

CONNECTICUT LOTTERY CORPORATION

Minutes of the Special Board Meeting
held on
Thursday, September 28, 2017
At 10:00 a.m.
at the
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut 06067

Board Members Present: Donald DeFronzo, Chairman; Patrick Birney, Vice Chair; Meghan Culmo; Michael Janusko; Robert Morgan; Michael Thompson (via teleconference); and Diane Winston.

Staff Members Present: Chelsea Turner, Interim President and CEO; Paul Granato; Michael Hunter; Theresa Scott; Matthew Stone; Andrew Walter; Annmarie Daigle; and Bryan Figueroa.

Other: Mr. Michael Brooder and Mr. Gregory Zoll, Marcum, LLP.

Call to Order: Chairman DeFronzo called the meeting to order at 10:00 a.m.

I. Chairman DeFronzo welcomed the Board members and thanked them for attending today's meeting.

II. Approval of September 11, 2017 Meeting Minutes:

On a motion made by Mr. Birney, seconded by Mr. Morgan, and unanimously approved, it was:
"Resolved, that the Board hereby approves the September 11, 2017 Board meeting minutes."

III. Auditors' Report to the Board:

Mr. Granato introduced Mr. Brooder, Partner, Marcum LLP, along with Mr. Zoll, Senior Manager, who provided the Board with an overview of the Audit results. Mr. Brooder noted that Marcum is preparing to issue a clean unmodified opinion for the financial statements. Mr. Brooder indicated their review included Scientific Games' Statement of Controls reports, the assumptions the State makes in regards to the pension liability from the State of CT, and the evaluation of the annuities.

Mr. Brooder indicated that his team did not find any material modifications and the CLC's financials were produced in accordance with GAAP.

Ms. Winston joined the meeting at 10:11 a.m.

IV. Executive Report:

Interim President's Report:

Ms. Turner welcomed and thanked the Board for attending today's meeting and proceeded to provide the Board with her report. Ms. Turner noted that overall performance of the Lottery is strong and game performance continues to do well, driven largely by instant ticket sales, Powerball, and Keno.

Ms. Turner highlighted the \$10 High Roller Foxwoods ticket, which has had the highest 15 week sell-through rate in CLC history. Eighty-seven percent of the tickets have been sold to date. The recent Powerball jackpot run produced sales of \$26.8 million, with \$12.3 million being returned to the General Fund as a result. The CLC continues to use focus-group testing to gain consumer insight about potential enhancements to its games, including Lotto and a new \$5 spotlight game. The CLC launched a new \$20 instant game, Connecticut Millionaires Club, which will be supported by radio, television, and point-of-sale advertising. There will also be advertising for the two new \$5 holiday games this year, supported by radio, television, and point-of-sale. Although Keno performance is down compared to budget, we believe this is a growth area for us and we are enhancing our recruitment efforts. Along with radio spots, postcards and trade publication advertising, the CLC recently began hosting Keno parties at various retailer locations across the state to help spread the word to bars and restaurants that Keno can boost business. The parties also feature Giants and Patriots alumni players, mascots and cheerleaders to simultaneously promote these instant ticket games. Ms. Turner noted that the instant portfolio contributes approximately 60% of the CLC's sales revenue while the draw portfolio contributes approximately 40%.

Ms. Turner shared the Connecticut Millionaires Club radio and TV spots and also discussed the upcoming holiday promotions which will be available at the November meeting. Next Ms. Turner shared a video filmed in Essex, that the CLC recently received an award for best responsible gambling video production.

Ms. Turner provided an update with regard to cybersecurity noting that the CLC is purchasing a \$10 million cyber insurance policy, has recently provided training to finance staff, purchased software to help educate employees on how to recognize phishing and scam emails in a controlled environment, and looking towards internal database encryption and two factor authentication.

Ms. Turner gave a brief overview of professional development, noting that 100% of employees completed ethics training and that other trainings scheduled for the fall include warehouse safety training, sales and retailer training, Myers Briggs training for managers, as well as responsible gambling training. Further, the CLC saw an increase of 180% over last year for employee in-service training.

