

CONNECTICUT LOTTERY CORPORATION

Minutes of the Board Meeting
held on
Thursday, February 25, 2016
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; Meghan Culmo; Robert Dakers; Kia Floyd (via teleconference); Jennifer Hamilton (via teleconference); Robert Morgan; Natasha Pierre (via teleconference) and Diane Winston.

Staff Members Present: Anne M. Noble, President & CEO; Paul Granato; Lana Glovach (via teleconference); Michael Hunter; Diane Patterson; Chelsea Turner; Andrew Walter; Cynthia Hadden; and Rebecca Lambert.

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

I. Mr. Farricker welcomed the Board members to the meeting.

II. Approval of Minutes:

Quorum was reached at 12:08 pm and on a motion made by Mr. Morgan, seconded by Ms. Winston, and unanimously approved, it was:

“Resolved, that the Board hereby approves the November 19, 2015 Board meeting minutes.”

III. Executive Report:

President’s Report:

Ms. Noble welcomed and thanked the Board members for attending today’s meeting. Ms. Noble reviewed her meeting agenda and updated the Board on various topics through a PowerPoint presentation. Highlights from her report follow:

Sales and transfer numbers are approximated and unaudited.

- Year to Date Performance
 - Ms. Noble noted the state of the lottery is strong due to increased sales in the Instant and Powerball category. Sales are approximately \$68 million ahead of last year and \$62 million ahead of budget.
 - General Fund transfers are 8.5% ahead of last year, and \$22 million or 11.5% ahead of budget. This was driven by an outstanding performance in the Instant and Daily games portfolio as well as the \$1.6 billion record Powerball jackpot in January. At the November 2015 meeting, the Lottery was slightly behind in General Fund transfers driven by the prize expense paid out in the daily numbers games during the first quarter.
- Keno Update:
 - Keno is piloted for March 28, 2016 in select locations, if all testing is satisfactory. This pilot is to ensure the game is operating properly. If it goes well, the full network will be added in the April 5, 2016 timeframe.
 - Ms. Noble stated that all retailers will sell Keno but only some will have monitors.
 - The Lottery's three-year plan benchmark is to have 600 monitor locations. The Lottery anticipates it will start with approximately 250-300 monitor locations, which is a combination of bars, restaurants, and convenience stores. The CT Lottery Corporation (CLC) anticipates 80 to 100 restaurants at the start. Ms. Noble reminded the Board that these numbers are fluid and can change daily.
 - Keno retailers will continue to be recruited over the next 18 months which is a very critical part of the CLC's Strategic Plan for FY17. Scientific Games (SG) has substantial deliverables in connection with Keno and the Lottery is working closely with SG as they prepare the software for testing and the hardware out in the field. There will be a third party also testing SG's deployment of the software and participating in acceptance testing. The third party is also examining the physical and logical security associated with Keno.
 - Keno is a completely new way to play and the CLC is going above and beyond with the testing of software and hardware deployment. In addition to the testing, the DCP will be reviewing and approving the Keno software, hardware and physical and logical security.
 - The digital, social, TV and retail media are ready along with the POS which is in the process of being distributed. Keno commercials will be filmed on Monday, February 29, 2016 with Mason as our advertising partner.
 - A key to Keno success is retailers, players and CLC employees understanding the game. A very robust retailer-training program is scheduled for March 31, 2016. Training for CLC staff is also scheduled in March in which the DCP will participate. Similar to recruitment, training will be an on-going process. Ms. Noble noted that Keno is a process and we need to teach people how to play the game.
 - Mr. DuPuis, the CLC's Security Director is also putting new procedures in place for Keno. The security team will be visiting neighboring lotteries for their expertise and input. Chairman Farricker asked if a separate cash register is needed for Keno. Ms. Noble explained CLC procedures.

- **GameSense:**
 - Ms. Noble announced that the launch of Keno coincides with the launch of GameSense, a refreshed and updated responsible gambling initiative. GameSense is a responsible gambling initiative with roots in Canada. The CLC has entered into a partnership with the British Columbia Lottery Corporation (BCLC) for this product and has licensed the right to use the GameSense property. The CLC is the first U.S. Lottery to work with BCLC.
 - GameSense is a responsible gambling message that reminds players to use common sense, or to use their “game sense” when gambling. Messages such as play within a budget play with only your discretionary income and take a break will be reinforced. The messages reinforce playing with good sense. We will continue to remind players if gambling becomes a problem that help is available. GameSense speaks not only to problem gamblers but also to the entire playing population to help sustain healthy playing habits over time. This initiative will feature public service announcements on TV and radio and a web presence.
 - Ms. Noble asked Board members to stop in the lobby of the CLC on their way out to see the Keno monitors.
 - GameSense also appears in our How to Play video. The public service announcements on TV and radio will be eye-catching, up-to-date and contemporary.
 - GameSense is also used by the Massachusetts Gaming Commission.

