

**Finance Committee
Special Meeting Minutes**

Held on
Thursday, February 19, 2015 at 2:00 p.m.

at the
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut 06067

Committee Members: Patrick Birney, Chairperson of the Finance Committee; Bob Morgan; Jim Farrell; and Kia Murrell (via teleconference).

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

Call to Order: Mr. Birney called the meeting to order at 2:13 p.m.

I. Approval of Minutes:

Approval of the minutes of the November 6, 2014 Special Joint Meeting of the Finance Committee and Audit Committee was tabled until the next meeting.

II. Review of Draft Financial Statements for the Period ended December 31, 2014:

Mr. Granato began the meeting with a brief overview. Sales were strong in the second quarter of FY'15 due to a strong instant ticket holiday portfolio and the continued success of 5 Card Cash.

Mr. Granato presented the following highlights:

Highlights – For 3 months ended December 31, 2014 (*Actual vs. Prior Year*):

- Sales for the quarter were \$287.8 million. Up \$5.9 million or 2.1% from the same period last year.
- Instant ticket sales of \$174.5 million accounted for approximately 60% of total sales. Compared to last year at this time, instant ticket sales increased \$7.2 million or 4.3%. Increased sales may be attributed to a strong holiday portfolio.
- The Daily 3/4 games contributed sales of \$57.1 million and accounted for just under 20% of total sales. Compared to last year, the Daily 3/4 games were down \$2.5 million or 4%.
- Draw games saw a modest decrease in sales over last year. The exception is 5 Card Cash which was not offered at this time last year. 5 Card Cash continues to perform well.
- Overall prize expense totaled \$179.7 million, an increase of \$15.8 million or 9.6% compared to the prior year.
- Retailer commissions increased proportionally to sales. Vendors are paid a percentage of total sales.
- On-Line system expenses remained on par with last year.
- Marketing & advertising expenses totaled \$2.9 million, down \$600,000 or 17% compared

to last year.

- Production expenses totaled \$1.5 million, down \$200,000 or 11.1% compared to the prior year. The decline can be partly attributed to a \$25,000 savings in studio costs. In addition, game production costs were lower since only seven instant games were produced.
- Overall costs of sales totaled \$202.9 million, an increase of \$15.6 million or 8.3% compared to the prior year. The increase was primarily driven by a \$15.8 million increase in prize expense.
- Total operating expenses for the quarter were \$5 million, up \$67.4 thousand from a year ago. The increase was primarily driven by an increase in personnel costs.
- Other operating expenses were down \$50.5 thousand, primarily due to lower snow removal costs, travel costs and office supply costs.
- Bad debt increased \$57.3 thousand compared to last year.
- General Fund transfers totaled \$79.4 million for the quarter and was 1.5% ahead of last year.

Highlights – For 6 months ended December 31, 2014 (*Actual vs. Prior Year*):

- As of December 31, 2014, year-to-date sales were \$559.7 million, down slightly from last year.
- Instant ticket sales increased \$6 million or 1.8% from the same period last year. Instant ticket sales were driven by the strong holiday portfolio.
- Draw games, except 5 Card Cash, experienced a decline in sales. Powerball alone had a \$16.9 million decrease in sales. Multi-State games were negatively impacted by the lack of large jackpots. 5 Card Cash continued performing well with \$26.7 million in sales.
- Prize expense was \$345.1 million, up \$7 million or 2.1% from the same period a year ago.
- Retailer commissions were in line with last year and increased only 0.1%.
- On-line systems, marketing expenses, and production expenses all decreased from the same period a year ago.
- Overall costs of sales totaled \$391.6 million, up 6.3 million or 1.6%.
- Operating expenses increased \$192.1 thousand or 1.9%.
- General Fund transfers, as of December 31, 2014, totaled \$156 million.

