

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, June 26, 2014
At 12:00pm

at the
Connecticut Lottery Corporation
777 Brook Street
Rocky Hill, Connecticut 06067

Board Members Present: Frank Farricker, Chairman of the Board; Gale Mattison, Vice Chairman of the Board; Robert Morgan; Robert Dakers; Margaret Morton; Patrick Birney; Kia Murrell; Jennifer Hamilton; and Michael Thompson (via teleconference).

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

Staff Members Present: Anne M. Noble, President & CEO; Diane Patterson; Chelsea Turner; Lana Glovach; Paul Granato; Michael Hunter; Jessica Hayton; and Rebecca Lambert.

Call to Order: Chairman Farricker called the meeting to order at 12:04 p.m.

I. Approval of Minutes:

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

“Resolved, that the Board hereby approves the May 15, 2014 Board meeting minutes”.

II. Executive Report:

President’s Report:

Ms. Noble thanked Board members for attending today’s meeting and also thanked her staff for their support and hard work to achieve another successful year. She then reviewed the meeting agenda and updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

- FY’14 Year End Results:

- Estimated Sales of \$1.106 Billion or 99.2% of our goal.
- Estimated Transfers are on course for \$318 Million, subject to any high prize expense for the remaining days of FY'14. This will mark another record year for the Corporation in General Fund Transfers. Ms. Murrell asked what the previous record was and Ms. Noble responded \$312 Million.
- Estimated Delinquent Taxes to the State of \$225,860.
- Estimated Child Support to the State of \$198,642.
- The Lottery contributed \$2.3 Million to the Chronic Gambling Rehabilitation Fund.
- DCP Regulatory Contributions totaled \$2.6 Million.
- The year-end numbers were influenced by many factors including a strong performance from the Daily Games and the successful launch of 5 Card Cash amidst a fluctuating regulatory environment. Below budget prize expense helped to offset the decline in sales; the decline is partly due to a short holiday season; a long and cold winter; and softening economic conditions. The underperformance of Powerball significantly affected sales and transfers to the General Fund as well. It was noted that many states may not meet transfer goals due to Powerball's underperformance.
- In FY'14, the amount of Retailers increased from approximately 2,800 to approximately 2,900; our social media presence expanded and we are now only second among New England lotteries to New Hampshire in Facebook "likes". The Lottery executed key components of our Corporate Social Responsibility Program including the launch of the "Chatter That Matters" newsletter, devoting a section of the website solely to Corporate Responsibility, and focusing on green initiatives by installing energy efficient lighting in the parking lot. In addition, critical bids and contracts were completed and emphasis was placed on corporate compliance and policy revision.
- FY'15 Forecast and Budget Assumptions:
 - Projected sales are \$1.107 Billion which is a slight increase to flat from today's FY'14 estimates.
 - Projected General Fund Transfers are \$311 Million.
 - Budget Assumptions include the following: introduction of a new draw game in April 2015; refresh of certain portfolios (Instant Draw, Lucky for Life and Super Draw); flat multi-jurisdictional performance of Powerball and MegaMillions; continued success with the Daily Games; stable headcount and operating expenses; a slight decline in regulatory costs; the re-evaluation of Instant Ticket performance to be more in line with the economy; and prize expense at statistical payouts. Ms.

Noble pointed out that prize expense can dramatically increase or decrease and like jackpots, can materially affect General Fund transfers.

- Responsible Gambling Update:
 - Ms. Noble is very pleased that the New England states collaboratively introduced the New England Partnership for Responsible Gambling.
 - The CLC was a hospitality sponsorship at The National Council on Problem Gambling's NCPG Strikes! For Responsible Gambling event held La Fleur's Lottery Symposium in Washington, D.C.
 - Ms. Turner will be speaking at the National Council on Problem Gambling Conference in July 2014.
 - The Lottery submitted its application for Level III Accreditation with the World Lottery Association; that application is currently pending.

Sales Performance Report:

Using sales charts, Ms. Patterson provided an overview of Lottery revenues and sales trends. Highlights from her report are as follows:

- Connecticut's Social Media presence has grown. We now have 20,700 "likes" on Facebook and 817 followers on Twitter with over 2,300 messages tweeted. The '5 Card Cash' YouTube video has had 17,800 views so far. Ms Patterson commented that social media outlets allow the Lottery to communicate with and educate the public in an interactive and enhanced way. The Lottery is considering using Social Media to allow followers of our social media channels to provide opinions on upcoming game features, such as ticket color. She also spoke about a BuzzFeed survey that was recently launched on Facebook, which allowed followers to take a quick survey to find out which Lottery game they are, as well as share the quiz with their friends online to allow greater exposure of the product line.
- Ms. Patterson said the Lottery's website came into existence in 1998 and was developed and maintained by Connecticut Lottery employees. The Lottery's website continues to be maintained internally by Lottery employees and continues to be a cornerstone of our digital presence.
- Currently, the Lottery is supporting the FIFA World Cup with advertising sponsorship. In March, the Lottery participated in the St. Patrick Day Parade, as well as the UConn Victory Parade.
- For the month of May, the CT Lottery had \$97.1 Million in sales. This is the 2nd highest May for sales in four years. Ms. Patterson commended our inside and outside sales representatives. Inside sales representatives made over 23,000 phone calls and outside sales representatives made approximately 84,000 visits to retailers in FY'14.

