

**Finance Committee
Special Meeting Minutes**

Held on
Thursday, May 19, 2016 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; Kia Floyd (teleconference); Robert Dakers; and Bob Morgan.

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

Call to Order: Mr. Birney called the meeting to order at 2:00 p.m.

I. Approval of Minutes:

On motion made by Mr. Morgan and seconded by Mr. Dakers, the minutes of the February 18, 2016 meeting were unanimously approved.

II. Review of Financial Statements for the Period ended March 31, 2016:

Mr. Birney requested that Mr. Granato give an overview of the third quarter financials. Mr. Granato stated that the Lottery experienced a superb quarter, breaking \$300 million in sales for the first time, and setting the bar high with \$330 million in sales.

Mr. Granato presented the following highlights:

Highlights – For 3 months ended March 31, 2016 (*Actual vs. Prior Year*):

- Total sales (unaudited results are used throughout this report), for the quarter were \$330 million, an increase of \$42.5 million or 14.8% over the same period a year ago.
- Mr. Granato highlighted the performance of the instant portfolio which was up \$18.8 million to \$188.3 million for the quarter. The daily games were up \$1.6 million or 2.7% and Powerball games sales were \$53.7 million, up \$30.6 million or 132% from the prior year.
- 5 Card Cash was not available in the current period but added \$9.7 million in the comparable period. Lucky Links was not available in the prior period but added \$2.5 million in sales in the current year.

- Prize expense overall totaled \$200 million for the quarter, up \$19.5 million or 10.8% from the prior year. This equates to a 60.6% prize expense ratio.
- The instant portfolio prize expense was \$129.4 million, up \$12.9 million or 11.1%. Prize expense for the daily games was \$28 million compared to \$32 million in the prior year or a 12.5% decline. Powerball prizes in the quarter were \$26.7 compared to \$11.4 million in the prior year, up \$15.3 million or 134%.
- Lucky for Life awarded two top prizes and thirteen second place prizes during the quarter and totaled \$4 million in prizes compared to \$2.5 million in the prior year. These prizes pushed the prize expense on this game to 73.6% for the quarter.
- Retailer commission totaled \$18.4 million compared to \$16.2 million, up \$2.2 million and commensurate with sales.
- Online vendor system fees totaled \$2.8 million compared to \$2.7 million, up slightly during the quarter. Fees paid were commensurate with the sales increase, however \$170k in fees were offset due to liquidated damages.
- Marketing and advertising expense were \$3.2 million compared to \$3.0 million in the prior year due to increased production expenses and acquisition of KENO promotional items.
- Production expenses totaled \$1.1 million compared to \$1.3 million in the prior year, primarily related to timing of the production of instant tickets.
- The overall cost of sales totaled \$225.5 million, up \$21.9 million and 10.7% from the prior year, chiefly related to the prizes awarded during the quarter and higher commissions paid to retailers.
- Operating expenses increased during the quarter. Operating expenses totaled \$5.5 million, driven largely by the salaries and benefits. Fringe benefits are increasing at a significantly faster rate. Other operating expenses, depreciation and bad debt were all lower as compared to the prior year.
- Transfers to the General Fund totaled \$93.2 million, up \$16.2 million or 21% from the prior year.

Highlights – For 3 months ended March 31, 2016 (*Actual vs. Budget*):

- Sales were up \$36.7 million or 12.5% ahead of budget notwithstanding the termination of 5 Card Cash sales and the delay in KENO sales.
- Sales for instant, Powerball and daily games all experienced sales that exceeded budget.
- Overall prizes were up \$17 million compared to budget, due to prizes awarded for instants, Powerball and daily games.
- Daily games had some larger payouts during the quarter due to drawing the date 1-3-1 on Jan 31, drawing 9-9-9 and 1-2-3 which increased the payout on the game to 58% versus our 50% statistical benchmark.
- The Corporation budgeted for 5 Card Cash and KENO; however, we had no sales in those categories.

- Retailer Commissions are higher compared to budget based on the increase in sales. Online vendor system fees, marketing and advertising are down \$300k and \$900k compared to budget due to the late launch of KENO. The budget was created based on the expectation of a January KENO launch.
- Operating expenses are \$495k under budget, largely driven by salaries and benefits. These are all favorable variances as we spent less than anticipated. The variance is primarily due to vacant positions.
- General Fund transfers were up \$15.2 million or 19.5% compared to budget.

