

CONNECTICUT LOTTERY CORPORATION

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

Board Members Present: Robert Dakers; Michael Janusko; Robert Morgan; Margaret Morton; Natasha Pierre; Michael Thompson; and Diane Winston (via teleconference).

Staff Members Present: Chelsea Turner, Interim President & CEO; Alfred DuPuis; Paul Granato; Michael Hunter; Jane Rooney; Theresa Scott; Matthew Stone; Annmarie Daigle; and Bryan Figueroa.

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

Call to Order: Mr. Dakers called the meeting to order at 12:01 p.m.

I. Mr. Dakers welcomed the Board members and thanked them for attending today's meeting.

II. Review and Possible Action Re: Election of Corporate Secretary:

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

Resolved, that the Board appoints Matthew Stone, in lieu of Chelsea Turner, as the Secretary of the Connecticut Lottery Corporation, with such powers and duties as are set forth in Section 12-805(a) of the Connecticut General Statutes and Article III of the By-Laws of the Connecticut Lottery Corporation, each as amended from time to time, and to have Mr. Stone serve as such Secretary without additional compensation and within his existing job duties.

III. Approval of April Minutes:

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

Resolved, that the Board hereby approves the April 20, 2017 Board meeting minutes.

IV. Executive Report (Ms. Turner):

Interim President's Report:

Ms. Turner welcomed and thanked the Board for attending today's meeting. Ms. Turner provided an outline of her agenda which included a CLC budget update, status of CLC's financial software conversion project, KENO, a Capitol update and various other updates. A PowerPoint presentation guided the discussion. Highlights from her report follow.

All sales numbers are approximated and based on information currently available to the CLC.

Ms. Turner reported that although the General Fund transfers are approximately \$12 million behind last fiscal year, we are on track for our second-largest return ever, an estimate of \$325 million for FY17.

Instant games, which account for approximately 60% of our revenue, are a little soft but not out of step with other New England lotteries.

Ms. Turner mentioned that the current Powerball jackpot is \$250 million and if it continues to roll, we hope to see an uptick in sales.

KENO sales to-date are \$76 million, \$5 million ahead of budget. Retailer recruitment has somewhat stagnated with 595 locations selling KENO. We have two new KENO LSR positions that will work solely in pouring establishments, Tuesday through Saturday evenings. They will help educate staff and patrons about KENO.

Ms. Turner stated that Microsoft Dynamics training is underway and she has heard many positive comments from staff thus far with a go-live date in early June. She thanked the Finance and IT staff for their efforts to keep this project on schedule and on budget.

Ms. Turner was happy to report that one of the CLC's new instant tickets, Quarter Million Large, is averaging sales of \$1 million per week. She also discussed various new instant tickets due to launch soon: Instant KENO, Sand Dollars, and High Roller, the Foxwoods 25th anniversary ticket.

Ms. Turner then discussed highlights of upcoming promotions relating to the Cash5 draw game as well as the Powerball Powercruise launching later this year.

Ms. Turner reported that she is working to restore confidence and trust in the Lottery with our stakeholders including legislators, casinos and the DCP. This effort includes many in-person meetings as well as a letter from the Board to the Public Safety and Security Committee to help improve communication and gather suggestions to strengthen our relationships.

Conversations continue around the concept of iLottery although the bill did not make it out of committee. Ms. Turner is also keeping an eye on the state budget as it affects all agencies and quasi-public agencies.

In closing, Ms. Turner expressed that the CLC is excited to move forward with a new CEO in the coming months. She thanked all of the managers and staff for their efforts.

Sales Performance and Game Update (Ms. Scott):

Ms. Scott, Interim Director of Sales, welcomed members of the Board and stated that the Board packets contain sales information as of April 30, 2017. Ms. Scott stated she has been with the CLC for over 17 years.

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

Comparing February through April FY16 to February through April Feb FY17 there is growth over the previous year with February at \$2.6 million, March at \$4.5 million, and April at \$900K.

Connecticut Games are currently at \$595 million in sales, but down \$26 million compared to budget projections. Our full fiscal year projection is at \$750 million.