- For Connecticut games, players remain committed to the Numbers Games and they continue to do well.
- For Multi-State games, the lack of a big jackpot in 2014 is reflected in the numbers.
- Total sales are slightly behind budgeted expectations, but we are ahead on General Fund Transfers to the State of Connecticut as of May 31st.
- Forty-Five new Instant Games launched in FY'14. The Warehouse team packed 1,487,799 packs. Mr. Farricker asked how many employees work in the warehouse and Ms. Turner responded that there are 7 packers.
- More than \$137.5 Million individual scratch game tickets were sold by 2,900 retailers. Ms. Patterson commented that a diversified Instant Game portfolio is needed in order to appeal to core players with staple games and to keep the product line fresh with new games.
- The Instant Games portfolio had sales of \$56.6 Million in the month of May.
- A new \$20 Cashword game with three (3) crossword style puzzles with a top prize of \$250,000.00 launched June 24, 2014. On a weekly basis, the Cashword suite of games accounts for approximately 15% of total Instant Game sales. Ms. Patterson commented that any expansion in this suite of games should boost instant ticket sales and she thanked all departments for their efforts and hard work.
- Ms. Patterson thanked security and the Department of Consumer Protection for their draw game support. There were 2,184 drawings held in FY'14. Ms. Patterson also pointed out that the Connecticut Lottery oversees the New England Lucky for Life drawings.
- An overview of individual games' performance follows:
 - Play3-Play4 Day and Night combined were strong with \$19.9 Million in sales for the month of May 2014. There was one popular number sequence drawn (9999), but the payout was not overwhelming.
 - Play3 Day had \$4.4 Million in sales in May 2014.
 - Play3 Night had \$6.2 Million in sales in May 2014.
 - Play4 Day had \$3.7 Million in sales in May 2014.
 - Play4 Night had \$5.6 Million in sales in May 2014.
 - 5 Card Cash had \$6.4 Million in sales in the first four weeks. Since the game launched, there has been \$11.7 Million in sales. The current daily average in sales is \$233,000.00. Ms. Patterson commented that this style of play resonates with our players. Mr. Birney requested how sales were determined for FY'15. Ms. Noble responded that FY'15 projected sales were based upon how the game performed in other states and certain market analysis. Ms. Patterson added that an extensive review was conducted in order to launch this game successfully.
 - 5 Card Cash has had four top prize winners since it launched and averages 25,000-29,000 winning experiences daily.

- Lotto! had \$1.8 Million in sales for the month of May.
- Cash5 sales are following the expected trend. There may be a summer promotion to support this game.
- Super Draw 10 has added 800 more prizes than the last version of the game. Sales will continue through the holiday weekend and the drawing will be held on July 6. In order to support sales, there has been new TV/radio advertising. Ms. Murrell asked if the redemption period was the same for temporary games as it is for permanent games. Ms. Patterson responded that it is the same 180 days for all games for redemption.
- Powerball and MegaMillions combined May sales totaled \$7.7 Million. The lack of a jackpot is affecting Powerball and MegaMillions sales. There may be promotions in the near future to support these games when the jackpot is low.
- Powerball saw a jackpot high of \$448 Million (August 2013) and a low of \$60 Million.
- MegaMillions saw a jackpot high of \$636 Million (December 2013) and a low of \$19 Million. There have been 2 jackpots of more than \$400 Million this year.
- New England Lucky for Life added a second top prize in September 2013. Since, the second top prize has been won twenty-nine (29) times. Ten of which were won in Connecticut.
- There is an unclaimed second top prize for the February 27, 2014 drawing. The Lottery will continue to market this unclaimed prize.
- Lucky-4-Life and New England Lucky for Life had combined sales of \$1.9 Million.

This concluded the Executive Report.

III. Committee Reports:

Finance:

Mr. Birney reported the Finance Committee met on June 17, 2014 to discuss the proposed FY'15 Budget and requested Mr. Granato provide an overview.

Mr. Granato started his report by saying the Lottery had a great year with over \$1.1 Billion in sales. He then provided an overview of the proposed budget for FY'15. Highlights from his report are as follows:

- Overall lottery game sales are projected at \$1.107 Billion.
- It is expected the Daily Numbers will continue their strong performance in FY'15.
- The instant ticket portfolio was re-evaluated to take into consideration the current economic climate.
- Prize expense at 61.1% statistical payout. Mr. Granato commented that the .1% can make a big difference.
- Production expenses are expected to decrease slightly due to less licensed games and a new courier contract.

