

CONNECTICUT LOTTERY CORPORATION

Minutes of the Special Board Meeting
held on
Thursday, June 18, 2015
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; Steve Bafundo (via teleconference); Patrick Birney; Robert Dakers; Jim Farrell; Jennifer Hamilton (via teleconference); Robert Morgan; Kia Murrell; Natasha Pierre; and Diane Winston

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

Call to Order: Chairman Farricker called the meeting to order at 12:03 p.m.

I. Approval of Minutes:

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

“Resolved, that the Board hereby approves the May 14, 2015 Board meeting minutes.”

II. Executive Report:

President’s Report:

Ms. Noble welcomed and thanked the Board members for attending today’s meeting and for their continued support. Ms. Noble reviewed her meeting agenda and updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

- Year End Results and Highlights of 2015:
 - The state of the Lottery is good. Sales are currently over \$1,104 billion. General Fund transfers are 2.3% ahead of budget. The Budget provided to the Board estimates the CT Lottery Corporation (CLC) reaching approximately \$1.129 billion in sales and General Fund transfers at approximately \$311 million. Ms. Noble stated that she is optimistic

that FY'15 will end higher than projected. She further stated this is dependent on several factors: prize expenses, financial accounting and sales in the coming weeks. It is anticipated that General Fund transfers will finish between \$315 and \$319.5 million and sales of approximately \$1,149 billion.

- Another highlight is that Keno was included in the FY'16 state budget package vote. The budget bill is now before the Governor's office for consideration. The CLC has included Keno in the budget for the next fiscal year.
 - The expansion of Lucky for Life nationwide has gone well. It has set the stage for Connecticut to be more engaged at the national level with regard to the game as well as other multijurisdictional games. Lucky for Life is a good business model for similar projects and for future endeavors.
 - The CLC has a continued diversification of its draw games portfolio. Lucky for Life first launched in March 2009, followed by the launch of 5 Card Cash in May, 2014 and then Lucky Links with 2X Power was introduced in May, 2015. The benefit of these games is that they have supported moderate growth and have reduced our dependency on Powerball and Mega Millions.
 - The CLC continues to expand its social media program, and we have provided the Board with information regarding our new Mobile App.
 - The CLC continues to have a role in the multi-jurisdictional games. We are involved in discussions regarding proposed changes to Powerball. There will be more discussion regarding these changes in Executive Session.
- 2016 Budget Assumptions:
 - The CLC is moving forward with Keno and is hoping to launch in January, 2016. There will be an expanded retailer base, different kinds of retailers and an increased number of retailers. Keno is a long term growth plan for the CLC that will result in a steady increase of sales. The current budget assumption for Keno is \$17 million in revenue.
 - The CLC continues to look at draw game modifications and alternatives for draw games. Ms. Noble emphasized that the current portfolio is robust on the draw side and it will be looked at and modified in the CLC's long term planning in FY'16.
 - The CLC will monitor the internet gaming models of other states that have been successful to determine what has worked well, and what has not.
 - The budget and business plan resets jackpot games expectations. Powerball and Mega Millions are budgeted at a level believed to be reasonable.
 - The CLC anticipates another good year in its instant portfolio but we are being conservative based on rising gas prices.
 - The CLC will continue to invest in its Corporate Social Responsibility programs. The CLC has 4 pillars: keeping the organization green, being business friendly and supplier diversity, inclusion, and responsible gaming. The CLC has added a fifth pillar, community involvement and engagement. Ms. Noble noted that this creates a long-term vision of what we want the CLC to be, which is invested in our employees, invested in our communities and building a sustaining gaming population.
 - There are security updates on both the cyber side and physical side.

- The CLC will continue to build on the talent currently at the CLC and will bring in the expertise judiciously and only as needed to move forward with Keno.
- There are ongoing negotiations and contract updates with key suppliers.
- The CLC assumes the economy will improve.

- 2016 Forecast:
 - FY'16 is a growth and foundation building year for the CLC. The FY'16 budget will have a very modest increase in sales and transfers favorably impacted by a robust retailer recruitment effort arising from the Keno authorization. There is a bit of uncertainty due to state budget delays and possible delays in executing the Keno Memorandum of Understanding with the tribes which may negatively impact the FY'16 results.

- Responsible Gambling Update:
 - The CLC received its second award in FY'15 on Monday from the National Council on Problem Gambling (NCPG) and the La Fleur's Trade Association for sustainability in responsible gambling. The CLC has been invested in this journey since 1998 and its investment continues. Other recipients included the South Carolina and Ontario Lotteries.
 - The CLC will soon release a multi-cultural retailer training video on responsible gambling. It is offered in Hindi, Spanish and English and is quite unique with its animation, and upbeat and positive messaging. The video is an important part of who we are and our quest for a sustainable gambling population as we grow into more innovative ventures such as Keno and potentially ecommerce in the future.