Numbers games are showing positive results. Our Play3/Play4 Day and Night games through April 30, 2017 are over projections at \$199.8 million compared to budget projections of \$197.2 million which equates to \$2.6 million or 1.3%. Our full fiscal year projection is at \$237 million.

Our draw games, which consist of Lotto, Cash 5, Lucky Links Day/Night and Keno, are at \$104.6 million through April 30, 2017 compared to budget projections of \$105.8 million, down \$1.1 million or 1.1%. Our full fiscal year projection is at \$127 million.

The Multi-State Games, Powerball, Mega Millions and Lucky for Life are currently at \$104.8 million in sales, compared to \$109.9 million, down \$5.1 million or 4.6% when compared to budget.

Total sales reached \$1 billion dollars on April 29, 2017 at roughly 6 p.m. CLC budgeted to reach \$1.246 billion in sales, and is currently down 1.8%.

Instant sales as of April 30, 2017 were at \$595 million. Ms. Scott noted that during the months of December, March and April the CLC saw the biggest upticks in sales, with \$10, \$20 and \$30 games being the most remarkable. Players love Cashword games and the "X" series continues to be highly advertised.

Play3/Play4 Day and Night combined are currently at \$199.8 million as of April 30, 2017; sales are averaging about \$20 million per month.

Lotto is averaging \$1.4 million per month in sales with steady core players, with 2 jackpots won in October and February for FY17.

Cash5 has a promotion slated for this summer that consists of the consumer buying 5 draws on a single ticket of Powerball and receiving one Cash5 ticket free. Cash5 is averaging \$2.4 million in sales monthly.

Lucky Links Day and Night has had very steady core players and is averaging \$7K - \$9K per day.

Keno is up to \$68 million in sales as of April 30, 2017 and \$76 million for the life of the game. Ms. Scott noted that 153 retailers combined make up 50% of all total Keno sales. Another interesting fact is that 1 p.m. and 4 p.m.-6 p.m. were the busiest times for Keno.

Powerball and Mega Millions total sales as of April 30, 2017 are \$87.8 million. Ms. Scott noted that higher jackpots equals higher sales. Her sales team will be putting out more POS at retailers gearing up for the \$250 million Powerball jackpot.

Lucky for Life totaled \$1.6 million in sales the month of April 2017. The game is being sold in 23 states, with two more states coming on soon. CT has had 15 \$25,000 second top prizes since the launch in April 2015.

This concluded the Executive Report.

V. Committee Reports:

Audit Committee:

Mr. Thompson stated that the Audit Committee met on Friday, May 12. The Committee's first order of business was to welcome Mr. Michael Janusko to the Committee. The Committee discussed a Purchasing Policy Exemption for the Anthony Molica and Associates contract and after discussion it was determined best not to extend the contract. The Committee then entered executive session with no votes or actions taking place.

Finance Committee:

Mr. Morgan reported on behalf of Mr. Birney who was not present at today's meeting that the Finance Committee also met on Friday, May 12 to review the third quarter financial statements, discuss the progress of the financial software conversion project, as well as review the first draft of the FY18 budget. He asked Mr. Granato to provide an overview of the quarterly financial statements. Mr. Granato's overview consisted of the following highlights:

Quarterly performance:

Total sales for the quarter reached \$303.8 million compared to \$330.0 million in the prior year. The prior year comparison includes the billion dollar Powerball jackpot which was not repeated this year. Total sales were under budget by \$6.8 million or 2.2% for the quarter.

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 the prior year. Overall General Fund transfers were under budget by \$7.6 million or 9.1%.

Year-to-date performance:

Total sales reached \$901.6 million through the first nine months of FY17, down \$19.6 million or 2.1% compared to PY. Instant tickets totaled \$532.0 million compared to \$555.1 million in the prior year - \$23.1 million decline or 4.2%. Sales revenue is under budget by \$25.5 million or 2.8%.

Overall the Lottery returned \$239.6 million through the first nine months of FY17 compared to \$252.0 million in the prior year period, a decline of \$12.4 million. Similarly, General Fund transfers are under budget by \$11.3 million or 4.5%.

