million, down \$9.7 million or 3.8%. Prize expense for the daily games was \$55.6 million compared to \$64.7 million in the prior year or a 14.2% decrease.
- Retailer commissions totaled \$33.2 million or 5.6% of total sales, up slightly from prior year comparison based on higher sales.
- Gaming system fees totaled \$6.2 million, up \$682K from prior year.
- Marketing and advertising expenses totaled \$5.7 million, up approximately \$300K from prior year and production expenses were down approximately \$200K from prior year.
- Operating expenses increased approximately \$582K from prior year. Salaries and benefits were up \$255K resulting from additional staff. Other operating expenses are \$400K higher than prior year driven largely by higher legal costs and data processing costs.
- Transfers to the General Fund totaled \$163.4 million through December, up \$4.7 million when compared to the \$158.7 million from prior year.

Highlights – For 6 months ended December 31, 2016 (*Actual vs. Budget*):

- Total sales were under budget by \$18.6 million or 3.0% largely driven by weak sales in the instant portfolio.
- Overall prize expense was under budget by \$14.8 million.
- Retailer commissions and gaming system fees are proportional to sales and below budget due to lower sales levels than budgeted.
- Marketing and advertising expenses were lower due to lower spends across media for TV and radio, as well as point of sales. Production expenses were also lower due to fewer instant ticket production.
- All other operating expenses were below budget primarily relating to vacant positions, slightly offset by higher legal expenses and data processing costs.

- General Fund transfers were down \$3.7 million compared to budget.

### III. Old Business:

- Financial Software Conversion Update

Mr. Granato presented the Committee with a status update regarding the financial software conversion. Mr. Granato stated that the conversion is going well and is proceeding according to plan. The CLC team is currently working with CAL Business Solutions on mapping the old system to the new system. CLC IT is supporting the team and has been an excellent resource. Training is scheduled to start near the end of the quarter with a go live in April 2017.

- Bonding and Collections Update

Mr. Farricker stated that he met with the Department of Consumer Protection regarding bonding and collections processes. The goal is to more timely recognize our collection efforts to ensure that the debt does not become a state liability since the liability accrues interest at a rate of 1.5% per month. Currently, the CLC requires certain retailers to procure a surety bond based on their credit risk. These surety bonds are costly since we require surety on retailers that have poor credit. The CLC is looking into alternatives such as allowing retailers to sell lottery but no instant tickets (since instant tickets are paid for on consignment). Other potential alternatives include self-insurance, captive insurance or fee based system to cover potential losses in the portfolio.

### IV. New Business:

- Keno Sales Activity

Mr. Granato provided the Committee with the unaudited results for Keno through January 31. Gross sales revenue for Keno totaled \$39.3 million and the game has awarded \$25.5 million prizes. The total gross operating revenues (gross sales less prizes) totaled \$13.8 million and the CLC has returned approximately \$8.1 million to the general fund. The tribes receive 25% of the gross operating revenues which totaled \$3.5 million. This amount is transferred by DCP to the tribes on a quarterly basis.

- Finance Staffing Update

Mr. Granato asked that this item be tabled and transferred to the Personnel Committee.

- New Lottery Initiatives

Mr. Farricker informed the Committee of a special \$75,000 promotion planned for March to disperse the jackpot from the 5 Card Cash All-In pool collected. These monies were collected and not awarded when the game ended. Mr. Farricker discussed a partnership with Foxwoods and a new \$10

instant ticket. Foxwoods is sharing in some of the costs of prizes as well as significant promotion and advertising. Mr. Farricker mentioned that Mohegan Sun is considering a similar partnership. Mr. Farricker also mentioned that Scientific Games is installing more Keno monitors as we have seen that locations with a Keno monitor have a noticeable increase in Keno sales.

V. Adjournment:

On motion made by Mr. Dakers and seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 5:08 p.m.

Respectfully Submitted,

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