Sales & Marketing Performance Report:

Ms. Diane Patterson updated the Board on Sales & Marketing Performance with a PowerPoint presentation. Her report follows:

- All Game sales are approximately \$1,104 billion with 13 days remaining in FY'15. Three months in this fiscal year have seen more than \$100 million per month in sales, despite the lack of large multi-state jackpots.
- Sales for all CT Games are steady and currently ahead of budget by \$56.3 million or 6.4%.
- Multi-State games are steady and changed only 0.2% or \$2 million since the May Board meeting.
- Total sales are \$30 million ahead of actual and are \$35 million ahead of budget. General Fund transfers are on target and approximately \$5.8 million ahead of budget. The CLC is averaging \$3.1 million per day in sales which is steady and up over \$600,000 from last year.
- Instant game sales are strong and averaging \$1.83 million per day with total sales of \$663 million in FY'15.
- Play3 and Play4 Day and Night combined have had fairly solid performances. Sales are at \$224 million actual combined. The fiscal year-end goal is \$233 million.
- Lotto sales are averaging \$55,000 per day. The jackpot is currently at \$3 million and growing. The last jackpot hit was \$4.7 million on January 30, 2015.

- Cash5 sales are currently at \$30.1 million, averaging \$85,600 per day.
- Lucky Links with 2XPower has seen 4 top prize winners since its launch in April, 2015; three of which were won in the daytime game. Sales are currently at \$2.7 million. Approximately 56% of sales on average include the 2XPower add-on feature.
- 5 Card Cash sales declined slightly which is most likely attributable to the introduction of Lucky Links with 2XPower.
- Powerball and Mega Millions combined jackpots are currently \$124 million. The jackpots were building nicely when Powerball and Mega Millions jackpots where each hit in June, one day apart.
- Powerball has a current jackpot of \$80 million, and is averaging \$184,000 per day in sales. Ms. Patterson shared a video of twenty-six lucky co-workers who shared a \$1 million Powerball prize recently. The video was placed on the CLC Facebook page and has already received over 32,000 downloads and 3,000 views on YouTube.
- Mega Millions has a current jackpot at \$44 million and is averaging \$89,000 per day in sales.
- The Lucky for Life game has awarded twenty-one second prizes of \$25,000 a year for life since expanding the game outside of New England in January 2016, with four of those wins coming from Connecticut. Prior to the change, the game averaged \$56,000 per day in sales; it now averages \$58,800 per day in sales. There have been more prizes awarded since changes were made to the game.

Ms. Patterson noted that the CLC participated in promotional activity with live tweeting connected to a concert recently held in Hartford featuring Nick Fradiani, the American Idol winner from Guilford, CT.

This concluded the Executive Report.

III. Committee Reports:

Finance Committee:

Mr. Birney reported the Finance Committee met on June 12, 2015 to discuss the proposed FY'16 Budget and requested Mr. Granato to provide an overview.

Mr. Granato stated that the budget process began in February of this year and continued to be refined in its projections in accordance with the CLC's Strategic Plan. He then provided an overview of the proposed budget for FY'16. Highlights from his report are as follows:

- The budget for FY'16 projects a 5.4% total sales net increase from the FY'15 budget. 3.9% comes from organic growth in our portfolio, while 1.5% comes from the introduction of Keno.
- Sales from the Instant portfolio contribute approximately 60% of all sales revenue and remain an important part of our portfolio.
- Sales from daily games and other CT draw games are budgeted flat, based on current performance.

- Multistate games continue to underperform. The budget projects no increase due to the uncertainty that the proposed changes to Powerball in October, 2016 will have a positive impact on sales.
- We have planned enhancements to our 5 Card Cash game also scheduled for October 2016, and that outlook is much more favorable with an approximate 9% increase in sales over the FY'15 projections.
- The CLC will not offer CT Super Draw in FY'16 after thirteen iterations of the game and \$23 million in total revenue since FY'11. The game is retired and may be returned if we see an increase in demand.
- Prize expense is budgeted at statistical payout. Due to the change in the mix of game revenue, prize expense is expected to rise from 61.1% in FY'15 to 62.2% in FY'16
- Retailer commissions are budgeted to increase corresponding with the increase in sales.
- Gaming system vendor fees are also projected to increase based on sales from a blended rate of .94% in FY'15 to 1.0% in FY'16.
- Marketing is budgeted at \$14.6 million, up \$2.2 million from the current FY to support the launch and successful roll out of Keno.
- Production expense is budgeted flat to the prior year budget.
- Overall cost of sales rise from 69.4% to 70.7%.
- Total operating expenses increased approximately \$1.9 million budget to budget. The increase relates to staff salary increases and an increase in the number of staff for the launch of Keno. These positions are staggered throughout the year. Total salary costs are \$10.9 million and fringe benefits are \$9.4 million or 86% of salary expense.
- Mr. Granato stated that on Tuesday of this week the Office of the Comptroller revised the FY'16 fringe benefit costs. On a positive note, they revised the rates downward which will result in a potential savings of \$140,000 for the FY'16 budget.
- The CLC will continue to contribute \$2.3 million to the Chronic Gambling Fund in FY'16 and the Department of Consumer Protection's reimbursable costs are budgeted to rise approximately \$200,000 or 8.7% in FY'16.
- The General Fund transfer is budgeted at \$312.7 million.