The CLC is currently working on issuing an Advertising RFP, which we expect to issue in October. As always, the CLC is looking at ways to leverage new technologies in the industry. We are looking at Player Activated Terminals (PATs) to replace current Instant Ticket Vending Machines (ITVMs) in retail locations. PATs are able to sell instant tickets and draw-game tickets, which could be helpful in securing new Keno locations. Finally, the CLC is exploring the possibility of offering a Loyalty Club. The belief is that iLottery will be able to be launched successfully if a Loyalty Club is in place at the time of launch, because there would already be

a database of players established. Steve Wagner, CLC Director of Information Technology, is leading the project team, and expects to issue an RFP for a Loyalty Club in the next few months.

Lastly, Ms. Turner mentioned that it did not appear that iLottery would be in the special session budget at this time, but we are looking forward to bringing it back next year. Also, as a follow up to the Board's May letter to the Public Safety Committee, Ms. Turner reported that the CLC has followed up on all of the suggestions that were made with the exception of providing an operational report in a public hearing session as that will occur during the 2018 legislative session. Of particular note is the Public Service Announcement that the CLC is working on with the Department of Consumer Protection regarding safe lottery transactions.

This concluded the Interim President's Report.

Sales Performance and Game Update:

Using sales charts, Ms. Theresa Scott, Interim Director of Sales, provided a brief report for the period ended August 31. All sales figures are unaudited estimates. Sales for all games during the period are \$115.7 million, up 13.2% from July 2017. Instant games sales were \$119 million, which is 3.1% over budget. Daily numbers games sales were \$39.4 million, which is slightly under budget by 0.8%. Draw game sales were \$23 million, which is under budget by 4.5%. Powerball, Mega Millions, and Lucky for Life had combined sales of \$36.5 million, which is 53.3% ahead of budget. These strong results can be attributed to the recent Powerball jackpot run. Total sales during the period were \$217.9 million, which is 7.3% ahead of budget. The fiscal year projection for all games is \$1.253 billion, and year-to-date sales are approximately \$298 million.

V. Committee Reports:

Audit Committee:

Mr. Thompson noted that the Audit Committee met twice since the June Board meeting. The August 2, 2017 meeting included members of the Department of Consumer Protection and Scientific Games to provide an update to the Scientific Games shareholder issue. The September 21, 2017 meeting included Marcum's review of the FY 17 year-end financial audit.

Mr. Thompson stated that no votes or actions were taken during either of the Audit Committee meetings.

Finance Committee:

Mr. Birney noted that the Finance Committee met on September 21, 2017 primarily to review the fourth quarter and year-end financial statements as well as an update of the financial software conversion project. Mr. Birney requested that Mr. Granato give an overview of the fourth quarter financial statements. Mr. Granato reported on the unaudited results for the quarter and year ended June 30, 2017. Mr. Granato reported on individual game performance including sales, cost of sales, operating expenses and contributions to the General Fund. The Committee had a general discussion on sales performance, marketing support of lottery games, production costs, and pension-related costs.

Three-month highlights ended June 30, 2017:

- Total sales were \$314.6 million, up 1.6% compared to the prior year. The Lottery returned \$90.4 million to the State of CT General Fund.
- Total sales were under budget by \$4.3 million or 1.3%. Overall, General Fund transfers were ahead of budget by \$3.2 million.

Twelve-month highlights ended June 30, 2017:

- Total sales revenue was \$1.216 billion, down \$14.5 million compared to the prior year. The Lottery returned \$330 million to the State of CT General Fund, representing the second-largest yearly total in the Lottery's history.
- Total sales were under budget by \$29.7 million or 2.4%. Overall, General Fund transfers were under budget by \$8.1 million or 2.4%.

This concluded Mr. Granato's report.

Legislative and Games Committee:

Ms. Winston noted that the Legislative and Games Committee met on September 26, 2017 primarily to review proposed changes to the Mega Millions game rules as well as to review proposed changes to the CLC's lost ticket claim policy with regard to the Cash5, Play3 Day, Play3 Night, Play4 Day and Play4 Night draw games. Ms. Winston asked Mr. Walter to provide an explanation of the rules changes.

Mr. Walter informed the Board that the proposed rule changes to Mega Millions include a change to the price of a Mega Millions ticket, a change in the matrix of the game, and a change to the amount of the starting jackpot amount. There is also a proposed "jackpot only" option being introduced that the CLC has opted out of until further analysis of its performance can be established.