- **Problem Gambling Awareness Month:**
 - Ms. Noble mentioned that although problem gambling awareness is all year long, March is dedicated as Problem Gambling Awareness Month. The CLC employees and retailers receive a letter about responsible gambling and there is on-going training for employees and retailers.
 - The CLC partners with the National Council on Problem Gambling (NCPG) and the CT Council on Problem Gambling (CCPG) to promote Problem Gambling Awareness month and this year’s message is, “Have the Conversation” at retail and throughout the State.
 - The Board has a Problem Gambling Resolution for consideration that articulates the CLC’s commitment to Responsible Gambling at the very highest level.
 - The CLC hopes to obtain a proclamation from the Governor’s office about Problem Gambling Awareness Month.
 - Ms. Noble mentioned Lucky Strikes, a bowling event that is held each year and raises money for the National Council on Problem Gambling. The CLC will sponsor a bowling event on a smaller scale to raise money for this cause in the spring.
 - Chatter That Matters, the CLC newsletter, also features special articles this month about Responsible Gambling.

- **Powerball Game Advisory:**
 - Ms. Noble reminded the Board that in November of 2015 rules were passed that imposed a jackpot management arrangement on the Powerball game. The rules were to go into effect in February 2016. Those changes were suspended until July 2016. The Multistate Lottery Association is currently evaluating how to proceed. This did not require a change to the rules because of how MUSL framed their rules. This adjustment does not require a vote. The DCP has been apprised of the change.

- Capitol Update:
 - Ms. Noble stated there is a lot of activity at the Capitol. The CLC is staying apprised of gaming bills and any initiative that affects our stakeholders. The following bills are of particular interest:
 - Senate Bill 118: An Act Concerning the Collection of Delinquent Taxes and Child Support from Lottery Winnings. This bill will lower the threshold from which the CLC collects delinquencies from \$5000 and above to \$600 and above. We are concerned about unintended consequences but understand that the intent behind this bill is good.
 - Senate Bill 192: An Act Concerning Daily Fantasy Sports. The bill is being monitored closely by the CLC. This bill seems to indirectly authorize these contests. There is no fiscal note attached. It is believed that the intent is to raise revenue by licensing these operators. The lottery has stood side by side with Fantasy Sports operators for many years and sees no reason why this cannot continue. It is important as these bills are raised in the State, and other states, that there is no incursion on the Lottery's exclusive authority to offer the games that are within our purview. The CLC wants to make sure that the Lottery stands on a level playing field with respect to the use of the internet.
 - An Act Concerning the Evaluation of Cost and Benefits of Establishing Commercial Gaming within the State of CT. This bill is currently in front of the Commerce Committee. It is a study bill that will assess the impact of having a commercial casino in CT. There have been many studies done on the impact of introducing casinos on Lottery revenues. The CLC will monitor this closely.
 - An Act Concerning Lottery Tickets has no language yet and the Lottery believes it might be regarding expiring tickets.
 - An Act Concerning the Purchase of Lottery Tickets is believed to be a bill that would authorize Auto-Lotto, a third party to sell our tickets. The Lottery is opposed to this bill.
 - An Act Concerning Gaming which is believed to be a placeholder at this time.

The remainder of Ms. Noble's report will be covered in Executive Session, including a 5 Card Cash discussion. We have placed Scientific Games on notice that we are evaluating our claims against them and our remedies.

Sales Performance and Game Update:

Presented by Ms. Diane Patterson, Vice President of Sales and Marketing. Using sales charts, Ms. Patterson provided an update for the period ended January 31, 2016 which included the highlights below.

- CT Game sales were approximately \$619 million through the end of January and \$29 million ahead of budget due in part to our Instant game and Daily sales.
- The Multistate game sales including Powerball and Mega Millions are up and Lucky for Life continues to perform nicely for the Lottery.

