

## Finance Committee

Special Meeting

January 27, 2010

11:30 a.m.

held at the

Connecticut Lottery Corporation

777 Brook Street

Rocky Hill, Connecticut

Board Members: Robert Morgan, Chairman of the Finance Committee; Patrick Birney, Martin Stauffer; and John Paul, Chairman of the Board

Staff Members: Anne M. Noble, President & CEO; Paul Sternburg and John Ramadei

Call to Order: Chairman Morgan called the meeting to order at 11:35 a.m.

I. Approval of Minutes:

On a motion by Mr. Stauffer, seconded by Mr. Paul and unanimously approved, it was *“Resolved, that the Minutes of the November 6, 2009 meeting be approved.”*

II. Executive Session – Review of Draft Financial Statements for the Six Months Ended December 31, 2009:

At 11:45 a.m. for purposes of discussing preliminary drafts of the financial statements for the six months ended December 31, 2009, Mr. Paul made a motion to move into Executive Session. The motion was seconded by Mr. Stauffer and unanimously approved. Ms. Noble, and Messrs. Sternburg and Ramadei were invited to remain for the Executive Session discussion.

At 11:55 a.m. the Executive Session ended and the Committee returned to regular session. Chairman Morgan stated that no actions or votes had taken place during Executive Session.

III. Discussion of Mega Millions Game Launch and Fiscal Impact Expected:

Chairman Morgan requested that Mr. Ramadei present information related to the financial impact of the Mega Millions Game Launch for the Committee’s consideration and discussion. Mr. Ramadei noted that the game is planned to launch on January 31, 2009 and preparations by the departments within the CLC and with its system vendor were nearly completed.

Mr. Ramadei stated that numerous opinions existed within the industry as to how the cross sales of both the Powerball and Mega Millions jackpot games within each of the states might affect total game revenues. Due to the unprecedented offering of two multi-jurisdictional jackpot games at the same time, and the offsetting expectations for lost cross-border sales and substitution purchases for the game with the higher jackpot, there was no firm basis to amend the current revenue projections included within the existing budget for fiscal 2010. Rather, management would track actual results for both games, both revenues and expenses, and report the remainder of the fiscal year to the Committee by comparing budgeted multi-jurisdictional revenues (previously labeled Powerball revenues) against the combined sales for both games. As experience with the dual offerings is generated, a base of data will be accumulated to use for individual game projections in future fiscal periods.

Further, Mr. Ramadei noted that there were certain expenses of launching a new game that would be incurred but which were not planned in the 2010 budget because the launch of this game was unknown at the time the budget was approved. Specifically, certain marketing expenses for billboards, public announcements and advertisements would cost between \$800,000 and \$1,000,000 for the Mega Millions launch. Certain of these expenses could be absorbed within the budgeted marketing expenses, but it was anticipated that between \$600,000 and \$800,000 would exceed the currently approved budget. Mr. Sternburg provided the Committee with the details of the marketing plan that comprised the launch expenditures.

Mr. Birney asked whether this variance to the budget required an amendment to the budget or whether normal reporting to the Board was sufficient authorization for the expenditures. Mr. Ramadei noted that while the line item variance for the year would be within a range of 6% to 8% of the marketing budget, the impact on total revenues was between .06% and .08% and was also immaterial to the total transfers to the General Fund. It was determined that the expenditures related to the launch of Mega millions would be reported to the entire Board of Directors at the next meeting and actual expenditures would be reported as a variance for the remainder of the fiscal year.

IV. Old Business:

Chairman Morgan inquired if there was any old business. Mr. Ramadei reported that there was new information regarding the state bill to potentially securitize lottery proceeds to help balance the state budget deficit. Mr. Ramadei noted that he had further discussions with representatives of the state Treasurer's Office. Treasury is working with the Office of Policy and Management on a joint study which is due on February 3, 2010. The study will be released on time and may still involve securitization of lottery proceeds. However, Treasury's preliminary discussions with potential underwriters of the debt offering indicated that restrictive covenants on CLC's operations were unlikely at this time. The study would need to be discussed within the Legislature and public hearings held before a final preferred financing option would be considered for actual legislation. Legislation would not be expected before May, 2010 and execution of a financing would not occur before December 2010. Mr. Ramadei will remain in contact with both agencies and will report further developments as they occur.

V. New Business:

Mr. Ramadei reported that he received a request from an insurance company broker to have the Board consider easing the qualifications for life insurance companies which may be interested in bidding on annuity contracts to fund long-term prize payments. The broker indicated that many insurance companies have been down-graded by the rating services due to the recent financial recession and that by relaxing the standards more companies might qualify to provide competitive bids. The approval process for qualified insurance companies involves both the Division of Special Revenue (DOSR) and the Insurance Commissioner's Office. Mr. Ramadei stated that he has already contacted the DOSR for additional background on the feasibility of the request and no recommendation can be presented at this time. More information will be gathered on the request and future developments will be reported to the Committee as they occur.

VI. Adjournment:

On a motion made by Mr. Birney, seconded by Mr. Paul and unanimously approved, the meeting was adjourned at 12:40 p.m.

Respectfully submitted,

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By: John A. Ramadei  
Chief Financial Officer  
Connecticut Lottery Corporation