

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, September 22, 2016
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; Meghan Culmo (joined the meeting at 12:23 p.m., via teleconference); Robert Dakers; Kia Floyd; Robert Morgan; Margaret Morton; Natasha Pierre (joined the meeting at 12:13 p.m., via teleconference); Michael Thompson; and, Diane Winston (joined the meeting at 12:10 p.m., via teleconference).

Board Members Not Present: Board Members not in attendance provided the Connecticut Lottery Corporation with advanced notice of scheduling conflicts.

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

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

Call to Order: Chairman Farricker called the meeting to order at 12:02 p.m.

I. Chairman Farricker welcomed the Board members to the meeting.

II. Approval of Minutes:

On motion made by Ms. Morton, seconded by Mr. Dakers, and unanimously approved, it was:

“Resolved, that the Board hereby approves the August 30, 2016 Board meeting minutes.”

III. Audit Committee Report

Mr. Brooder, Partner, Marcum LLC, along with Mr. Zoll, Senior Manager, explained that they met with the Audit Committee today and provided an in-depth report of the Audit results. Mr. Brooder noted that Marcum is preparing to issue a clean unmodified opinion for the financial statements. Mr. Brooder noted that recommendations include reviewing the annuity portfolio

more frequently, and evaluating and testing the full Disaster Recovery Plan annually. Marcum 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.

Executive Session:

At 12:05 p.m., on motion made by Ms. Morton and seconded by Mr. Thompson, the Board moved into Executive Session to:

- Meet with Marcum Auditors

Only Board members were invited to stay for the meeting with the Auditors.

The Board reconvened in regular session at 12:41 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

Ms. Culmo exited the meeting at 12:42 p.m.

IV. Executive Report:

President's Report:

Ms. Noble welcomed and thanked the Board members for attending today's meeting. She stated that after many years at the CT Lottery Corporation (CLC) her final report would center on two awards for categories that were a part of her legacy. She noted that the awards would typically be given at the CLC's Annual Milestone Awards in October but the Board does not usually attend this event.

Ms. Noble stated that Lucky for Life has been sold in CT since 2009. Ms. Patterson's team, under the direction of Mr. Sternberg, former Vice President of Marketing and Sales, were instrumental in putting this game in the marketplace. The team was given the direction to design a game that was creative and they made that happen. The game went regional in 2012 and is currently sold nationally, almost coast to coast. CT is the host of the drawings for the games nationwide and Ms. Noble served as the lead director since 2012/13.

Ms. Noble noted that Lucky for Life is meaningful in this industry and Ms. Noble cares deeply about the success of Lucky for Life for a couple of reasons. Lucky stands for innovation, both in the game design and in the novel multi-state jurisdictional game administration model. Ms. Noble stated that the CLC should hold on to Lucky for Life and insists on it being perpetuated, and perpetuated in different areas. Lucky for Life unequivocally demonstrates the CT Lottery leadership, its creativity and its ability to collaborate with multiple jurisdictions while operating with the highest level of integrity and independence. When Lucky expanded beyond New England in 2013, it took many, many hands to make it work. The award being given reflects the efforts of many over a period of many years and when one of this team shines, the CLC shines.

After the game went nationwide, wherever Ms. Noble went, one person's name was consistently mentioned as being instrumental in the administration of the game. Ms. Noble was repeatedly told of this person's efficiency, professionalism and dedication. Last spring Ms. Noble received calls from other lottery Directors from the mid-west to New England asking her to nominate this person for the NASPL Powers Award. This award is given annually to one person from each Lottery that demonstrates exceptional performance. Ms. Noble stated that Lucky for Life's success and performance is based in part on this person's contribution. Ms. Noble presented Ms. Kendra Eckhart with the Powers Award and thanked her for making the CLC shine.