- Total sales were \$723 million at the end of January 2016 and as of February 24, 2016, were approximately \$801 million in sales. Comparing to last year, the Lottery had not achieved \$800 million in sales until March 17, 2015.
- General Fund transfers are at approximately \$212 million.
- The Lottery's promotions on social media have increased customer and the public's awareness of the Lottery.
- Instant game sales are averaging \$1,999,900 million per day.
- Ms. Patterson directed the Board members attention to the Lottery's new Instant games (samples provided) and noted that players seem to like these games as sales are going well.
- Play3 and Play4 day/night combined sales are good.
- Play3 Day, 1-3-1 was drawn on January 31, 2016, which paid out over \$500 thousand dollars in prizes.
- Play4 Day, Ms. Patterson noted that birth years are popular and played often. On February 19, 2016, 1-9-0-3 was drawn and approximately \$101K in prizes were paid.
- Play3 Night, 9-1-1 was drawn on February 12, 2016 and paid out approximately \$500 thousand in prizes.
- Play4 Night, 1-9-3-7 was drawn on February 10, 2016 and paid over \$725K in prizes.
- Ms. Patterson shared that number 6-4-7-4 was drawn on January 5, 2016 and it was drawn again on January 9, 2016.
- Lotto's jackpot is currently at \$4 million and is averaging \$52,000 in sales per day.
- Cash5 sales are steady with 48 top prizes to date this fiscal year.
- Lucky Links Day and Night combined have had 10 top prizes of \$50,000 to date, four in the day game and six in the night game. Three top prize wins happened in February 2016, and two wins occurred just last week.
- Ms. Patterson noted how hard the Lottery's retailers and staff worked during the Powerball's latest jackpot run. She mentioned that four prizes of \$1 million or more have not yet been claimed. The CLC continues to advertise these prizes in its marketing materials.
- Ms. Patterson also mentioned that, during the Powerball run, the CLC's social media exploded with the hash tag, *#WiththePowerballMoney*. There was an 11% increase in Twitter followers. Currently there are 2,440 Twitter followers and approximately 71,000 Facebook followers.
- The CLC has been a part of the Mega Millions game since 2012 and on February 2, 2016, CT had its first five number match which paid \$2 million to a winner from Southbury, CT.
- Lucky for Life sales are good. Ms. Patterson shared a chart of participating lotteries and prize payouts to date. There have been two top prize winners, one in Ohio and another in South Carolina. There are forty-five \$25,000 a day for life winners, of which eight are from Connecticut. CT's most recent \$25,000 win was on January 11, 2016, it has not yet been claimed. West Virginia and Colorado will be joining the game soon.

This concluded the Executive Report.

IV. Committee Reports:

Audit Committee:

Mr. Dakers reported that the Audit Committee met on February 4, 2016. The Committee met in Executive session and discussed the status of the interviews for the selection of Auditors.

State statute requires the CLC to hire a new audit firm every six years. He stated that the CLC received two responses, Marcum LLP and Blum Shapiro. Both proposals from the firms were good; however, Marcum is familiar with the CLC financial statements from previous experience with the CLC in 2009, prior to Ernst & Young. The audit firms were asked to submit the cost for the entire period of six years, an initial three 3-year term followed by three one-year renewable terms. A formal recommendation to hire Marcum will be presented to the Board later in the meeting which is set forth in the Board material. MUSL Governance was also discussed and will be covered in the Board's Executive Session.

Finance Committee:

Mr. Granato reported that the Finance Committee met on February 18, 2016. He noted that the Financial Statements for the three months ended December 31, 2015 and six months ended December 31, 2015 were reviewed. Mr. Granato presented the highlights.

Highlights – For 3 months ended December 31, 2015 (*Prior Year and Budget Comparison*):

- Total sales were 299.9 million up \$12.1 million or 4.2% over the same period in the prior year and up \$8.5 million or 2.9% compared to budget. Instant sales were 189.3 million and accounted for 63% of total sales. The Play3 and Play4 games added \$63 million in revenue and accounted for 21% of total sales revenue.
- The Powerball jackpot had reached \$334 million at the end of December and the CLC was beginning to see the positive impact of the run at the end of quarter two. This revenue will be primarily reported in the third quarter financial statements.
- Prize expense for the second quarter was \$184 million, up \$4.2 million or 2.4% from the prior year and up \$3.8 million or 2.1% compared to budget. Leading the pack was the instant portfolio with \$130.4 million and the Play3 and Play4 games had \$28.4 million prizes.
- Retailers earned \$16.7 million in commissions during the second quarter.
- Vendor fees paid to Scientific Games were \$2.7 million during the second quarter.
- Marketing and Advertising was \$2.8 million during the quarter. We were \$1.6 million below budget during the second quarter as the budget assumptions included a January launch of Keno, which is now on track for an April 2016 launch, due primarily to the timing and receipt of the Memorandum of Agreement between the tribes and the Office of Policy Management (OPM).
- Production expenses were \$1.7 million in the second quarter.
- Overall cost of sales were \$207.9 million during the second quarter.
- Operating expenses during the second quarter were \$5.5 million up \$356K or 6.9% compared to prior year, primarily as a result of wage and fringe benefit increase year over year. Total operating expenses were \$279K below budget, primarily relating to fewer new hires and from the delay in Keno launch.
- Total transfers to the General Fund were \$87.3 million in the second quarter, which was up \$7.9 million from prior year and up \$8.5 million compared to budget.

