

**Finance Committee  
Special Meeting Minutes**

Held on  
Tuesday, May 13, 2014 at 1:00 p.m.

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

Committee Members: Patrick Birney, Chairperson of the Finance Committee; Bob Morgan; and Robert Dakers.

Board Members: None.

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

Call to Order: Mr. Birney called the meeting to order at 1:04 p.m.

I. Approval of Minutes:

On a motion made by Mr. Morgan and seconded by Mr. Dakers, the minutes of the February 25, 2014 meeting were unanimously approved.

II. Review of Draft Financial Statements for the Period ended March 31, 2014:

Mr. Granato began the meeting with a brief overview. Sales were negatively impacted in the third quarter partly due to inclement weather (two instances shut down the State) and he noted that this quarter is the shortest with only 90 days.

Mr. Granato presented the following highlights:

Highlights - For 3 months ended March 31, 2014 (*Actual vs. Prior Year*):

- Sales for the quarter were \$267.5 million. This is down \$5.6 million or 2.1% from last year.
- Instant ticket sales of \$161.8 million accounted for just over 60% of total sales. Compared to last year at this time, instant ticket sales were down \$3.9 million or 2.3%.
- The Daily 3/4 games contributed sales of \$56.6 million and accounted for just over 21% of total sales. Compared to last year, the Daily 3/4 games were down \$1.1 million or 1.7%.

- MegaMillions and Cash 5 performed better this quarter than in the prior year. MegaMillions had a small jackpot run of up to \$400 million in mid March which contributed double its sales from the prior year.
- Overall prize expense was down \$14.9 million or 8.7% compared to the prior year. Every game, except MegaMillions, experienced a lower prize payout compared to the same period a year earlier. The decline in prize expense helped offset the decline in sales.
- Retailer commissions and on-line systems were in line with the prior year.
- Marketing & advertising expenses totaled \$2.4 million, down \$400,000 or 13% compared to the prior year.
- Production expenses totaled \$1.3 million, down \$200,000 or 11.7% compared to the prior year. The decline was primarily driven by lower ITVM lease costs.
- Overall costs of sales totaled \$177.8 million, down \$15.8 million or 8.2% compared to the prior year.
- Total operating expenses for the quarter were \$5 million, up \$407.8 thousand from a year ago. The increase was driven by salaries and benefits with benefit costs rising faster than salaries.
- Other operating expenses, depreciation, and bad debt were all down compared to the prior period.
- General Fund transfers totaled \$80 million for the quarter and were \$7.3 million ahead of the prior year. The increase is related to lower prize expense.

Highlights – For 9 months ended March 31, 2014 (*Actual vs. Prior Year*):

- As of March 31, 2014, year-to-date sales were \$830 million, up \$6.4 million from last year. This was an increase of just under 1%.
- Instant ticket sales are at the same pace at \$491 million for the first nine months and accounted for 59% of total sales.
- The Daily 3/4 games are ahead of last year by \$6.6 million and contributed just over 21% of total sales.
- The Daily 3/4 games and MegaMillions are performing better than the prior year but the gain is offset by the lower Powerball sales through the first nine months.
- Prize expense was \$494.6 million, down \$12.1 million or 2.4% from the same period a year ago. The increase can be attributable in part to higher unclaimed prizes on instant tickets in the prior year and the current period includes prizes for second chance drawings.
- Retailer commissions, on-line systems and marketing costs were modestly up from the same period a year ago.
- Production expenses were 7.3% lower due to lower ITVM lease costs and lower MUSL fees.
- Overall costs of sales totaled \$563 million, down 11.4 million or 2%.

Ms. Noble commented that the instant ticket portfolio saw a slight decline in sales this last quarter. The May 2014 launch of the new draw game Five Card Cash includes an instant component. The Lottery is also considering a new \$20 price point ticket to help boost sales.

