



**Special Meeting  
of the Finance Committee of the  
Connecticut Lottery Corporation**

Held on  
Friday, May 12, 2017 at 3:00 p.m.  
at the  
Connecticut Lottery Corporation  
777 Brook Street  
Rocky Hill, Connecticut 06067

Committee Members: Patrick Birney, Chairperson of the Finance Committee;  
Robert Dakers; Bob Morgan (attended by teleconference).

Staff Members: Paul Granato; Matthew Stone; Chelsea Turner; Annmarie  
Daigle; and Lydia Pac.

Call to Order: Mr. Birney called the meeting to order at 3:01 p.m. (via  
conference call, arrived at 3:10 p.m.).

- I. Approval of June 15, 2016 Minutes:  
On motion made by Mr. Morgan and seconded by Mr. Birney, the minutes of the June 15, 2016 Special Meeting of the Finance Committee were unanimously approved.
- II. Approval of February 16, 2017 Minutes:  
On motion made by Mr. Morgan and seconded by Mr. Birney, the minutes of the February 16, 2017 Special Meeting of the Finance Committee were unanimously approved.
- III. Review of Financial Statements for the Period ended March 31, 2017:  
Mr. Birney requested that Mr. Granato give an overview of the third quarter financials. Mr. Granato reported that the Lottery experienced another good quarter of sales performance.

Mr. Granato presented the following highlights:

Highlights – For 3 months ended March 31, 2017 (*Actual vs. Prior Year*):

- Total sales (unaudited results are used throughout this report), for the quarter were \$303.8 million compared to \$330.0 in the prior year. The prior year comparison includes the billion dollar Powerball jackpot which was not repeated this year. As a result, sales are down \$26.2 million or 7.9%.
- Mr. Granato highlighted the performance of Keno which added \$18.7 million of revenue for the quarter. Instant tickets totaled \$179.8 compared to \$188.3 in the prior year - \$8.5 million decline or 4.5%.
- Performing better than the prior year were the daily games: up \$300K, Mega Millions up \$600K. Other games saw modest declines.
- Powerball sales were \$18.9 million for the quarter compared to \$53.7 in comparable period a year earlier, a decline of \$34.8 million.
- Total prizes were \$193.5 million for the quarter compared to \$200.0 million for the same period a year earlier, down \$6.5 million or 3.3%. Prizes were 63.7% of sales compared to 60.6% for the prior year. The higher payout as a percentage of sales is due, in part, to prizes for the daily games which jumped to 56% compared to 46% in prior year.
- Retailer commissions were \$17 million, down \$1.4 million or 7.3% and proportional to the decline in sales revenue. Gaming system fees were \$3.1 million for the quarter, up \$300K compared to prior year due to fees associated with Keno. Marketing and advertising were \$2.8 million compared to \$3.2 million, down \$400K, partially due to launch costs in prior year. Also, production expenses were \$2.2 million, up \$1.1 million, compared to prior year due to timing of instant ticket production as well as licensing fees.
- Total cost of sales were \$218.7 million compared to \$225.5 million in the prior year, down \$6.9 million or 3.0%.
- Operating expenses were \$5.627 million compared to \$5.555 million in prior year, an increase of \$72.2K or 1.3%. Salaries and benefits totaled \$5.7 million, down slightly compared to prior year. Other operating expenses totaled \$837.9 million and were \$135.5K higher than prior year, chiefly due to a rise in professional services (legal + consulting). Depreciation was similar to prior year and we recovered \$1.6K on bad debt due to a property lien.
- Overall the lottery returned \$76.2 million during the quarter compared to \$93.2 million in the prior year – a decline of \$17.1 million from prior year.

Highlights – For 3 months ended March 31, 2017 (*Actual vs. Budget*):

- Total sales were under budget by \$6.8 million or 2.2%. Sales exceeded budget for the daily games and Keno and all other games experienced declines. The decline is largely driven by missing our projections for the instant portfolio.

- Prize expense was under budget by \$100K, notwithstanding missing the sales projections by \$6.8 million, the payout on the daily games more than overcame the increase in sales. Sales on the daily games were up \$1.7 million compared to budget while the prizes were up \$3.8 million compared to budget.
- Retailer commissions and gaming system fees were both under budget and are proportional to sales. Marketing and advertising was under budget by \$700K due to lower spending across media for TV and radio, as well as lower point-of-sale. Production was up \$600K, primarily relating to instant ticket production and game licensing fees.
- All other operating expenses were below budget by \$568.8K, primarily relating to vacant positions, slightly offset by higher legal expenses.
- Overall General Fund transfers were under budget by 7.6 million or 9.1%.

