

CONNECTICUT LOTTERY CORPORATION

Minutes of the Special Board Meeting
held on
Wednesday, November 15, 2017
At 12:00 p.m.
at the
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut 06067

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

Staff Members Present: Chelsea Turner, Interim President and CEO; Paul Granato; Michael Hunter; Theresa Scott; Matthew Stone; Annmarie Daigle; and Rebecca Lambert.

Other: Nancy Nicolescu, Office of State Ethics; William Ryan, Department of Consumer Protection; and Richard Vitarelli, Jackson Lewis PC.

Call to Order: Chairman DeFronzo called the meeting to order at 12:08 p.m.

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

II. Approval of September 28, 2017 Meeting Minutes:

On a motion made by Mr. Morgan, and seconded by Mr. Thompson, it was:

“Resolved, that the Board hereby approves the September 28, 2017 Board meeting minutes.”

Mr. Heckman abstained.

III. Ethics Presentation to the Board:

Chairman DeFronzo introduced Ms. Nicolescu, Director, Education and Communications, Office of State Ethics, who provided a presentation on state ethics including topics of gifts, use of state position, and other employment.

Ms. Culmo joined the meeting at 12:21 p.m.

IV. DCP Presentation to the Board:

Chairman DeFronzo welcomed Mr. Ryan, Director of the Department of Consumer Protection's Gaming Division to provide a brief presentation of the DCP's role as regulator for the CLC.

V. 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 the Lottery had a record first quarter in terms of sales, with \$125 million in General Fund transfers which is 4.2% ahead of budget, and 5.9% ahead of FY16, CLC's record year.

The CLC will issue an Advertising RFP next week which will include options for public relations services and multicultural advertising. As always, the CLC is looking at ways to leverage new technologies in the industry. The CLC is focusing on media spend, and continues to use focus-group testing to gain consumer insight about potential enhancements to its games. Ms. Turner highlighted the recently launched \$20 instant game, Connecticut Millionaires' Club as well as the Patriots and Giants instants which all continue to perform as expected. Ms. Turner also discussed a new \$30 instant game that is soon to launch, \$5,000,000 Ultimate, which we hope will lead to improved sales at this price point.

Ms. Turner shared the holiday TV spots supporting the two new \$5 holiday games and mentioned that while all of the holiday tickets are performing well so far, sales of the \$5 Holiday Riches ticket is up 660% over the average of the last three years.

Ms. Turner discussed various promotions including retailer incentives, which help considerably with sales. Our \$10 High Roller Foxwoods ticket was supported by experiential prizes for consumers as well as retailers and was the fastest selling \$10 ticket in CLC history. The Powerball PowerCruise promotion increased Powerball revenue during its 8 week run by 41% or \$6.7 million, netting over \$1.5 million to the General Fund. Although Keno performance is down compared to budget, we believe that this is due, at least partially, to having only one year of data to base our budget forecast on. We also believe that Keno is a growth area for us and we are enhancing our recruitment efforts to yield long-term results including radio spots, postcards and trade publication advertising and hosting Keno parties at various retailer locations across the state to help spread the word to bars and restaurants that Keno can boost business. Early Bird Drawings supporting Connecticut Super Draw have seen increases in sales week over week and we are excited for a sell-out of this game.

Ms. Turner briefly discussed recent social media efforts, namely a joint press release the CLC prepared with the Department of Consumer Protection regarding a Mega Millions scam. This release reached 2.3 million people in Connecticut.

Ms. Turner provided the Board with a brief update of the State Budget, most notably the \$1 million cost reduction to the CLC's operating expenses for FY18 and FY19. Ms. Turner is confident that the CLC will be able to achieve these savings. Management is planning to present a more formal plan to the Finance Committee outlining the projected savings.

Ms. Turner gave a brief overview of professional development, noting that 100% of employees completed ethics training and that other recent trainings included warehouse safety training, AED, CPR and first aid training, sales and retailer training, Myers Briggs training for managers, as well as upcoming responsible gambling training. Cyber security training both through webinars and Wombat software will begin towards the end of the year.