Personnel Committee:

Ms. Pierre reported that the Personnel Committee met just prior to today's meeting. Ms. Pierre noted that the Committee performed its annual review of the Life and Disability Insurance Policy, the Retirement Plan Contribution Policy, the Managerial and Confidential Tuition

Reimbursement Policy, and the Paid/Accrued Leave Policy and Procedure for Management. No changes or updates were made since the last review. The Committee also reviewed the Compensatory Time report which showed zero balances for all managers. Managers are expected to work flexible schedules in order to accomplish corporate goals, which eliminates compensatory time unless extraordinary circumstances occur. During Executive Session the Personnel Committee discussed the Management Compensation Plan for FY18 and the Management and Sales Incentive Compensation Plan for FY18 which require further discussion with the full Board. On motion by Ms. Pierre and seconded by Ms. Morton, the Board unanimously voted to amend today's agenda to add these two topics to the Executive Session.

VI. Executive Session:

At 12:30 p.m., on motion made by Mr. Thompson and seconded by Mr. Janusko, the Board voted unanimously to move into Executive Session to discuss:

- Discussion of Draft Letter to Legislature
- Attorney/Client Privileged Report from General Counsel
- Discussion of Attorney/Client Privilege for Scientific Games Settlement
- Discussion of Pending Claim Regarding Ongoing Ethics Investigation
- Review of Draft Management Compensation Plan and Management Positions for FY18
- Review of Management and Sales Incentive Compensation Plans for FY18

Ms. Turner and Mr. Stone were invited to stay for the entire Executive Session. Ms. Rooney was asked to stay for the Personnel Committee items.

The Board reconvened in regular session at 2:58 p.m.

VII. Discussion and Action Re: Executive Session:

Mr. Dakers stated that no votes or actions took place during Executive Session.

VIII. New Business:

Audit Committee recommendation regarding proposal received from member of the public:

On motion made by Mr. Thompson, seconded by Ms. Pierre, and unanimously approved, it was:

Resolved: After due consideration, and under recommendation of the Audit Committee, the Board of Directors hereby recommends that the Legislative and Games Committee invite Mr. Rick Morneau to present his idea to that Committee. The Audit Committee recommends against entering into an intellectual property rights agreement with Mr. Morneau at this time, but supports entering into a reasonable confidentiality agreement.

Audit Committee recommendation regarding payments to previous Board Chair:

On motion made by Mr. Thompson, seconded by Mr. Janusko, and unanimously approved, it was:

Resolved: After due consideration, and under recommendation of the Audit Committee, the Board of Directors hereby directs the Chief Financial Officer to place any pending expense reimbursements for Frank Farricker into escrow pending a determination as to the reasonableness and necessity of those expenses.

Review and Possible Action Re: Adoption of Management Compensation Plan for FY18:

On motion made by Mr. Morgan, seconded by Ms. Morton, it was:

Resolved, that after due consideration and based on the recommendation of the Personnel Committee, the Board of Directors hereby adopts the FY18 Management Compensation Plan, which is the same as the FY17 Management Compensation Plan, with no changes to salary ranges. The plan includes one additional position of Director of Marketing.

The motion passed with one opposed, Ms. Pierre.

Review and Possible Action Re: Incentive Compensation Plans for FY18:

On motion made by Mr. Morgan, seconded by Ms. Morton, it was:

Resolved, that after due consideration and based on the recommendation of the Personnel Committee, the Board of Directors hereby suspends the corporation's incentive compensation plans for FY18.

The motion passed with one opposed, Ms. Pierre.

Review and Possible Action Re: Lucky for Life Game Rules Change:

After a brief discussion with regard to Lucky for Life Game Rules, noting there were no changes in matrix or price, on motion by Mr. Morgan and seconded by Ms. Pierre, the following resolution was made and unanimously approved:

Resolved, that after due consideration, the Board of Directors approves the Official "Lucky for Life" Game Rules as presented.

IX. Adjournment:

The next meeting of the Board of Directors will be June 29, 2017.

On motion made by Mr. Thompson, seconded by Mr. Morgan, and unanimously approved, the meeting was adjourned at 3:09 p.m.

Respectfully submitted,

Matthew Stone

Corporation Secretary/Connecticut Lottery Corp.