Highlights – For 3 months ended March 31, 2014 (*Actual vs. Budget*):

- Sales totaled \$267.5 million, \$9.8 million or 3.5% lower than budget.
- Instant portfolio is \$6 million behind budget.
- The Daily 3/4 games continued their strong performance and were up \$1.5 million compared to budget.
- MegaMillions outperformed budget expectations by \$3.4 million due to the large jackpot in March.
- Powerball and Lucky for Life missed budgeted projections.
- Prize expense was \$12.9 million, or 7.6% under budget. This was due, in part, to the Daily 3/4 games and Lucky for Life experiencing lower payouts compared to budget.
- Retailer commissions and on-line systems were on target with budgeted expectations.
- Marketing was under budget \$900,000 due to commercial productions sliding into the fourth quarter.
- Overall costs of sales were down \$14.6 million compared to budget.
- Operating expenses were just over \$5 million but under budget by \$314,000. All categories had a positive spend variance; meaning we spent less than anticipated. The Lottery has and will continue to closely monitor all spending.
- Salaries and benefits were under budget due to vacancies. These vacancies exceeded the Lottery's internal vacancy rate.
- General Fund transfers, for the quarter ended March 31<sup>st</sup>, were \$1.6 million ahead of budget.

Highlights – For 9 months ended March 31, 2014 (*Actual vs. Budget*):

- Sales through March 31, were .5% or \$4.2 million behind budget.
- The instant portfolio and Powerball were down a combined \$20 million compared to budget offset by an increase of \$20 million for the Daily 3/4 games and MegaMillions.
- Prize expense has been consistently below statistical budget. Overall prizes were \$13.8 million or 2.7% below budget.
- Retailer commissions were under budget by \$700,000, relating to incentive based compensation for retailers.
- On-line systems are on target with budgeted expectations.
- Marketing is under budget by \$1.2 million. The variance is due in part to Five Card Cash launching in May and not April, as the original budget projected.
- Costs of sales saw a \$15.8 million decline which was mostly driven by lower prizes.
- Operating expenses, as of March 31, were \$744.7 thousand below budget.
- Salaries and benefits were under budget due to open vacant positions.
- Other operating costs were below budget due to lower office supply costs, legal costs, and software licensing costs. Other operating expenses have been and will continue to be tightly controlled.
- General Fund transfers were \$2.3 million or 1% ahead of budget.

Mr. Birney commended the Lottery for keeping operating expenses at or below budget.

III. Executive Session:

On a motion made by Mr. Morgan and seconded by Mr. Dakers, and unanimously approved, the Committee moved into Executive Session at 1:25 p.m. Ms. Noble, Ms. Patterson, Mr. Granato, Ms. Glovach, Ms. Turner and Mr. Hunter were invited to Executive Session to discuss the following:

- Review of Draft Budget
- Alumni Road Lease
- New Game Initiatives

The Committee reconvened in regular session at 2:32 p.m. Mr. Birney stated that no actions or votes were taken during Executive Session.

IV. Old Business:

The Lottery is continuing to assess how funds are being managed. The possibility of a Line of Credit was discussed in order to balance the need for cash on hand and the ability to aggressively transfer funds to the state.

Mr. Granato discussed with the Lottery's bank an unsecured Line of Credit in the amount of \$5 million. Mr. Granato proceeded to inform the Committee of the terms of a Line of Credit including, but not limited to, interest, closing/legal costs, commitment fees and annual costs.

Mr. Morgan noted that the Lottery was not in financial need of a Line of Credit. Mr. Granato agreed and added that the Line of Credit would act as a safety cushion and would be drawn on only if needed in an unusual circumstance. Ms. Noble indicated that the Line of Credit might benefit the state by allowing the Lottery to transfer funds more aggressively to the General Fund, but noted that the Lottery could also continue to operate with a higher cash balance, if preferred. Mr. Morgan suggested the Lottery determine if any other quasi-public state agencies utilize a Line of Credit, and indicated that he would inquire further at the Treasury. Mr. Granato and Ms. Noble stated that the proposal remains under review and a recommendation would be forthcoming.

V. New Business:

No significant new business reported. The results of Scientific Games quarterly report were shared with the Committee.

VI. Adjournment:

On a motion made by Mr. Morgan and seconded by Mr. Dakers, and unanimously approved, the meeting was adjourned at 2:49 p.m.

Respectfully Submitted,

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By: Paul A. Granato  
Chief Financial Officer  
Connecticut Lottery Corporation