

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, February 23, 2017
At 12:00 p.m.
at the
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut 06067

Board Members Present: Frank Farricker, Chairperson of the Board and Interim President & CEO; Patrick Birney, Vice Chairperson; Robert Dakers; James Heckman (via teleconference); Robert Morgan; Margaret Morton; Natasha Pierre; and Michael Thompson (via teleconference).

Staff Members Present: Alfred DuPuis; Paul Granato; Diane Patterson; Jane Rooney; Matthew Stone; Chelsea Turner; Annmarie Daigle; and Rebecca Lambert.

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

Call to Order: Vice Chairperson Birney called the meeting to order at 12:06 p.m.

I. Mr. Birney welcomed the Board members to the meeting.

II. Resolution to Elect Vice Chairperson:

Mr. Birney asked for a resolution to elect a Vice Chairperson. On motion made by Mr. Dakers and seconded by Ms. Morton, with Mr. Farricker abstaining, it was:

“Resolved, that the Board elects Patrick Birney as Vice Chairperson of the Connecticut Lottery Corporation’s Board of Directors for a period of one year.”

III. Approval of Minutes:

After a brief discussion and on motion made by Mr. Dakers, seconded by Mr. Morgan, and unanimously approved, it was decided that the Minutes of the November 17, 2017 Board meeting would be tabled until the next meeting.

IV. Executive Report:

President's Report:

Mr. Farricker welcomed and thanked the Board for attending today's meeting. Mr. Farricker stated that he is now in his sixth month as Interim President and CEO of the Connecticut Lottery Corporation (CLC) and while it is a very busy period for the corporation and its 137 employees, he is enthused for the future. As noted on the Agenda, he has asked each member of the senior staff to provide a brief update.

In an effort to improve efficiencies, streamline the sales process, and in turn generate more sales, the corporation is in the midst of reorganizing the sales department, adding supervisory staff, as well as engaging with a consultant who is a former director of the California and Washington State Lotteries to get a better sense of processes beneficial to the CLC. By filling and redefining positions, we will enhance and stabilize our staff and expenses.

Another initiative that is not new is a pilot program for the use of debit cards. Mr. Sol Ramsey, Director of Recruitment and Retailer Relations, is spearheading this project regarding third party debit cards at no expense to the CLC. Mr. Farricker noted that we are currently in the information collecting stage only, but this endeavor will be key if the CLC goes online.

Another area for streamlining lies with the best practices for collections. When a retailer owes money to the CLC at some point it is turned over to DCP. Our goal is to have a clear, rational collections policy. We have stopped in person collections.

Scientific Games and Sales and Marketing are working to put Keno monitors in our traditional retail locations as sales tend to go up in locations that have monitors. This justifies the cost of the monitors in just a couple of days. Mr. Birney asked what percentage of drinking establishments that are licensed CT Lottery retailers currently have Keno monitors; Ms. Patterson responded, 100%; we are now working on convenience stores.

Mr. Farricker reported that we are again selling lottery at Mohegan Sun and are expanding our relationship with Foxwoods, where we are selling lottery as well.

We are working to recruit chain restaurants and supporting chain convenience stores as our retailers are our most important asset. With regard to online sales, working with chains in collaboration as well.

The budget for FY 2018 is due end of March 2017, we hope to change the deadline to end of April next year to allow for a more dynamic budget with senior staff.

Sales Performance and Game Update:

Ms. Patterson, Vice President of Marketing and Sales, welcomed members of the Board and stated that the Board packets contain sales information as of January 31, 2017. Ms. Patterson gave the Board and guests a brief overview of her responsibilities at the CLC which include sales, marketing, communications, public relations, visual merchandising, game development, social media, research, promotions, and support to all departments as needed.

Ms. Patterson presented her report using sales charts, which included the highlights below. All sales figures are approximate.