Ms. Noble stated that after she was appointed by Governor Rell as Board Chair, Responsible Gambling became a core value of the CLC along with integrity. Later after becoming the CLC President, she realized the challenge that was placed before the staff of the CLC. There was a need to hold true to that core value, but grow revenue commensurate with the mission, demand and expectations of not one administration but two. There were times when the core value of responsible gambling meant rejecting certain products in very compelling marketing campaigns that were used by our competitors at the casino and other lotteries. The CLC was challenged to find a more responsible way to generate returns to the General Fund. Responsible Gambling as a core value meant seeking World Lottery Association (WLA) accreditation. In addition, and most important was to convene a company-wide social responsibility program institutionalizing our stated value of doing well while also doing good. Ms. Turner brought the CLC's Corporate Responsibility Team to new levels. Ms. Turner's leadership of our responsible gambling core values has achieved meaningful contributions across the organization. Ms. Noble was pleased to announce that the CT Council on Problem Gambling notified the Lottery that our Processing Tech in Claims, Ms. Robin Raboin, from the CLC's Corporate Responsibility Team will be recognized statewide for her contributions for responsible gambling, in October at their annual conference. Ms. Noble shared the letter received from the CT Council on Problem Gambling about Ms. Raboin and presented her with a certificate.

This concluded Ms. Noble's final report to the Board.

Sales Performance and Game Update:

Using sales charts, Ms. Diane Patterson, Vice President of Sales and Marketing provided the following report for the period ended August 31, 2016. All sales figures are unaudited estimates.

Ms. Patterson congratulated Ms. Eckhart and Ms. Raboin. She also thanked Ms. Floyd for her service to the Board, as this is Ms. Floyd's final CLC Board meeting.

- All Games sales are at the largest ever for the first two months of the year at \$200.3 million; current sales are \$267 million.
- KENO sales are at \$10.6 million. There are currently 370 monitor locations and approximately 48% of KENO tickets sold includes the Bonus Multiplier option. Current sales are at \$14.5 million.
- Overall, actual sales for lottery products are ahead of last year by 4.6%, and just slightly off budget expectations by 1.1%.

- Delivery to the General Fund during July and August was approximately 20% ahead of last year's actual transfer and 10% ahead of budget. Currently, the General Fund transfers are at \$73.7 million for FY17, which is approximately \$13 million ahead of last year and 5.4 % ahead of budget.
- Instant Game sales are below budget for the first two months of the fiscal year by \$4 million and sales are currently at \$154 million. Sample packets of the newest games were shared.
- The Daily Games, Play3 and Play4 Day and Night Combined pay out percentage is below expectations and currently at 41.5%. Last year's payouts were at 58.2%. Ms. Patterson noted that the number 1-9-5-4 was recently drawn with payouts of approximately \$1.5 million. She stated that our players often choose birth years as their numbers.
- Lotto sales had a \$4 million win at the start of FY16. In FY17 the payout is approximately 19%. The current jackpot is at approximately \$3.6 million and sales are at \$4.3 million for the year.
- Cash5 sales are similar to previous years. Last year there were sixteen top prize winners in the first two months of the fiscal year compared to seven for the same time period this fiscal year. The buying patterns are similar. Sixty percent of all sales include the Kicker. Current sales are \$6.6 million.
- Lucky Links with 2XPOWER percentage of payouts are similar year over year. It is a steady seller and sales are currently at \$1.6 million. The decline in sales could be attributed to players shifting their focus from this game to other games in the portfolio.
- KENO sales are at \$10.6 million for the first two months of the fiscal year. Current sales are at \$14.6 million. Tomorrow the CLC will reach a milestone with KENO with its fifty thousandth draw. Ms. Patterson mentioned that retailer recruitment is ongoing. There are currently 370 monitor locations and approximately 40% of KENO tickets sold include the Bonus Multiplier option.
- Multi-State Game sales are at \$27.5 million. We started the fiscal year with growing jackpots in both Powerball and Mega Millions.
- A Powerball jackpot of \$478 million was won on July 30, 2016.
- A Mega Millions jackpot of \$540 million was won on July 8, 2016.
- Lucky for Life had 5 top prizes and 76 other life-changing events with players across the country winning \$25,000 a year for life. Ohio recently had its third top prize win. Colorado recently became the twenty-first lottery to join Lucky for Life game. Two more Lotteries, Wyoming and Kansas will join before the end of the calendar year and West Virginia before the end of the fiscal year for a total of twenty-four lotteries. The CLC recently completed production of a new TV spot that was offered to participating states. To date, four states are using the new TV spot. Current sales are at \$4.5 million.
- On October 20, 2016, the CLC will hold a Retailer Rally. KENO will be the focus of this year's event as it was last year. It will be hosted at one of our newest retail locations, Hawks Landing in Southington.
- The Middlesex Chamber of Commerce event will take place on October 11, 2016 at the Crown Plaza.
- CCPG's Annual Conference will be held on October 25, 2016.

