

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, September 17, 2015
At 12:00 p.m.

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

Board Members Present: Frank Farricker, Chairman of the Board; Patrick Birney, Vice Chairman of the Board; Meghan Culmo; Robert Dakers; Robert Morgan; Margaret Morton; Natasha Pierre; Michael Thompson; Diane Winston.

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; Cynthia Hadden, and Jessica Hayton.

Other: Mr. Louis Roberts, Ernst & Young, LLP (EY)

Call to Order: Chairman Farricker called the meeting to order at 12:05 p.m.

I. Mr. Farricker welcomed back the members of Board.

II. 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 June 18, 2015 Board meeting minutes.”

Those not in attendance at the June meeting abstained from voting.

III. Audit Committee Report:

Mr. Morgan reported that the Audit Committee met on September 15, 2015 to review the audited financial statements for FY ended June 30, 2015. He introduced Mr. Louis Roberts, a partner at Ernst and Young (EY). Mr. Roberts reported that the CT Lottery Corp. (CLC) received an unmodified (clean) opinion on the financial statements and reported no conflicts with management. He explained that the audit was more complex due to GASB 68, a new requirement regarding the

reporting of the State's unfunded pension liability. This reporting requirement affects other government agencies as well. Mr. Roberts thanked the Board, Ms. Noble, Mr. Granato, the CLC Finance team and the State Auditors for their assistance during the Audit. Mr. Roberts noted that state statute requires a rotation of audit firms every six years. On behalf of his team at EY, he thanked the Board and CLC for allowing EY to be a part of their audit process during this time. The Board Members agreed there was no need for an Executive Session with Mr. Roberts. Ms. Noble asked the Board if they were satisfied with the findings and if they had any questions. Hearing no questions, Mr. Roberts exited the meeting.

Mr. Farricker thanked Mr. Roberts. Mr. Granato then informed the Board that the Financial Auditors RFP would be issued in the next week, subject to their review. The responses to the RFP are due no later than October 22, 2015.

IV. Executive Report:

President's Report:

Ms. Noble welcomed the Board and thanked members for attending today's meeting. She noted that the Lottery has been very productive over the summer and is deep into its FY 16 business plan. She thanked Mr. Roberts and EY for their service and expertise over the years and particularly with respect to GASB 68 this year. She also thanked Mr. Granato, Chief Financial Officer, and his entire finance team for their work on the Audit, as well as the State Auditors of Public Accounts. Ms. Noble noted the CLC was the first quasi-public agency to complete an audit, including GASB 68. Ms. Noble then reviewed the meeting agenda and updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

- Revenue and Transfers:
 - Ms. Noble commented that the state of the Lottery is good. Sales are robust, especially in the instant and daily games. At this point in the year, the Lottery is roughly \$13 million ahead of last year in revenues, and approximately \$8 million ahead of budget. She noted that General Fund transfers are approximately \$7 million behind last year and approximately \$6 million behind budget. Ms. Noble explained the reason is that prize expense exploded in the last ten days as several unique numbers were drawn; for example, 5-5-5-5, was drawn for the first time in the Lottery's history and resulted in a \$3.4 million liability. This event was followed by a classic Lotto winner in the same week, which had \$492,630 augmentation. These wins were a very substantial liability in a short period of time. The CLC will work to narrow the gap in General Fund transfers as we go through the holiday season.
 - Lucky for Life revenues have stabilized and continue to grow. There are currently 16 jurisdictions who are participating in the game with 6 more joining by March 2016. What this means is more winners and more prizes, but more importantly it provides more flexibility with respect to game design moving forward.
- Keno Update:
 - Ms. Noble revisited some of the discussion that took place in June with respect to Keno and her testimony at the Legislature. The good news is that the Lottery has accomplished a lot with respect to Keno since the spring. It has a fully developed set of rules that have

preliminary approval from the Department of Consumer Protection. In addition, the technical specifications have been completed, for which Ms. Noble mentioned her appreciation to Scientific Games (SGI) for their support. Ms. Noble stated that we have a recruitment team that is poised and ready to get to work. In fact, we have some retailers ready to come in and others who are waiting to make sure it will happen. She explained that we are close to completing an RFP for Advertising and Marketing support, and we have completed a number of competing software demands so we can clear our software development decks for Keno. Further, she continued, the Lottery has made excellent progress with its responsible gaming initiatives that will accompany our Keno rollout. The Lottery is ready to move forward.