Highlights – For 9 months ended March 31, 2016 (*Actual vs. Prior Year*):

- Total sales were \$921.2 million for the first 9 months of the fiscal year, up \$74 million or 8.7% from the prior year.
- Mr. Granato highlighted the sales performance of the instants which, were up \$50.3 million or 10% from the prior year; daily games were up \$13.3 million or 7.8%, and Powerball game sales were up \$33.5 million or 63.3% from the prior year.
- Prize expense was \$573.3 million for the first nine months, an increase of \$47.7 million or 9.1% from the prior year. This equates to a 62.2% prize expense ratio.
- The instant portfolio expense totaled \$382.1 million thru March and was up \$35.4 million or 10.2%. Daily games as a group awarded prizes of \$92.8 million through the first 9 months, up \$9 million from the prior year. Powerball prizes were \$42.6 million compared to \$25.9 million in the prior year, up \$16.7 million or 64%.
- Lucky for Life prizes totaled \$9.8 million compared to \$6.9 million in the prior year. The game is currently performing to expected statistical payout for the game at 60%.
- Prize expense was \$10.7 million for 5 Card Cash compared to \$27.8 million in the prior year and Lucky Links added \$4.8 million in prize expense with no comparison from the prior year.
- Retailer commission totaled \$51.4 million compared to \$47.5 million, up \$3.9 million and commensurate with sales. Online vendor systems totaled \$8.3 million compared to \$7.8 million, up slightly during the quarter.
- Marketing and advertising expenses were \$8.6 million compared to \$8.7 million in the prior year, while production expenses totaled \$5.5 million compared to \$5.7 million in the prior year, primarily related to timing of production of instant tickets.
- The total cost of sales were \$647.1 million, up \$51.8 million and 8.7% from the prior year, chiefly related to the prizes awarded during the quarter and higher commissions paid to retailers.
- Operating expenses increased during this quarter. Operating expenses totaled \$16.6 million compared to \$15.7 million, driven largely by salaries and benefits. Fringe benefits are increasing at a significantly faster rate. Other operating expenses and depreciation were lower compared to prior year. Bad

debt was up slightly based on outstanding receivables.

- Transfers to the General Fund totaled \$252 million, up \$18.9 million or 8.1% from the prior year.

Highlights – For 9 months ended March 31, 2016 (*Actual vs. Budget*):

- Sales were up \$58 million or 6.7% ahead of budget notwithstanding the termination of 5 Card Cash sales and the delay in KENO sales.
- Sales for instant, Powerball and daily games all experienced sales that exceeded budget.
- Overall prizes were up \$37 million compared to budget, due to instants, Powerball and daily games.
- Actual prize expense compared to budgeted statistical payout was on track at 62.2%.
- No sales for 5 Card Cash and KENO.
- Retailer commission are up \$2.5 million compared to budget based on the increase in sales.
- Online vendor system fees, marketing and advertising are down \$200k and \$2.8 million compared to budget due to the late launch of KENO. The budget was created based on the expectation of a January launch.
- Operating expenses are \$1.1 million under budget, driven largely by salaries and benefits on vacant positions.
- General Fund transfers were up \$20.3 million or 8.8% compared to budget.
- The Committee then discussed advertising cost, unclaimed prizes, and responsible gaming expenditures.

III. Executive Session:

At 2.30 p.m., Vice Chairman Birney called for a motion to enter into Executive Session. On motion made by Mr. Morgan, seconded by Mr. Dakers, and unanimously approved the committee moved into Executive Session to discuss:

- Review of Draft Budget FY17
- Attorney/Client Communications Re:
 - Compensation Plans

Ms. Noble, Mr. Granato, Ms. Turner, Ms. Glovach, Mr. Hunter, Ms. Patterson and Ms. Rooney were invited to stay for Review of the Draft Budget FY17. After which, Ms. Noble and Ms. Glovach were asked to remain for the Attorney/Client Communications. The Committee reconvened in regular session at 4:38 p.m. Mr. Birney stated that no votes or actions took place during Executive Session.

IV. Old Business:

- Status Update: System Conversion.
Ms. Noble reported that the project will resume in the fall.

V. New Business:

- Review and Possible Action Re: Compensation
No review or action taken.
- Review and Possible Action Re: Budget
No review or action taken.

VI. Adjournment:

On motion made by Mr. Morgan and seconded by Mr. Dakers, and unanimously approved, the meeting was adjourned at 4:43 p.m.

Respectfully Submitted,

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