- Ms. Patterson shared updates from two of our premier accounts, Mohegan Sun and Foxwoods, since their opening. Mohegan is averaging sales of \$15K per week and Foxwoods is averaging sales of \$24.5K per week. Both accounts are roughly 50/50 with instant tickets and draw games, and both are doing very well with Powerball sales.
- Ms. Patterson then discussed a number of promotions recently held. The Happy Hour Keno Special, which ran November 30th through December 2nd, saw a 36% increase in \$10 Keno transactions for that period and close to 10K Lotto tickets were awarded, cross promoting that game. The Lucky New Year promotion saw Keno sales increase by 40% during that one day promotion period which was December 30th. Promotion sales totaled \$96,055 and 5,000 Lucky for Life tickets were awarded, again cross promoting that game. The CLC's Lotto Love Valentine's Special held on February 14th had a two-fold purpose: to introduce consumers to "coupons" and reward buying habits. The result: Lotto sales increased by nearly \$20K for that one day.
- Ms. Patterson next discussed an upcoming promotion, Super \$75,000 Cash Giveaway. She noted that this promotion would be our biggest ever and our goal is to sell one million tickets across all draw games on that day. The promotion is pending approval from DCP.
- Ms. Patterson shared new games in the Instant category. These included two three-game launches of Casino Nights, Double Blackjack, and Jacks or Better; the Spicy Hot series; and I Love Lucy.
- Ms. Patterson discussed an upcoming RG initiative; retailer terminals will have an "RG" button beginning on Sunday that retailers can press to activate a trailer message to print and provide them with the Problem Gambling Helpline phone number.
- Ms. Patterson mentioned various social media highlights as well as CLC's promotion of unclaimed prizes, of which there are currently seven.
- As of January 31, 2017, All Games sales are currently at \$696.4 million. This represents a weekly average of \$22.7 million vs. \$22.5 million in the prior year.
- Connecticut Games are currently at \$683 million.
- The Multi-State Games, Powerball, Mega Millions and Lucky for Life are currently at \$84 million in sales.
- Total Sales as of January 31, 2017 were \$696.4 million and as of February 22, 2017, \$767.8 million.
- Ms. Patterson stated that the CLC has returned over \$200 million to the General Fund; sales are averaging about \$3.2 million per day.
- Instant sales as of January 31, 2017 were at \$411 million, averaging \$1.9 million per day. Ms. Patterson noted that 10X Cash is one of our most profitable instant games and we are looking to replicate it. Ms. Patterson also noted that there were two football themed games on the horizon and the CLC is going to offer less bingo-type games and additional games with more top prizes at lower value as those seem to be popular.
- Play3-Play4 Day and Night combined are currently at \$138.4 million as of January 31, 2017; sales are averaging about \$646K per day, and general fund transfers average \$5.9 million per week. Ms. Patterson noted that there have been several "fun numbers" drawn in recent weeks; 2-2-2, 7-7-7, 1-9-6-4, and 1-2-1-2, which had never been drawn before, and was the highest payout of the year thus far.
- Lotto is averaging \$51K per day in sales.
- Cash5 is averaging \$81K per day and an overall game payout of 58%.
- Lucky Links Day and Night is averaging \$25K per day with a 66% payout.

- Keno is averaging \$185K per day with the \$1 five spot ticket being the most popular. Ms. Patterson noted that there are currently 480 Keno monitor locations and we will hit our 100,000th draw next week.
- Powerball is averaging \$216K per day. \$403 million jackpot was won in November.
- Mega Millions is averaging \$83K per day.
- Lucky for Life is averaging \$55K per day. The game is now being sold in 23 states.

This concluded the Executive Report.

V. Committee Reports:
Finance Committee:

Mr. Birney stated that the Finance Committee met on February 16, 2017. He noted that the Finance Committee reviewed the Financial Statement for the period ended December 31, 2016 and asked Mr. Granato to provide a brief overview of the second quarter financials.

Mr. Granato noted that the unaudited results for the six-month period ending December 31, 2016 showed another strong quarter in sales performance. Total sales were \$597.8 million up \$6.6 million or 1.1% from the comparable period a year ago. Game performance was similar to the prior year with a few exceptions; there was a modest decline over the prior year in the instant portfolio and the daily games, which was offset by Keno, Powerball and Mega Millions. The Committee had a lengthy discussion of sales performance and the impact of Keno and its effect on other game sales.

Prize expense for all games was down \$6.1 million from prior year in relation to the lower instant sales. The prize payout for the daily games was also much lower in the current year compared to the prior year in proportion to sales volume.