Highlights - For 9 months ended March 31, 2017 (*Actual vs. Prior Year*):

- Total sales reached \$901.6 million through the first nine months of FY17, down \$19.6 million or 2.1% compared to prior year.
- Again, the prior year comparison includes the billion dollar Powerball jackpot which was not repeated this year. As a result, sales are down \$27.5 million or 31.9%. Instant tickets totaled \$532.0 million compared to \$555.1 million in the prior year - a \$23.1 million decline or 4.2%. The daily games sales were \$178.9 million compared to \$184.6 million or a \$5.7 million decline. FY16 included \$13.1 million in 5 Card Cash sales, and zero in FY17. FY17 included \$52.0 million in Keno sales and zero in FY16.
- Prizes were \$560.7 million for the 9 month period compared to \$573.3 million for the same period a year earlier. Total prizes were \$12.6 million lower than the prior year. Similarly to the sales revenue, Powerball prizes were \$25.8 million, down \$16.7 million compared to prior year. Instant tickets were \$367.9 million, down \$14.2 million compared to prior year. The daily games prizes were \$88.3 million, down \$4.5 million compared to prior year. FY16 includes \$107 million in prizes in 5 Card Cash, and FY17 includes \$33.4 million in Keno prizes.
- Prizes were 62.2% of sales in both the current and prior FY.
- Retailer commissions totaled \$50.2 million, down \$1.2 million or 2.3% compared to prior year. Total retailer commissions were 5.6% of total sales, up in both current and prior FY.
- Gaming system fees totaled \$9.3 million and was \$1.0 million higher than prior year. As a reminder, we pay 1.57% for all Keno sales and .84% for all other lottery sales to Scientific Games, our primary vendor. This equates to a blended rate of just over 1% of total sales.
- Marketing and advertising totaled \$8.5 million, down approximately \$100K from prior year. Production expenses totaled \$6.4 million, up \$900K compared to prior year. Total cost of sales were \$635.1 million, down \$12.0 million compared to prior year.

million compared to prior year. This decline is proportional to the sales revenue decline.

- Operating expenses were \$17.3 million compared to \$16.7 in the prior year, an increase of \$655K or 3.9%.
- Salaries and benefits were up \$230K from prior year resulting from additional staff. Other operating expenses totaled \$2.8 million compared to \$2.3 million, an increase of \$542K compared to prior year. The increase is mainly due to higher professional fees and consulting costs.
- Overall, the lottery returned \$239.6 million thru the first nine months of FY17 compared to \$252.0 million in the prior year period, a decline of \$12.4 million.

Highlights - For 9 months ended March 31, 2017 (*Actual vs. Budget*):

- Sales revenue is under budget by \$25.5 million or 2.8%. The majority of the budget deficit is attributed to instant ticket sales. Instant ticket revenue is under budget by \$23.6 million or 4.2%. Similarly to the quarterly performance, we continue to see strong performance of the daily games which is up 1% compared to budget. Keno is also performing above budget expectations by \$3.2 million or 6.5%.
- Prize expense is under budget by \$15 million or 2.6%. Prize expense variance is proportional to sales volumes. Retailer commissions and gaming systems are also proportionally below budget based on sales volumes.
- Marketing and advertising is under budget by \$2.1 million. Staff is working to complete some of the planned initiatives in this area this FY. Production expenses are up \$400K compared to budget based on timing of instant games.
- Operating expense was under budget by \$1.4 million or 7.7%. Most of the variance can be attributed to open vacant positions. Human Resources is currently filling open positions to reduce number of vacancies.
- General Fund transfers are under budget by \$11.3 million or 4.5%.

Statement of Net Position

- The Lottery had total assets of \$190.1 million on March 31, 2017, consisting of \$25.0 million in cash and equivalents, \$28.2 million in accounts receivable, and \$124.3 million in investments for prizes.

IV. Old Business:

- Financial Software Conversion Update

Mr. Granato presented the Committee with a status update regarding the financial software conversion. Mr. Granato stated that training is going well. Planned parallel testing is to begin in June.

V. Review of Draft Budget for FY18

The Finance Committee chose to discuss the Draft Budget in public session rather than in Executive Session.

- Draft budget was sent to the Finance Committee on 3/31, which included FY18 budget as well as FY17 projections.
- Sales are projected at \$1.2 billion and approximately \$330 million for general fund transfers for FY17.
- Sales are budgeted at \$1.243 billion and approximately \$337 million for general fund transfers for FY18.

VI. Adjournment:

Mr. Morgan left the meeting at 4:00 p.m.

On motion made by Mr. Birney and seconded by Mr. Dakers, and unanimously approved, the meeting was adjourned at 4:03 p.m.

Respectfully Submitted,

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