



Special Meeting
of the Finance Committee of the
Connecticut Lottery Corporation

Held on
Monday, October 31, 2016 at 2:30 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 (joined meeting at 2:36 p.m.); and Bob
Morgan

Staff Members: Frank Farricker, Interim President & CEO; Chelsea Turner;
Joseph Bonassar; Paul Granato; Bryan Figueroa; and
Cynthia Hadden.

Call to Order: Mr. Birney called the meeting to order at 2:32 p.m.

- I. Approval of Minutes:
Approval of the minutes of the June 15, 2016 Special Finance Committee meeting
was tabled until the next meeting.
- II. Review of Financial Statements for the Period ended September 30, 2016:
Mr. Granato began the meeting with a brief overview of the first quarter financials.
Mr. Granato reported that the Lottery experienced a strong first quarter with \$295.6
million in sales.

Mr. Granato presented the following highlights:

Highlights - For 3 months ended September 30, 2016 (*Actual vs. Prior Year*):

- Total sales (unaudited results are used throughout this report), for the

quarter were \$295.6 million, an increase of \$4.3 million or 1.5% from the comparable period a year ago.

- Instant ticket sales totaled \$170.9 million compared to \$177.5 million in the same period a year ago, a decrease of \$6.6 million or 3.7%.
- The daily games added \$57.2 million compared to \$61.3 million in the prior year, down roughly \$4 million or 6.5%.
- Powerball and MegaMillions sales totaled \$31.9 million in the first quarter, up \$8.7 million from the same period a year ago.
- Keno was not available in the prior period but added \$16.2 million in sales in the current year.
- 5 Card Cash was not available in the current period but added \$8.5 million in the comparable period.
- Mr. Granato stated the remaining games make up the final 10% of sales.
- Prize expense overall totaled \$178 million for the quarter, a decline of \$11.3 million or 6.0% from the prior year. This equates to a 60.2% prize expense ratio versus a 65% prize expense ratio in the comparable period a year ago.
- The instant portfolio prize expense was \$117.8 million, down \$4.5 million or 3.7%.
- Prize expense for the daily games was \$25.3 million compared to \$36.3 million in the prior year or a 30.4% decline. Mr. Granato highlighted that this was a significant factor in the overall profitability of the quarter.
- Powerball prizes in the quarter were \$7.5 compared to \$8.2 million in the prior year, unclaimed prizes of \$3.1 million were included in the results for the first quarter. Unclaimed prizes reduce prize expense.
- Lucky for Life awarded three top prizes and thirteen second place prizes during the quarter and totaled \$4.2 million in prizes on \$5.1 million in sales. These prizes pushed the prize expense on this game to 82.0% for the quarter. Mr. Granato stated that the prizes won were not all in CT but all states share the prize expense.
- Retailer commissions totaled \$16.4 million and were commensurate with sales. Retailer commissions included both selling and cashing commissions.
- Gaming system expenses totaled \$3.1 million compared to \$2.8 million in the prior year largely due to the increase of Keno sales. The Lottery pays a higher rate for Keno sales as compared to all other lottery games.
- Marketing and advertising expense was \$2.5 million and production expenses totaled \$2.6 million for the quarter, both down approximately \$100K from the prior year.
- The overall cost of goods sold was down \$11 million or 5.2% from the prior year.
- Operating expenses rose approximately \$300K compared to the prior year. Salaries and benefits are higher as a result of additional staff and fringe benefit costs are increasing at a faster rate than salaries. Other operating expenses were up \$139K compared to the prior year. These expenses were

largely driven by higher data processing cost, motor vehicles and legal expense.

- Transfers to the General Fund totaled \$84.3 million, up \$13 million or 18.1% from the prior year.

The Committee discussed both the impact and importance of Keno in relation to the cannibalization of sales.

Highlights – For 3 months ended September 30, 2016 (Actual vs. Budget):

- Sales for the quarter totaled \$295.6 million which is \$5.9 million or 2.0% behind budget. The decrease is largely driven by the softening of the instant ticket portfolio which is down 7.1% compared to budget.
- Slightly offsetting that decline is the small increase in Powerball and MegaMillions, up \$20.2 million and \$7.6 million compared to budget.
- Prize Expense was down \$8.4 million compared to budget.
- Retailer commissions were expected to be higher due to the sales volume so there is a 500K positive variance. Gaming system fees are right on track.
- Marketing and advertising expenses were \$700K below budget due to the timing of production shoots for commercials. Production expenses were up \$200K compared to budget due to changes in design for certain instant tickets.
- Salaries and benefits are lower compared to budget due to vacant positions. Other operating expenses are lower to budget across a number of categories with small variances, and no bad debt expense during first quarter.
- General Fund transfers, for the quarter ended September 30, totaled \$84.3 million and is 3.2% ahead of budget.

III. Old Business:

- Financial Software Conversion Update
Mr. Granato presented the Committee with a status update regarding the financial software conversion. Mr. Granato stated the current software is both outdated and not optimized for the Lottery since it was designed more for use in healthcare. Mr. Granato highlighted that the Lottery is in final negotiations regarding a contract with CAL Business Solutions (“CAL”), a local vendor in CT highly skilled within software migrations. Mr. Granato reported that the contract is currently in the hands of CAL. It anticipates a November 28, 2016 launch date and an estimated completion date of April 2017, but may change due to available resources.

Mr. Morgan asked Mr. Granato to provide the Finance Committee with an implementation plan regarding the timeline of the financial software conversion.

IV. New Business:

Reallocation of Budget Items

Mr. Granato stated that the Board of Directors approved the FY 17 budget at the June 28, 2016 Board meeting. He noted that the FY 17 budget will be amended to allocate a portion of the fulltime salary expense to a line for Board Discretionary Salary. A discussion took place and it was mentioned that per the Department of Consumer Protection, the Board must reclassify these funds to be used exclusively for the transition agreement with the former President and CEO. Mr. Granato reported that internal and external reporting will be modified to reflect these changes. To date, there were no expenses related to this financial category and, this change has no impact on budgeted General Fund transfers for FY 17.

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

“Resolved, that the Finance Committee recommends to the Board of Directors that it reclassify compensation of certain budget items to a Board of Directors discretionary account..”

V. Adjournment:

On motion made by Mr. Morgan and seconded by Mr. Dakers, and unanimously approved, the meeting was adjourned at 3:20 p.m.

Respectfully Submitted,

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