This concluded the Executive Report.

V. Committee Reports:

Audit Committee:

Mr. Thompson noted that the Audit Committee met three times since the June Board meeting. The Committee met twice in Executive Session to review pending litigation with Scientific Games. Mr. Thompson noted that no votes or actions were taken. He further stated that the Audit Committee met today to review the 2016 Audited Financial Statements for years ended June 30, 2015 and 2016. Mr. Thompson stated that no votes or actions were taken in Executive Session. However, a motion was made out of Executive Session and unanimously accepted to accept the 2016 Audited Financial Statements.

Legislative & Games Committee:

Ms. Morton reported that the Legislative and Games Committee met on September 15, 2016 to review the draft revisions to the Powerball and Mega Millions Official Game Rules. These items will be discussed in detail during Executive Session.

Personnel Committee:

Ms. Floyd noted that the Personnel Committee meeting was postponed due to the priorities of the Audit Committee and will be rescheduled.

Finance Committee:

Mr. Morgan reported that since the last Board meeting the Finance Committee has not met. He asked Mr. Granato to provide a summary of the fourth quarter financials which have been incorporated into the audited financials.

Mr. Granato noted that the fourth quarter report is a closing of the fiscal year and requires some minor adjusting due to closing entries, deferred sales and inventory adjustments, as well as the proportionate share of the pension liabilities from the State of CT. The CLC had records sales of \$1.23 billion for FY16 and recorded over \$760 million in prize expense. Prize expense was 61.8% as a percent of revenue, which is 0.1% lower than the prior year and slightly lower than budget expectations in part due to the delayed launch of Keno. Retailer commissions earned \$68.7 million for FY16 which equates to a blended rate of 5.6% of all revenue. Salaries, benefits and other operating expenses amounted to \$19.4 million for FY16. During the fourth quarter, the CLC returned \$85.5 million to the General Fund. Total General Fund contributions were \$337.5 million for FY16, which is a record transfer for the CLC.

This completed Mr. Granato's report.

VI. Executive Session:

At 1:07 p.m., on motion made by Ms. Morton and seconded by Mr. Thompson, the Board moved into Executive Session to discuss:

- Review of Draft Revisions to Official Powerball Game Rules
- Review of Draft Revisions to Official Mega Millions Game Rules
- Attorney/Client Communications Re:

- Purchasing Policy

Ms. Glovach was invited to stay for the entire Executive Session. Mr. Granato, Mr. Hunter, Ms. Patterson and Ms. Turner were invited to attend the discussion on Powerball and Mega Millions game rules.

The Board reconvened in regular session at 1:41 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

Mr. Farricker asked Ms. Glovach to provide a brief summary of the revisions to the Official Powerball and Mega Millions Game Rules. Ms. Glovach stated that Powerball and Mega Millions have adopted changes to the game rules and while they are a part of the rules that players see, there is no impact to the player as there were no matrix changes. Most changes were clean up items with respect to the litigations. Contributions to the Grand Prize Carry Forward Pool will be continued. The CT Rule changes were operative changes.

Ms. Glovach continued by stating that the Mega Millions changes are changes that were long overdue and to align Mega Millions rules with the Powerball changes. These changes were mostly definitional, stylistic, and linguistic but like the Powerball Rules, it does not affect the matrix.

VII. New Business:

Powerball Game Rules

On motion made by Ms. Morton and seconded by Mr. Bafundo, 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 “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.

The motion unanimously passed.

Mega Millions Game Rules

On motion made by Ms. Morton and seconded by Mr. Bafundo, 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 “Mega Millions” 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.

The motion unanimously passed.

VIII. Adjournment:

On motion made by Ms. Morton, seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 1:45 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.