Highlights – For 6 months ended December 31, 2015 (*Prior Year and Budget Comparison*):

- Thru the first six months, total sales were \$591.2 million up \$31.5 million or 5.6% over the same period prior year and up \$21.3 million or 3.7% compared to budget. Instant sales led the group with \$366.7 million thru December (representing 62% of total sales) which puts us coincidentally \$31.5 million ahead of prior year and \$31.9 million ahead of budget.
- The Play3 and Play4 games as a group added \$124.3 million in revenue (21% of total sales revenue) an increase of \$11.7 million from prior year and up \$11.2 million compared to budget.
- Prize expense was \$373.3 thru the first six months. The prize expense percentage is higher due the high prize expense that occurred in the first quarter in the daily games. Prize expense for the instant portfolio and daily games accounted for 85% of total prizes awarded thru December.
- Retailers earned \$33.0 million in commissions thru December which is up due to the sales revenue increase.
- Vendor fees paid to Scientific Games were \$5.5 million for the first six months, due to the increase in sales.
- Marketing and Advertising expenses were \$5.4 million thru December which was \$1.9 million below budget due to the timing and receipt of the Agreement between the tribes and OPM and the delay from our budgeted launch of Keno.
- Production expenses were \$4.4 million thru December 31, 2015 and were flat compared to prior year, up \$500k from budget.
- Operating expenses were \$11.1 million up \$569K compared to prior year primarily as a result of wage and fringe benefit increase year over year.
- Compared to budget, total operating expenses were \$635K below budget, primarily relating to fewer new hires, unexpected vacancies and again from the delay in Keno launch. Other operating expenses were lower by approximately \$100K arising from a delay in the purchase of certain computer equipment as we assess our technology needs and lower fuel costs.
- Total transfers to the General Fund were \$158.7 million thru December 31, 2015 which was up \$2.8 million from prior year and up \$5.1 million compared to budget.

Legislative and Games:

Ms. Winston reported that he Legislative and Games Committee met on January 22, 2016. The Committee reviewed the sales and game performance and discussed the \$1.6 billion Powerball jackpot and the impact it had on the Lottery. The Committee also received a Capitol update and reviewed possible legislative initiatives.

V. Executive Session:

At 12:49 p.m., Chairman Farricker called for a motion to enter into Executive Session. On motion made by Mr. Morgan, seconded by Ms. Winston, and unanimously approved the Board moved into Executive Session to discuss:

- Review of Proposal: Financial Auditors
- Attorney/Client Communications

- Pending Claims and Litigation: (Illinois Class Action/Osmond)
- Statutory Matters, Title 12
- MUSL Governance: Multi-jurisdictional games/Tipton Litigation
- Consideration of Action to enforce Corporations legal rights in connection with 5 Card Cash

Ms. Noble, Ms. Glovach, Mr. Granato, Ms. Turner and Mr. Walter were invited to stay for the Review of Proposal for the Financial Auditors in Executive Session. After which, Ms. Noble, Ms. Glovach, Ms. Turner and Mr. Walter were asked to remain for the Attorney/Client Communications. The Board reconvened in regular session at 1:25 p.m. Chairman Farricker stated that no votes or actions took place during Executive Session.

VI. New Business:

Retention of Financial Auditors

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

Resolved, that after due consideration, and based upon the recommendation of the Audit Committee, the Board of Directors hereby approves the appointment of Marcum LLP as the auditing firm for the Connecticut Lottery Corporation for the next three years, with three potential one-year extensions, subject to the negotiation of an engagement letter on terms acceptable to the President.

This resolution passed unanimously.

Resolution to Endorse Problem Gambling Awareness Month in Connecticut beginning March 1, 2016 through March 31, 2016.

Chairman Farricker called for a motion to endorse Problem Gambling Awareness Month in Connecticut, and he presented the following resolution:

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

Resolved, that the Board of Directors of the Connecticut Lottery Corporation endorses the Lottery's observance of and participation in Problem Gambling Awareness Month in Connecticut, from March 1, through March 31, 2016 to raise public awareness about the potential risks of gambling, and to reinforce the Connecticut Lottery Corporation's commitment to corporate social responsibility.

This resolution passed unanimously.

VII. Adjournment:

Chairman Farricker reminded members of the Board that the next meeting is scheduled for April 21, 2016. He then called for a motion to adjourn the meeting.

On motion made by Ms. Winston, seconded by Mr. Dakers, and unanimously approved, the meeting was adjourned at 1:28 p.m.

Respectfully submitted,

Chelsea Turner
Corporation Secretary/Connecticut Lottery Corp.