Ms. Turner made special note of a recent letter she received from Atlantis Management Group thanking CLC's Retailer Services group for their proactive and professional expertise during their recent acquisition of all Connecticut Food Bag stores.

Looking ahead, Ms. Turner indicated that the CLC is finalizing its three-year strategic plan, with input from the entire management team. The CLC hopes to issue an RFP for a Loyalty Club in the next few months. 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. 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, corporate responsibility initiatives continue to be woven into our culture and business plans. This includes our Responsible Gambling (RG) Holiday Campaign "Give a Child a Toy, Not a Ticket" that is currently underway, planning for Problem Gambling Awareness Month, applying for Level III RG Accreditation from the World Lottery Association as well as conducting a Supplier Diversity open house in the spring.

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 October 31. All sales figures are unaudited estimates. Sales for all games during the period are \$101.7 million, up 4.7% from September 2017. Instant games sales were \$237.3 million, which is 1.8% over budget. Daily numbers games sales were \$79.1 million, which is under budget by 1.1%. Draw game sales were \$46.5 million, which is under budget by 2.8%. Powerball, Mega Millions, and Lucky for Life had combined sales of \$53.6 million, which is 13.6% ahead of budget. These strong results can be attributed to the recent Powerball jackpot run. Total sales during the period were \$416.7 million, which is 2.1% ahead of budget. The fiscal year projection for all games is \$1.253 billion, and year-to-date sales are approximately \$463 million.

VI. Committee Reports:

Audit Committee:

Mr. Thompson noted that the Audit Committee met today, prior to the Board meeting. The Committee met in Executive Session to discuss three agenda items. Due to time constraints, the Committee was only able to discuss security strategy relating to fraud prevention and a portion of another item, and has tabled the remaining items as well as New Business until another special meeting of the Audit Committee is scheduled.

Mr. Thompson stated that no votes or actions were taken during the Executive Session at the Audit Committee meeting.

Finance Committee:

Mr. Morgan noted that the Finance Committee met today, prior to the Board meeting, primarily to review the first-quarter financial statements and to discuss the state budget. Mr. Morgan requested that Mr. Granato give an overview of the first-quarter financial statements. Mr. Granato

reported on the unaudited results for the quarter ended September 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 of the \$1 million cut to the CLC's operating expenses for FY18 and FY19.

Three-month highlights for the period that ended on September 30, 2017:

- Total sales were \$315.7 million, up 6.8% compared to the prior year. The Lottery returned \$92.7 million to the State of CT General Fund.
- Total sales exceeded budget by \$12.5 million or 4.1%. Overall, General Fund Transfers exceeded budget by \$10.6 million.

This concluded Mr. Granato's report.

Personnel Committee:

Ms. Pierre provided the Board with the Personnel Committee report, noting that the Committee met today, prior to the Board Meeting. The Committee reviewed Ethics Training for the Board of Directors as well as employees. The Committee met in Executive Session to discuss a pending CHRO claim with outside counsel, as well as a personnel matter, to be discussed later in today's meeting.

Ms. Pierre stated that no votes or actions were taken during the Executive Session at the Personnel Committee.

VII. Executive Session:

At 1:19 p.m., on motion made by Ms. Pierre and seconded by Mr. Heckman, the Board moved to Executive Session to discuss:

- Discussion of report from Outside Counsel on Pending CHRO Claim
- Discussion of security strategy relating to fraud prevention
- Discussion of attorney-client privileged information regarding contractual matter

Ms. Turner, Mr. Stone, Ms. Rooney and Mr. Vitarelli were invited to stay for the first item under discussion. Ms. Turner, Mr. Stone, Mr. Hunter, Mr. DuPuis, and Mr. Granato were invited to stay for the remaining items under discussion.

At 2:06 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. New Business:

- Approve Board Meeting Schedule for 2018

On a motion made by Mr. Morgan and seconded by Mr. Janusko, the Board unanimously approved its meeting schedule for calendar year 2018.

X. Adjournment:

On motion made by Mr. Heckman, seconded by Ms. Pierre, and unanimously approved, the meeting adjourned at 2:07 p.m.

Respectfully submitted,

Matthew Stone
Corporation Secretary
Connecticut Lottery Corporation