

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting  
held on  
Thursday, November 17, 2016  
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 Chairman; Robert Dakers; James Heckman (via teleconference); Robert Morgan; Margaret Morton (via teleconference); Natasha Pierre; and Diane Winston (via teleconference).

Staff Members Present: Joseph Bonassar; Paul Granato; Diane Patterson; Jane Rooney; Chelsea Turner; Cynthia Hadden; 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: The meeting convened at 12:02 p.m.

I. Approval of Minutes:

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

“Resolved, that the Board hereby approves the November 3, 2016 Board meeting minutes.”

II. Executive Report:

President’s Report:

Mr. Farricker stated that the Connecticut Lottery Corporation (CLC) is doing well. The Search Committee for the General Counsel position has met and reviewed the twenty applications received. The Committee has chosen six candidates to interview. Mr. Farricker stated this position should be filled by December 16, 2016. The Executive Search Committee for the President and CEO will meet today following the Board meeting.

Sales Performance and Game Update:

Ms. Patterson welcomed members of the Board and stated that the Board packets contain sales information as of October 31, 2016.

Ms. Patterson, Vice President of Marketing and Sales presented her report using sales charts, which included the highlights below. All sales figures are approximate.

- Ms. Patterson mentioned that the Third Annual “Do a ‘Lotto’ Good, Give a Toy!” Responsible Gambling Holiday Drive to benefit the Connecticut Children’s Medical Center kicks off tomorrow. New unwrapped toys can be dropped off from November 18 through December 16 at several locations including the CLC. Ms. Patterson noted that the Connecticut Children’s Medical Center gives out approximately one hundred and fifty toys each day.
- A Retailer Rally was recently held at one of the CLC’s newest KENO Retailers, Hawk’s Landing in Southington, CT. Retailer Rally is an opportunity for Retailers to come together, share ideas, and learn from one another.
- Ms. Candice May from the British Columbia Lottery Corporation recently visited the CLC as part of a Responsible Gambling Initiative to grow our GameSense brand and shared ideas from the British Columbia Lottery Corporation.
- The CLC participated in the Middlesex Chamber of Commerce Business to Business Expo. The CLC won the best booth with its KENO theme.
- Ms. Patterson shared a Lucky for Life social media graphic that was Halloween themed and noted that the CLC’s marketing team is very talented and does a great job encouraging other lotteries to share the CLC’s graphics as well as their own.
- As of October 31, 2016 All Games sales are currently at \$393.5 million. This represents a weekly average of \$22.5 million compared to the prior year at \$22.3 million.
- CT Games are currently at \$348 million.
- The Multi-State Games, Powerball, Mega Millions and Lucky for Life are currently at \$45 million in sales.
- Total Sales as of October 31, 2016 were \$393 million and as of November 16, 2016, \$446 million.
- Ms. Patterson stated that the CLC has returned \$118.1 million to the General Fund, \$7 million ahead of the prior year.
- Instant sales as of October 31, 2016 were at \$230.1 million.
- Ms. Patterson shared new games in the Instant category. These included 5X Money, 30X Cash, Ruby 7s and the newest game, Gold, which is averaging \$700K weekly.
- Play3-Play4 Day and Night combined are currently at \$58.4 million as of October 31, 2016. Ms. Patterson noted that there have been no special number combinations drawn in recent weeks.
- Lotto is averaging \$52K per day in sales. The last jackpot of \$4.3 million was won in October.
- Cash5 is averaging \$80K per day and had eight top prize wins last month which has brought overall game payout to 63%. Cash5 continues to be a steady game in the portfolio.
- Lucky Links Day and Night is averaging \$25K per day.
- KENO is averaging \$178K per day and is ranked as the fifth game in the portfolio providing 14.6% of sales. Players are playing more two and three spot games. Mr. Morgan inquired about the number of retailers joining. Mr. Ramsey responded that the average is ten per month.

He also stated that there are currently 405 KENO monitor locations. Ms. Patterson mentioned that there is a KENO promotion coming soon.