Retailer commissions were commensurate with the prior year; marketing and advertising expenses and gaming system fees saw a modest increase over the prior year due to commercials and fees associated with Keno. Production expenses were lower due to the timing of costs associated with instant tickets.

Operating expenses increased approximately \$582.1K compared to the prior year. This was due to salaries and benefits for more staff than the prior year, and increased legal expense.

Overall, the lottery returned \$163.4 million to the general fund in the first six months compared to \$158.7 million in the prior year, a \$4.7 million increase or 3% year over year.

Regarding budget performance, total sales were under budget by \$18.6 million or 3.0% driven by a softening in the instant portfolio. Prize expense was also under budget by \$14.8 million. Marketing and advertising expenses were \$1.3 million below budget due to the timing of production shoots for commercials. All other operating expenses were below budget primarily relating to vacant positions.

General Fund transfers fell short of budget by \$3.7 million or 2.2%.

Personnel Committee:

Ms. Pierre reported that the Personnel Committee met on February 10, 2017. Ms. Pierre did not attend the meeting and asked Ms. Morton and Ms. Rooney to report in her absence. Ms. Morton noted no actions occurred as a result of the meeting and that further discussion would occur during Executive Session. Ms. Rooney noted that thirteen positions were filled with 40% of the hiring goals met for FY16-17.

Legislative and Games Committee:

Ms. Morton reported that the Legislative and Games Committee met on February 10, 2017. She reported that Ms. Patterson presented the Sales and Game Performance update and Ms. Turner provided a Capitol update.

VI. Executive Session:

At 12:56 p.m., on motion made by Ms. Morton and seconded by Mr. Morgan, the Board moved into Executive Session to discuss:

- Potential Claims or Litigation
- Personnel Matter

Ms. Rooney was invited to stay for the Personnel Matter portion of Executive Session. Mr. Stone was invited to stay for both the Potential Claims or Litigation and Personnel Matter portions of Executive Session.

The Board reconvened in regular session at 1:22 p.m. Mr. Birney stated that no votes or actions took place during Executive Session.

VII. New Business:

Super \$75,000 Promotion:

Mr. Farricker gave a brief description of the Super \$75,000 Promotion which stemmed from the 5 Card Cash game's All-In feature prize pool of approximately \$75K that remained in the pool when the game ended. This promotion gives players an opportunity to win with a draw game purchase on March 13th. Mr. Birney asked if any 5 Card Cash ticket holders could claim access to their prize. Mr. Farricker answered that no, the reason that the money is in the prize pool is that players did not win and therefore have no ability to claim a prize. Mr. Rick Morneau requested to ask a question, however Mr. Birney stated that there was not a question and answer period on today's agenda.

Foxwoods Anniversary Ticket:

Mr. Farricker discussed the CLC's partnership with Foxwoods to promote a special 25th anniversary instant ticket. He asked several people from our marketing department to help design the ticket and media plan in house and asked them to present their work today. Ms. Michele Wytas, Ms. Viola Lukin, Ms. Maggie Slysz and Mr. Derek Wong each provided a brief overview of the Foxwoods High Roller ticket; a \$10 scratch game featuring the Foxwoods logo, colors and tag line, "Wonder of it All". In keeping with the 25th anniversary and casino theme, the ticket features 25 chances to win, a \$125,000 top prize, poker chip images, and second chance drawings for weekend

getaway prizes. The “25 weeks of winning” media campaign also ties in with the CLC’s launch of Instagram. Mr. Birney asked if the goal was to sell out the game or if the game had an end date. Mr. Wong responded that he did not expect the game to go for 25 weeks and that it would indeed sell out. Mr. Farricker then asked Mr. Carlos Rodriguez, Director of Lottery Games, to discuss Foxwoods’ participation with the prizes and cost sharing. Mr. Rodriguez explained that in addition to offering hotel stays as part of the second chance drawing prizes for both retailers and consumers, Foxwoods is covering the cost of the second chance drawings as well as sharing in the cost of media buys.