- Salaries and benefits for FY'15 have risen due, in part, to the cost increase of fringe benefits per employee.
- Other operating expenses are expected to decrease as we continue to closely monitor spending.
- General Fund Transfers are expected to decline in FY'15. However, this figure is largely driven by prize expense.
- In FY'15, the Lottery will see a cost savings of almost \$200,000 from the Department of Consumer Protection (DCP) for regulatory costs. Ms. Murrell asked Mr. Granato to explain the cost savings. Mr. Granato explained that, by statute, certain regulatory costs are passed on to the Lottery. DCP lowered certain regulatory costs, in part, by making personnel and labor changes. Regulatory costs are governed by statute and established by the Office of Policy Management and the DCP.
- Ms. Noble commented that the "goal" of FY'15 is to deliver another record transfer to the General Fund.

Chairman Farricker requested that action on the budget be addressed during the New Business portion of the meeting.

Personnel:

Mr. Mattison reported that the Personnel Committee met on June 12, 2014 to discuss the following: Policy Review; Sales Incentive Compensation Plan for Bargaining Unit Sales Employees; and Management Pay and Performance.

Mr. Mattison reported that the Committee performed its yearly review of the Life and Disability Insurance Policy; the Retirement Plan Contribution Policy; the Managerial Tuition Reimbursement Policy; the Paid Leave Policy for Managers which replaced the previously titled Managerial Compensatory Time Policy; and the Travel and Reimbursement Policy. All policies discussed were found acceptable by the Committee.

In addition, the Sales Incentive Compensation Plan for Bargaining Unit Sales Employees was discussed and a copy of the Plan was provided. The Plan structure is essentially the same as prior years except the goals have been adjusted to reflect the Corporation's FY'15 business plan. The Committee found the plan acceptable and that it made good business sense. Mr. Mattison indicated he will ask for a motion for approval later in the meeting.

Mr. Mattison said that Management Pay and Performance will be discussed in Executive Session.

Legislative and Games:

Ms. Morton reported that the Legislative and Games Committee did not meet in the month of June.

Audit:

Mr. Morgan reported that the Audit Committee met on June 17, 2014 and discussed the items listed in the agenda for discussion in today's Executive Session.

IV. Executive Session:

At 12:45 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Mr. Thompson, seconded by Mr. Dakers, and unanimously approved, the Board moved into Executive Session to discuss:

- Performance Evaluations and Compensation of Senior Management
- Attorney/Client Communications Re:
 - Alumni Road Lease
 - FOIA Fee Policy

Ms. Noble, Ms. Patterson, Ms. Turner, Ms. Glovach, Mr. Hunter, and Mr. Granato were invited to stay for the discussion on Attorney/Client Communications only. Connecticut Lottery personnel were not invited to stay for the discussion regarding Performance Evaluations and Compensation of Senior Management. The Board reconvened in regular session at 1:44 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

V. Old Business: None.

VI. New Business:

On motion made by Mr. Farricker and seconded by Mr. Mattison, the following resolution was made:

“Resolved, that after due consideration, and based upon the recommendation of the Finance Committee, the budget for FY'15 is hereby approved.”

This resolution passed unanimously.

On motion made by Mr. Mattison and seconded by Mr. Farricker, the following resolutions were made:

“Resolved that the Board of Directors hereby approves that for FY'15 the current salaries for the President & CEO and for the Vice President of Sales & Marketing be increased 6% effective July 1, 2014, consistent with the KardasLarson Report

adopted last year and also adopts the FY'15 Management Compensation Plan, as recommended by the Personnel Committee. Furthermore, the Board also acknowledges that it is the President's duty to set salaries for managers consistent with the FY'15 Management Compensation Plan and action taken by the Personnel Committee, and also consistent with the KardasLarson Report on management compensation adopted last year."

"Be It Further Resolved, the Board of Directors hereby approves that the FY'15 Sales Incentive Compensation Plan for the Bargaining Unit's Entrepreneurial Employees be implemented until otherwise changed by the Board of Directors and that management annually adjust the objectives in the plan consistent with the Corporation's business plan."

These resolutions passed unanimously.

On motion made by Mr. Morgan and seconded by Mr. Mattison, the following resolution was made:

"Resolved, that after due consideration and based upon the recommendation of the Audit Committee, the Board of Directors approves the leases for office and warehouse space at 81 Alumni Road in Newington, revised to reflect the cost allocation for the generator(s), and authorizes the President to execute those leases on the Corporation's behalf."

This resolution passed unanimously.

VII. Next Board of Directors' Meeting:

The next scheduled meeting of the Board will be held on Thursday, September 18, 2014 at 12:00 p.m. at the Connecticut Lottery Corporation.

VIII. Adjournment:

Chairman Farricker called for a motion to adjourn today's meeting.

On motion made by Mr. Birney, seconded by Mr. Mattison, and unanimously approved, the meeting was adjourned at 1:48 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.