- Powerball is the number one Draw game and sales were at \$26.5 million on October 31, 2016. The game is averaging \$282K per day. Ms. Patterson noted that players purchasing the power play has dropped from 15% to 13% of tickets purchased. This is typical when a jackpot is building. The National average of players purchasing the power play is 7%.
- Ms. Patterson shared a recent Powerball winner's story. A Statistics Professor at Fairfield University used the Powerball game to teach his students about probability. Two days later, he won Powerball for \$100K. Several national news outlets and many social media sites shared the story.
- Mega Millions is averaging \$93K per day.
- Lucky for Life is averaging \$55K per day. To date there have been seven top prizes won and seventy-nine second prizes of \$25,000 for life.

This concluded the Executive Report.

#### IV. Committee Reports:

##### Audit Committee:

Mr. Morgan on behalf of Mr. Thompson reported that the Audit Committee met on October 13, 2016, via teleconference. Except for administrative matters, the substance of the meeting occurred in Executive Session where the Committee discussed attorney/client communications regarding the Corporations' legal rights in connection with the 5 Card Cash matter and potential recovery. There were no votes or actions taken during the Executive Session of the October 13, 2016 meeting.

##### Finance Committee:

Mr. Birney stated that the Finance Committee met on October 31, 2016. He noted the CLC signed a contract with CAL Business Solutions to install and convert the financial system from Lawson to Microsoft Dynamics Great Plains platform. He shared his appreciation of Mr. Granato, CFO and Mr. Bonassar, Interim Legal Counsel for completing the contract. He noted that the current Lawson System has been in place since 1998 and that the new platform will allow the Lottery greater flexibility for online banking, processing efficiencies, and will have lower annual maintenance costs for support and upgrades.

The Project Team for CAL will begin onsite November 28 and will work with the CLC Team to develop the timeline and key milestones. The CLC team is led by the Finance Manager, Ms. Petano with assistance from the Director of IT, Mr. Wagner. The Finance Committee will receive monthly updates on the project as recommended by the Auditors. Software costs are approximately \$62,000 and installation and data conversion costs is a not-to-exceed fee of approximately \$193,000. The anticipated completion date is April 2017.

Mr. Birney reported that the Finance Committee also reviewed the Financial Statement for the period ended September 30, 2016 and asked Mr. Granato to provide a brief overview of the first quarter financials.

Mr. Granato noted that the unaudited results for the 3-month period ending September 30, 2016 showed another strong quarter in sales performance. Total sales were \$295.6 million up \$4.3 million or 1.5% 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, and growth over the prior year in the multistate games. The current quarter sales performance included a full quarter of KENO sales and the prior year does not. 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 \$11.3 million from prior year. The prize payout for the daily games was much lower in the current year compared to the prior year and the unclaimed prizes relating to the billion-dollar Powerball jackpot realized during the first quarter were the primary drivers.

Retailer commissions, marketing and advertising expenses and production expenses were all commensurate with the prior year and gaming system fees saw a modest increase over the prior year due to fees associated with KENO.

Operating expenses increased approximately \$300K compared to the prior year. This was due to salaries and benefits from more staff than the prior year, higher data processing costs, leased vehicle expense and legal expense.

Overall, the lottery returned \$84.3 million through the first 92 days compared to \$71.4 million in the prior year, a \$13 million increase or 18.1% year over year.

Regarding budget performance, total sales were under budget by \$5.9 million or 2.0% driven by a softening in the instant portfolio. Prize expense was also under budget by \$8.4 million and more than offset the reduction in sales. Marketing and advertising expenses were \$700K 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 exceeded budget by \$2.6 million or 3.2%.

The CLC had total assets of \$187.4 million at September 30, 2016 consisting of \$21.5 million in cash and equivalents, \$26.7 million in accounts receivable, and \$120.5 million in investments for prizes. Total liabilities were \$211.6 million with \$50 million in short term liabilities, \$120.5 million in annuitized prize payments, and \$40 million in the Lottery's share of the net pension liability.

