

TRI-STATE LOTTO COMMISSION

Commission Meeting Minutes

Hotel VT

41 Cherry Street

Burlington, Vermont

November 4, 2022 9:00 AM

Present:

Debra Douglas, Commission Chair, NH Lottery	Ed Flanagan, Commissioner VT Lottery
Julie Sheehan, Commissioners ME Lottery	Katie Brown, NH Lottery
Maura McCann, NH Lottery	Charlie McIntyre, NH Lottery
Skip Whitman, VT Lottery	Don Wenner, VT Lottery
Sylvia Buzzell, VT Lottery	Gregg Mineo, ME Lottery
Lisa Rodrigue, ME Lottery	Michael Boardman, ME Lottery
Ryan Sahr, Intralot	Dominic Timbas, Intralot
Kristen Pare, Intralot	Jeff Savage, Intralot
Darrell Frecker, Scientific Games	Greta Larson, Scientific Games
Maggie Bauer, Scientific Games	Amy Warner, Scientific Games
Paula Maltman, Scientific Games	Steve Mason, Fuseideas
Simran Gulati, Fuseideas	Anna McDonough, Fuseideas
Taylor Bengston, GYK Antler	Jeff Newman, GYK Antler
Kenneth Donaldson, US Bank	Anthony DeAngelis, US Bank
Christian Smith, Wipfli	Andrew Collier, VT Lottery
Calvin Rinck, VT Lottery	Jim Duris, NH Lottery

Chairman Douglas called the meeting to order at 9:13 AM.

1. ACCEPTANCE OF MINUTES FROM AUGUST 23, 2022

Motion was made by Commissioner Sheehan to accept the minutes from August 23 2022, seconded by Commissioner Flanagan. So voted, unanimous.

2. FINANCE COMMITTEE REPORT

Don Wenner provided a finance update.

The FY23 budget has not yet been loaded into the Great Plains accounting system used by Tri-State. The actual budget comparisons will be available, starting again, in the next monthly report.

FY23 sales for the first quarter were lower than the same period in FY22 by \$1.028 million or 4.98%. Sales for all games were lower with the drop in Megabucks recording the largest percentage drop at 8.23%.

Corresponding to the lower sales, cost of sales in the first quarter were also lower than the same period in FY22 by nearly \$617 thousand or 4.4%. Operating expenses were also lower than the same period in FY22 by nearly \$85,000 driven by mainly by lower advertising costs.

Net profit from operations through the first quarter of FY23 totaled \$5.8 million. There was \$2,868,179 in Expired Unclaimed Prizes at the end of September.

Christian Smith, CPA, a partner at Wipfli presented the results of the annual audit. He stated that the result of the audit was an unmodified or “clean audit opinion”, which means that the financial statements of Tri-State Lotto Commission are fairly stated in accordance with general accepted accounting principles. Mr Smith also went over the specific financial results for the year in comparison to the prior year and stated that the Commission is in good financial health. Wipfli also issued a separate communication letter in which describes that there were no changes in accounting standards or practices, there were no difficulties in performing the audit and no disagreements with management. Wipfli also issued a separate letter regarding internal control, for which there were no significant deficiencies or material weaknesses reported.

Christian Smith noted that they had received, that morning, a copy of the SOC report from Scientific Games, Maine that was needed to complete the audit process.

Commissioner Flanagan made a motion to accept the results of the FY 22 Annual Audit, subject to the receipt of the signed Scientific Games SOC report. Commissioner Sheehan seconded the motion. So voted, unanimous.

Kenneth S. Donaldson, Vice President, Senior Portfolio Manager & Registered Municipal Advisor Representative for US Bank provided Tri-State with a portfolio review.

Equity markets saw widespread declines in September. Rising interest rates pressured equity valuations throughout the month and quarter and served as the primary sell-off factor wiping out gains from earlier in the quarter and bringing the major indices to their lowest closing levels for the year. The S&P 500 fell 9.21 percent during the month, which caused the index to lose 4.88 percent during the quarter.

These losses came despite improving fundamentals for the month and the quarter. Per Bloomberg Intelligence, as of September 16, 2022, with 99.8 percent of companies having reported actual earnings, the blended earnings growth rate for the S&P 500 in the second quarter was 8 percent. This is up notably from the initial estimates for 4.1 percent earnings growth at the start of earnings season and signals continued fundamental progress for U.S. businesses during the quarter. Fundamentals drive long-term market performance, so continued better-than-expected earnings growth is an encouraging signal.

While fundamentals were supportive during the quarter, technical factors were not. All three major U.S. indices finished the month below their respective 200-day moving averages, marking six consecutive months with all three indices finishing below trend. The 200-day moving average is an important technical indicator, as prolonged breaks above or below this level can signal shifting investor sentiment for an index. Last quarter's continued technical weakness for U.S. markets is a potential cause for concern as it indicates that investors are cautious about U.S. markets.