Senior Staff Update:

Mr. Alfred DuPuis, Director of Security, thanked the Board for the opportunity to provide an overview of the functions and initiatives of the Security Department. Mr. DuPuis discussed the handling of case referrals from the Claims and Sales Departments, lottery players, retailers, law enforcement, and the Department of Consumer Protection. Mr. DuPuis noted that the Security Department, in collaboration with the Finance Department developed an excessive sales monitoring program for Keno and was happy to report that since the inception of Keno in April there have been no incidences of consumer or retailer fraud. Mr. DuPuis discussed the responsibility for the production of CLC’s daily, live on-air lottery drawings as well as the Lucky for Life drawings held on Monday and Thursday evenings. Mr. DuPuis noted the various physical and technological updates to building security recently introduced as well as future enhancements.

Mr. Matthew Stone, General Counsel, has been with the CLC for about five weeks and gave a brief overview of his experience in private practice and with other quasi-public agencies. Mr. Stone noted that the legal department provides support to all departments of the CLC and is looking forward to the future.

Ms. Jane Rooney, Director of Human Resources, explained that Human Resources’ top contribution to increasing revenue for the CLC is the people that are brought on board. During the last six months there have been 13 hires, nine new employees and four promotions from within with 40% of our affirmative action goals met.

Mr. Paul Granato, Chief Financial Officer, noted that this week was his five year anniversary with the CLC and he gave an overview of the Finance and Collections Departments that he oversees. The focus for his team, in addition to the financial support of the organization, has been on technological improvements and efficiencies.

Ms. Chelsea Turner, Chief of Strategy and Government and Operational Affairs, discussed the Claims, Warehouse and Purchasing Departments that she oversees. Ms. Turner noted that she is working on an iLottery bill to bring before the Public Safety Committee at the upcoming public hearing scheduled for March 9th, as well as tracking a number of bills concerning casino gambling, convenience stores, quasi-public agencies, to name a few. Ms. Turner also highlighted the work of the Corporate Responsibility team and the recent certification at the implementation level the CLC received from the National Council on Problem Gambling (NCPG) and the North American Association of State and Provincial Lotteries (NASPL) for our RG program. CLC received the highest score of the lotteries submitting applications. Ms. Turner then discussed the efforts to raise awareness of Problem Gambling Awareness Month (PGAM), which takes place every year in March. In addition to the launch of the new RG button on retailer terminals, which was adapted from an idea by the North Carolina lottery, the CLC is also planning a PGAM calendar and plans to have (several) RG events each day of the month including but not limited to: banner displays,

social media messaging, payroll inserts for all state employees, employee and retailer training, print, TV and billboard advertising. Ms. Pierre asked if the RG button posed a cost to our vendor and how we were tracking who was using the button. Ms. Turner responded that yes, there was a cost to SG for the additional paper and that SG was tracking activity of the RG button which will be used to offer retailers additional training if needed. Lastly, Ms. Turner discussed a new pilot program in the Claims Department in which we offer to have federal taxes withheld if an aggregate amount of claims is greater than \$5,000. Thus far, 25% of those given the option have opted to use it.

Ms. Diane Patterson, Vice President of Marketing and Sales, who provided the board with the sales overview earlier in the meeting, discussed the efficiencies and potential for increased sales when ITVMs are in retailer locations. Ms. Patterson also noted that production runs have a significant effect on costs, noting that Aces High, one of our most popular games, has a print run of 18 million tickets. Ms. Patterson mentioned efficiencies in advertising in that a recent negotiation with the Minnesota Lottery resulted in the CLC using one of their commercials for Lucky for Life. Ms. Patterson noted that there is currently an open RFP for custom acrylics (fixtures for retailer locations). Ms. Patterson also noted that Keno skins are developed in house by our Marketing team with Scientific Games.

Problem Gambling Awareness Month:

On a motion made by Mr. Dakers and seconded by Mr. Morgan and unanimously approved, the following resolution was made:

Resolved, that the Board of Directors of the Connecticut Lottery Corporation endorses the Lottery's observance of and participation in Problem Gambling Awareness Month in Connecticut, from March 1, through March 31, 2017 to raise public awareness about the potential risks of gambling, and to reinforce the Connecticut Lottery Corporation's commitment to corporate social responsibility.

VIII. Adjournment:

The next meeting of the Board of Directors' will be April 20, 2017.

On motion made by Mr. Morgan, seconded by Ms. Pierre, and unanimously approved, the meeting was adjourned at 2:12 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.