#### Personnel Committee:

Ms. Pierre reported that the Personnel Committee met on November 10, 2016. The Affirmative Action Plan was reviewed and discussed and it was noted that sixteen positions were filled with 40% of the hiring goals met for FY15-16. Also highlighted was the Corporation's commitment to recruitment practices, upward mobility, innovative programs, supplier diversity, and corporate responsibility. Ms. Pierre stated that the Committee expressed satisfaction with the Plan as presented.

#### V. Review of Purchasing Policy

Ms. Turner provided Board members with an overview of the proposed Purchasing Policy the Board reviewed at a prior meeting and in advance of the public comment period. She noted that the public comment period is now closed and the CLC received no comments.

- Ms. Turner highlighted the primary changes which included that the thresholds by which the CLC will have to obtain quotes or go out to bid are modestly increased. Ms. Turner added that these thresholds have not been raised in over eight years when the Purchasing Policy was last revised.
- The second primary change involves the exemption section. Certain exemptions in the old policy were vague. The new policy clarifies when exemptions can and cannot be applied.
- The third primary change in the new policy closely tracks our enabling legislation and better recognizes the entrepreneurial business nature of the Lottery by expressly stating that the Lottery is not a state agency for procurement purposes.
- Lastly, the proposed new policy provides increased Board oversight on major purchases such as online gaming systems, outside financial auditors and any contract regarding real property and the lease, by clarifying that Board approval is not only required prior to contract execution, but also for any amendments or extensions.

Ms. Turner noted that the revision of the Purchasing Policy has been a long process that has incorporated the Boards' feedback.

#### VI. Executive Session:

At 12:39 p.m., on motion made by Mr. Birney and seconded by Ms. Winston, the Board moved into Executive Session to discuss:

- Review of Revised Draft FY17 Compensation Plan

Ms. Rooney and Mr. Granato were invited to stay for the Executive Session regarding the review of the revised draft FY17 Compensation Plan.

The Board reconvened in regular session at 1:18 p.m. Mr. Farricker stated that no votes or actions took place during Executive Session.

#### VII. New Business:

##### Review of Revised Draft FY17 Compensation Plan

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

Resolved that, the Personnel Committee hereby recommends to the Board of Directors the adoption of the Revised FY17 Management Compensation Plan, which remains the same as

the FY16 Management Compensation Plan with no changes to salary ranges. The revised plan replaces the position of Assistant General Counsel with the position of Director of Sales.

The motion passed with one opposed, Mr. Heckman.

#### Purchasing Policy

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

Resolved: That, in accordance with publication notice requirements of Connecticut General Statutes § 1-121(a) and after due consideration by the Connecticut Lottery Corporation Board of Directors, the Board approves the Purchasing Policy, attached as Exhibit A; and be it further

Resolved: That the attached Purchasing Policy shall replace the Corporation's prior purchasing policy (Revised version July 20, 2010) in its entirety commencing December 1, 2016; and be it further

Resolved: That this Resolution shall take effect immediately.

The motion unanimously passed.

#### VII. Adjournment:

Mr. Rick Morneau of Portland, Connecticut, a concerned patron requested to share his concerns with the Board. Mr. Farricker invited Mr. Morneau to speak to the Board. Mr. Morneau stated that his concerns were regarding 5 Card Cash game. He mentioned that he met with Ms. Noble, Mr. DuPuis and Mr. Ryan and shared his concerns in 2014 regarding retailers potential scamming. He was concerned about money into a game that included an "All-In" jackpot that was never paid. He inquired as to when the money would be paid. Mr. Farricker directed Mr. Morneau to contact the Department of Consumer Protection (DCP). Mr. Morneau thanked the Board for the opportunity for him to share his concerns.

Mr. Farricker reminded the Board members that the Executive Search Committee meeting will follow in Conference Room A.

The next meeting of the Board of Directors will be February 23, 2017.

On motion made by Mr. Birney, seconded by Ms. Winston, and unanimously approved, the meeting was adjourned at 1:32 p.m.

Respectfully submitted,

Chelsea Turner  
Corporation Secretary/Connecticut Lottery Corp.