Ms. Noble stated there is no MOA yet between the State and the tribes, which is required in order for the Lottery to sell Keno. The CLC appreciates the hard work which is being done by the Office of Policy Management in this regard. She reminded the Board that in June, it was reported that six months from final authorization is needed to rollout Keno. The CLC will be deliberate and expeditious in the rollout of Keno but six months from the MOA is needed to deploy equipment in the field and recruit and license more retailers. Ms. Noble stated that she is still cautiously optimistic there will be revenue from Keno during FY 16 and she is hoping for a post January rollout.

Mr. Farricker asked if there was any balking from potential retailers that the CLC had conversations with in the past and who are now reluctant. Ms. Noble responded that the history of Keno being approved and then not being approved, has made the recruitment process a bit more difficult. Retailers do not want to commit until they know for sure the CLC is fully authorized to operate Keno. Once Keno is authorized, Ms. Noble is confident that we will have one of the best Keno games in the country. It is a wonderful growth strategy for the Lottery.

- Operational Update:
 - Ms. Noble reported there is a North American Association of State and Provincial Lotteries (NASPL) Annual Trade Event taking place in Dallas, Texas in October. Ms. Noble is pleased to announce that for the second year in a row, the CLC has been nominated for “Best New Online Game”, Lucky Links with 2X Power. She noted that this is a testament to the efforts the CLC makes in game development.
 - The Connecticut Council on Problem Gambling (CCPG) will hold its 12th Annual Problem Gambling Conference on October 27, 2015. The CLC is a co-sponsor and many of the CLC staff will attend.
 - In addition to preparing for Keno, Ms. Noble summarized operational initiatives. There will be an update to the CLC Emergency Management Plan which will include training for all employees as well as a more specialized training for some of the management staff in early October. The completion of the RFP’s for our financial software and for the financial auditors is underway. The CLC will continue building its retailer base, and participate in, and have a prominent presence with the Middlesex Chamber of Commerce event later this month. Ms. Noble mentioned that we are now selling lottery tickets at Foxwoods Casino.
 - Ms. Noble concluded her report by stating that the CLC is poised to go to the next step with Keno, although paused right now while waiting for the MOA. She is hopeful that

by the next meeting of the Board of Directors', we will have an agreement. However, if we do not have an agreement, there will be a need to discuss alternative plans to continue to optimize revenue.

Sales & Marketing Performance Report:

Ms. Patterson updated the Board on Sales & Marketing Performance with a PowerPoint presentation. All sales numbers are approximated based on information currently available to the CLC. Ms. Patterson's report follows:

- Ms. Patterson reported that the CLC now has three locations at Foxwoods and they began selling Lottery on September 3, 2015. To date, sales have been modest but are expected to grow. An additional location at Foxwoods is expected soon.
- Ms. Patterson directed members of the Board to sample tickets. She noted these are some of the tickets that have been launched since the June meeting.
- Ms. Patterson highlighted the CLC's recent 10 days of winning. The number 5-5-5-5 paid our winners \$3.4 million, 4-4-4 paid our winners a total of \$ 1.34 million, a \$3 million Royale scratch ticket was claimed, two winners claimed two 5 Card Cash \$255,555 top drawing prizes and, there was a \$1.5 million Lotto winner for a total of \$10 million in prize payouts with very happy players.
- The CLC completed FY 15 with seven months of record sales and began FY 16 also with record sales.
- The CT games as of August 31, 2015 were \$9.6 million ahead of budget which is 5.8% ahead of budget.
- The Instant Portfolio is doing well and the daily games are also great performers in the portfolio.
- Total sales were at \$191 million through August 31, 2015 and as of September 16, 2015, \$244 million in sales which is averaging approximately \$3.1 million in sales a day and 2.4 % ahead of budget.
- Ms. Patterson reviewed three of the newest scratch games; Star which launched on September 14, 2015, 1st & Goal for the football fans, and Loteria Grande, which is the third version of the game.
- Instant sales finished FY 15 with a 10 month in a row sales record. Instant sales are averaging \$1.9 million per day which is up from \$1.8 million reported in June.
- Play3 and Play4 day and night games combined have had 18 draws of interesting numbers and amazing payouts. Ms. Patterson reviewed the many popular number combinations that were recently drawn.
- Lotto sales are at \$3.9 million to date. There have been two jackpot wins so far in FY 16. FY 15 only saw two wins for the entire year.
- Cash5 continues to be a steady game in the portfolio. To date sales are at \$2.6 million, a bit lower than in past years. This may be in part due to the popularity of 5 Card Cash and Lucky Links with 2XPower.
- Lucky Links with 2XPower is averaging \$32,000 per day since it launched in April 2015. Approximately 58% of sales each day include the 2XPower add-on feature and 57% of sales each night include the 2XPower add-on feature, which is a \$3 sale.

- 5 Card Cash had sales of \$2.8 million in August, a slight decline from the previous month. Ms. Patterson noted that this game is undergoing a refresh in mid-October with an “All-In” progressive jackpot option. The two most recent top prize winners were from Stamford and Milford. In total, there have been eighteen top prize winners since the game began.
- Powerball and Mega Millions combined produced \$6.2 million in sales for August.
- Powerball had a recent jackpot win of \$110 million in August. Powerball is undergoing a refresh in early October.
- Mega Millions had two jackpots won in July, \$152 million and \$25 million. The game has a current jackpot of \$20 million. Ms. Patterson noted that Mega Millions sales are down to an average of \$79,000 per day in August vs. \$89,000 in June, due to jackpot drop.
- The Lucky for Life game has awarded 30 second prizes of \$25,000 a year for life since expanding the game outside of New England in January, with five of those wins coming from Connecticut. The game averages roughly \$60,000 per day in sales. We are due for a top prize winner in this game.

This concluded the Executive Report.

V. Committee Reports:

Audit Committee:

Mr. Morgan reported that the Audit Committee met on September 15, 2015. The Committee reviewed the draft of the FY 15 Year End Financial Audit in an Executive Session. In addition, the Committee received an update regarding the Purchasing Policy, received a copy of the draft Financial Auditor RFP, and discussed the Terms of the Online Gaming System Contract, which will be covered during the Board's Executive Session. Mr. Morgan stated that the RFP for the new Financial Auditors would be issued early next week.

Legislative and Games:

Ms. Morton reported that the Legislative and Games Committee met on September 15, 2015. The Committee discussed Keno and Powerball which will be discussed further in Executive Session.

VI. Executive Session:

At 12:39 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Ms. Morton, seconded by Mr. Birney, and unanimously approved, the Board moved into Executive Session to discuss:

- New Game Initiatives
- Review of Draft Keno and Powerball Games Rules
- Attorney/Client Communications Re:
 - Purchasing Policy
 - Terms of Online Gaming System Contract
 - MUSL Governance

Ms. Noble, Ms. Patterson, Ms. Turner, Ms. Glovach, Mr. Hunter, and Mr. Granato were invited to stay for the Executive Session. The Board reconvened in regular session at 1:14 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

VII. New Business:

All items under new Business were tabled.

VIII. Board Administration:

Mr. Farricker announced the next scheduled meeting of the Board will be held on Thursday, November 19, 2015 at 12:00 p.m. at the Connecticut Lottery Corporation.

The 2016 Board meeting schedule was distributed.

Ms. Glovach announced that Freedom of Information Act (FOIA) training will take place for Board members immediately following the November meeting.

IV. Adjournment:

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

On motion made by Mr. Birney, seconded by Mr. Morgan and unanimously approved, the meeting was adjourned at 1:16 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.