Mr. Walter informed the Board that the proposed rule changes to the draw games eliminate the CLC's existing lost ticket claim policy, as has been done with all other draw games that the CLC offers.

Personnel Committee:

Mr. Birney provided the Board with the Personnel Committee report, noting that the Committee met twice since the June Board Meeting. The Committee reviewed the Affirmative Action Plan, Professional Development and Training, including Ethics Training, for the upcoming year, as well as recent changes to the SEBAC Agreement. The Committee met to discuss Compensation for the Interim President and CEO, to be discussed later in today's meeting. Mr. Birney noted that he would not be voting in favor of the salary increase due to budgetary concerns and his vote was not a reflection on Ms. Turner's excellent performance in the interim position. The Committee also reviewed Survivor Benefits for CHET accounts, also to be discussed later in today's meeting.

VI. New Business:

Review and Possible Action Re: Mega Millions Rules Change:

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

Resolved that, after due consideration and based on the recommendation of the Legislative and Games Committee, the Board of Directors hereby approves the Mega Millions Game Rules as amended.

Review and Possible Action Re: Lost Ticket Claims

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

Resolved that, after due consideration and based on the recommendation of the Legislative and Games Committee, the Board of Directors hereby approves the Lost Ticket Claims as amended.

Review and Possible Action Re: Compensation for Interim President and CEO:

Chairman DeFronzo made several comments with regard to the Personnel Committee's recommendation to the Board. He noted that the Committee considered three factors in addressing the salary adjustment issue. First, Ms. Turner's performance in the role of Interim President and CEO since June has been that of bringing professionalism, stability and calm to the CLC as acknowledged by Board members, the Legislature, as well as her colleagues at the CLC. Second, there is no question all agencies are feeling budgetary pressure. However, justifiable expenditures should be made in the context of the agency's overall ability to pay and the benefits that such expenditures produce. This action would cost the CLC \$25,000; due to several executive level vacancies, as well as bonus payments suspended, overall salary expenditures are estimated to be approximately \$200,000 below previous levels. Lastly, the Personnel Committee notes that as a matter of fair and equitable treatment, if past practice is to be followed, the Interim position would be placed at the same salary as the outgoing CEO, in this case \$212,000. Being sensitive to financial concerns, the Committee is recommending \$190,000, retroactive to August 1, and not to June 1. In addition, there are currently six CLC employees working out of class and being compensated at a higher level for that work. The CEO position deserves comparable treatment.

On motion made by Ms. Culmo, seconded by Ms. Winston, with no abstentions and with Mr. Birney voting against, it was:

Resolved that, after due consideration and based on the recommendation of the Personnel Committee, the Board of Directors hereby approves an increase to Chelsea Turner's compensation to \$190,000.00 annually, effective August 1, 2017, until the Board of Directors hires a successor to the position and all benefits will remain unchanged.

Review and Possible Action Re: Survivor Benefits:

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

Resolved that, after due consideration, and based on the recommendation of the Personnel Committee, the Board of Directors hereby authorizes the transfer of ownership of the final existing CHET account from the CT Lottery Corporation to the existing Beneficiary of said

account, provided such transfer is performed in accordance with existing CHET rules and procedures.

VII. Executive Session

At 11:17 a.m., on motion made by Mr. Birney and seconded by Ms. Winston, the Board moved to Executive Session to discuss:

- Attorney-Client privileged update regarding pending claim from former employee
- Attorney-Client privileged update regarding indemnification claim by senior employee

Ms. Turner, Mr. Stone, Ms. Rooney and Mr. Walter were invited to stay for the first item under discussion. Ms. Turner and Mr. Stone were invited to stay for the second item under discussion.

At 12:00 p.m. the Board reconvened in regular session.

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

Chairman DeFronzo noted that no votes or actions took place during Executive Session.

IX. Discussion of Draft Board Meeting Schedule for 2018:

There was a brief discussion with regard to the Board Meeting Schedule for 2018 as presented. Chairman DeFronzo requested any changes or comments to be forwarded to Ms. Daigle.

X. Adjournment:

On motion made by Mr. Birney, seconded by Mr. Morgan, and unanimously approved, the meeting adjourned at 12:02 p.m.

Respectfully submitted,

Matthew Stone
Corporation Secretary
Connecticut Lottery Corp.