Highlights – For 3 months ended December 31, 2014 (*Actual vs. Budget*):

- Sales totaled \$287.8 million, \$8.3 million or 3% greater than budget.
- Instant portfolio outperformed budget expectations by 4.2%. This can be largely attributed to the stronger than anticipated holiday sales.
- MegaMillions outperformed budget expectations by \$1.3 million or 15.5%.
- 5 Card Cash continued performing well with \$11.4 million in sales, not budgeted.
- Prize expense was \$10.4 million ahead of budget. Mr. Granato commented that since higher payout combinations were drawn, the second quarter performed close to expectations.
- Retailer commissions and on-line systems both increased 2.2% compared to budget.
- Marketing was under budget \$900,000 for the quarter ended December 31, 2014.
- Production expenses exceeded budget expectations by \$600,000 on higher instant ticket production and remains on plan.

- Overall costs of sales were up \$10.5 million or 5.4% compared to budget. This increase was largely driven by an increase in prize expense.
- Operating expenses were \$134.3 thousand or 2.5% under budget. All categories except bad debt had a positive spend variance; meaning we spent less than anticipated. Bad debt was slightly higher than expected.
- General Fund transfers, for the quarter ended December 31, totaled \$79.4 million just 1.5% shy of budget expectations.

Highlights – For 6 months ended December 31, 2014 (*Actual vs. Budget*):

- Sales, for the 6 months ended December 31, totaled \$559.7 million, \$11.5 million or 2.1% ahead of budget.
- The instant portfolio and 5 Card Cash exceeded budget expectations.
- Multi-State games and the remainder of the draw portfolio did not perform to expectations.
- Overall prize expense totaled \$345.1 million, 3.1% ahead of budget and is largely due to revenue increases.
- Retailer commissions and On-line systems were on target with budget expectations.
- Marketing was under budget by \$1.2 million. Variance to budget may be due to planned launches and point of sale materials in the upcoming months. In addition, advertising was reduced during political elections due to cost.
- Costs of sales were 2.6% ahead of budget which was driven by higher prize expense.
- Total operating expenses were \$302.9 thousand or 2.8 % below budget.
- General Fund transfers, for the 6 months ended December 31, totaled \$156 million, \$2.8 million or 1.8% ahead of budget.

Mr. Birney commended the Lottery for keeping operating expenses at or below budget. Ms. Noble informed the Committee that the most recent weekly General Fund transfer, completed February 18, 2015, brought the total amount of transfers to the State to \$194.5 million, 2% ahead of budget expectations. In addition, sales to date are 1.8% ahead of budget expectations. Ms. Noble anticipates a strong finish to the 3rd quarter.

The Committee viewed the new Lucky for Life commercial. Ms. Noble explained that the game has expanded beyond New England. As a result, the game now offers more lower tier prizes and has reduced overall odds. This means, more prizes, more players, more winners.

III. Executive Session:

On motion made by Mr. Morgan and seconded by Mr. Farrell, and unanimously approved, the Committee moved into Executive Session at 2:38 p.m. Ms. Noble, Ms. Patterson, Mr. Granato, Ms. Glovach, Ms. Turner, and Mr. Hunter were invited to stay for the Executive Session to discuss the following:

- Attorney/Client Communications:
 - Lease at 777 Brook Street, Rocky Hill

The Committee reconvened in regular session at 2:41 p.m. Mr. Birney stated that no actions or

votes were taken during Executive Session.

IV. Old Business:

- Update Regarding Retained Earnings Procedures

Mr. Granato presented the Committee with draft procedures for weekly and year-end General Fund transfers. Mr. Granato explained that the Lottery is governed by C.G.S. § 12-812. The procedures in place work well, are designed to maximize our year end transfer, and allow the Lottery to remain in compliance with the statutory requirements. Mr. Birney suggested that no Committee action would be taken at this time and suggested Committee members review and provide comments, if any.

- Line of Credit

Mr. Granato provided the Committee with a brief overview. The possibility of a \$5 million unsecured line of credit has been discussed. The Lottery has obtained a proposal from Bank of America and is awaiting proposals from other banking institutions.

V. New Business:

- Status of System Conversion

Mr. Granato presented the Committee with a status update regarding a financial software conversion. The current software has been in place since 1997. The software's maintenance package is costly and includes functions not utilized by the corporation. An RFP will soon be issued for implementation, installation, and training.

- Discussion Regarding Joint Committee Meeting

Mr. Birney tabled the item until a later date.

VI. Adjournment:

On motion made by Mr. Farrell and seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 3 p.m.

Respectfully Submitted,

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