Fixed income markets also experienced widespread declines due to rising interest rates during the month and quarter. The 10-year Treasury yield rose from 2.98 percent at the end of the second quarter to 3.83 percent by the end of the third quarter, bringing long-term rates well above pre-Covid-19 pandemic levels.

The Fed hiked the federal funds rate a combined 150 basis points (bps) at its July and September meetings to slow economic growth and combat inflation, and more rate hikes are expected at the upcoming November and December meetings. The sharp increase in the yield on the U.S. Treasury 10-year note put pressure on equity and fixed income valuations.

The Bloomberg Aggregate Bond Index declined 4.32 percent for the month and 4.75 percent for the quarter.

What does this mean for our portfolio? The short end of the curve saw extremely sharp increase in rates as a result of the Fed's signals that they will continue to be aggressive in trying to curb inflation in spite of concerns of a slowing economy. The 6-month T-bill rose 55 bps from 3.24% to 3.79% while the 1-year Treasury rose 47 bps, up from 3.36% to 3.83%. The 3-year rose 75 bps from 3.46% to 4.21%. As a result, the Tri-State Lotto Benchmark returned 1.41% in September while the portfolio declined 1.59% net of fees. The fixed income portion of the portfolio fell 1.43% vs. the fixed income ICEBofAML 1-5 Year US Corporate Government Index benchmark falling 1.18%. The disparity was largely due to the High yield exposure (3%) which fell -1.67%.

3. MARKETING AND PRODUCT DEVELOPMENT COMMITTEE REPORT

Maura McCann updated the Commission on the following: The gaming system vendors of Intralot and Scientific Games provided out of the box promotions that may be supported by all three states. Intralot provided a handful of promotions with use of QR codes to provide promotional information and entry into drawings to win prizes. Scientific Games provided a year's worth of promotions, something for every month. Additional Scientific games talked about awarding Retailers additional compensation to increase ticket sales. We have a wealth of information to review.

Tri-State Megabucks game change is scheduled for September of 2023. Rules are being updated, great creative was presented by both GYK Antler and Fuseideas. Of importance is locking in an updated logo to refresh the game and that is needed by December. From the creative presented, we hope the Committee can land on an option acceptable to all. This would be television, radio, digital and social.

The Product Development Committee continues to explore the licensed draw game Cash Pop™ presented by IGT on August 12, 2022. Vendor discussions continue regarding the necessary RNG draw capability. Potential workflow and timelines, the Product Development Committee may weigh the possibility of one state launching with the other state(s) following closely behind.

The Committee continues to work on the next Tri-State scratch tickets. Preliminary meetings have been held with both vendors. With Vermont's conversion behind them, we hope to be able to set up meetings between Maine, New Hampshire and Vermont to get this project moving.

- Golden Nugget by Alchemy 3
- Cash Dash by Scientific Games

The first GigTour with Lee Brice and our winners from the first second chance drawing for the \$5 Big Country Cash scratch ticket took place in September. The winners flew into Nashville, Tennessee and then it was on to Bossier City, Louisiana for the first of two concerts. Then onto Sugarland, Texas for concert number 2 and back on the bus, for a 15-hour ride back to Nashville, Tennessee and home. Rave reviews from the finalists regarding the experience and the winners of the final drawings have been selected and we are looking forward to their tour in the spring/summer of 2023.

With the fall meeting a success, we'll be looking forward to holding the spring meeting in Portland, Maine. Two or three hotels, that we did not choose for the fall meeting have said that they are happy to work with us for the spring 2023 meeting.

4. DRAW COMMITTEE REPORT

Maura McCann updated the Commission that the draw team was back at 100% capacity with the hiring of New Hampshire Lottery employee Bunu Gurung as a Tri-State Monitor.

5. ACCEPTANCE OF COMMITTEE REPORTS

Chairman Sheehan requested a motion to accept the committee reports. Commissioner Douglas so moved, and Commissioner Flanagan seconded, both passed unanimously.

6. NEXT MEETING

Next meeting will be held on Friday, February 13, 2023 at 10:30 a.m.

7. OTHER

The Virtual Meeting Policy was discussed. The following changes were requested in updating #4 to read as: To conduct a full or partially remote meeting, the Commission must: As a result of updating #4, the Commission felt that #6 could be deleted.

Chairman Sheehan entertained a motion to adjourn; so moved by Commissioner Douglas and seconded by Commissioner Flanagan; meeting adjourned at 10:15 a.m.

A handwritten signature in cursive script, appearing to read "Debra Douglas".

Chair Debra Douglas