Mr. Birney thanked the Finance Committee, Ms. Noble and her Executive Team for their work in projecting a fiscally responsible budget.

Personnel Committee:

Ms. Murrell reported the Personnel Committee met on June 11, 2015. The Committee reviewed the Security Strategy, the draft Management Compensation Plan, Managerial positions for FY'16 and the Performance, Evaluation and Compensation for Senior Management. These items will be further discussed in Executive Session.

Audit Committee:

Mr. Morgan reported that the Audit Committee met on June 12, 2015. The Committee continued its review of the draft Purchasing Policy and reviewed the Security Strategy and Pending Contract Negotiations. These items will be further discussed in Executive Session.

Legislative and Game Committee:

Ms. Pierre noted that the Legislative and Games Committee met on June 11, 2015. The Committee discussed New Game Initiatives which included Keno and a review of the draft games rules for 5 Card Cash and Powerball. These items will be discussed further in Executive Session. Ms. Murrell asked Ms. Turner to provide a Capitol update.

Ms. Turner stated that Keno passed as part of the budget late on the final night of the Legislative Session. She noted that we are now waiting for the budget to be signed and are closely watching the implementer bills to see what might be included in regards to gaming policy.

IV. Executive Session:

At 12:37 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Mr. Birney, seconded by Mr. Farrell, and unanimously approved, the Board moved into Executive Session to discuss:

- Review Draft of Purchasing Policy
- New Game Initiatives: Keno, and Review Draft Game Rules, 5 Card Cash and Powerball
- Performance Evaluations and Compensation of Senior Management

Ms. Noble, Ms. Patterson, Ms. Turner, Ms. Glovach, Mr. Granato, Mr. Hunter and Ms. Rooney were invited to stay for the first two parts of the Executive Session. At approximately 1:11 p.m. all staff were dismissed in order for the Board to discuss Performance Evaluations. At approximately 1:35 p.m., Ms. Noble and Ms. Rooney were invited back to the Board Room to answer some questions. At approximately 1:45 p.m. Ms. Noble and Ms. Rooney left the Board Room. The Board reconvened in regular session at 2:01 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

V. Old Business:

There was no Old Business.

VI. New Business:

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

“Resolved, that after due consideration and based on the recommendation of the Finance Committee, the Board of Directors hereby approves the FY’16 budget.”

This resolution passed unanimously.

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

“Resolved that, the Board of Directors adopts the FY’16 Management Compensation Plan, consistent with the KardasLarson Report adopted in FY ’13, and a 3% adjustment to pay ranges effective July 1, 2015, which includes management’s modifications to certain positions and the addition of a Director of Data Management Security and certain positions for Keno implementation. In addition, the Board acknowledges the President’s duty to establish manager’s compensation for FY’16, consistent with the terms of the FY’16 Management Compensation Plan, employee performance, and the FY’16 budget.”

This resolution passed unanimously.

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

“Resolved, the Board of Directors hereby resolves that for FY’16, the current salaries for the President and CEO and for the Vice-President of Marketing & Sales be increased 6% effective July 1, 2015, consistent with the recommendation of KardasLarson Report adopted in FY’13.”

This resolution passed unanimously.

On motion made by Mr. Farricker and seconded by Ms. Pierre, the following resolutions were made:

“Resolved, that after due consideration and based upon the recommendation of the Legislative and Games Committee, the Board of Directors approves the Official “Powerball” Game Rules and Connecticut amendments as presented, subject to the Department of Consumer Protection’s approval and the required newspaper publication of a notice of rules adoption.”

This resolution passed unanimously.

On motion made by Mr. Farricker and seconded by Mr. Farrell, the following resolution was made:

“Resolved, that after due consideration and based upon the recommendation of the Legislative and Games Committee, the Board of Directors approves the Official “5 Card Cash” Game

Rules as presented and with a further change to the definition of “Terminal” that replaces the phrase “to issue and pay CLC tickets” with “to issue and/or pay CLC tickets,” subject to the Department of Consumer Protection’s approval and the required newspaper publication of a notice of rules adoption.”

This resolution passed unanimously.

VII. Adjournment:

Chairman Farricker called for a motion to adjourn today’s meeting.

On motion made by Mr. Birney, seconded by Ms. Murrell, and unanimously approved, the meeting was adjourned at 2:06 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.