

NEW JERSEY STATE LOTTERY COMMISSION

PUBLIC MEETING JANUARY 16, 2020

Acting Executive Director Carey called the Commission meeting into session at 10:00 a.m. in the Lottery Office located at One Lawrence Park Complex, Lawrenceville, New Jersey.

COMMISSION MEMBERS PRESENT

Robert D'Anton, Chairman (by phone)
Marilyn Blazovsky, Vice Chair
Sirfaraz Piracha, Treasurer's Designee (by phone)
Gary Terwilliger, Division of Investment Designee (by phone)

James A. Carey, Jr., Acting Executive Director
Robert E. Kelly, Deputy Attorney General
Lauren LaRusso, Governor's Auth. Unit (by phone)

VISITORS

Adam Perlow, Northstar
Erica Helms, Northstar
Foster Krupa, Northstar
Joseph Cavallo, Northstar
Sam Fromkin, Northstar

STAFF

Regina Arcuri
Fran Edwards
Jerry Guarino
Robert Kersey
Kalliopi Kostis
Jason Lee
Charlene Mello
Daniel O'Brien
Rick Pagnani
Steve Palmieri
Debbie Raub
Mary Ann Rivell
Ryan Schaffer
Margaret Square
John White

After the Pledge of Allegiance, Acting Executive Director Carey announced that the Lottery was in compliance with the provisions of the Open Public Meetings Act and that adequate notice of the meeting had been provided in the manner prescribed by law.

Acting Executive Director Carey requested a motion to approve the minutes of the December 19, 2019 Commission meeting. Vice Chair Blazovsky made the motion, which was seconded by Chairman D'Anton. Acting Executive Director Carey asked if there were any comments and there being none, the motion carried.

Acting Executive Director Carey requested a motion to approve the minutes of the January 6, 2020 Special Commission meeting. Investment Designee Terwilliger made the motion, which was seconded by Chairman D'Anton. Acting Executive Director Carey asked if there were any comments and there being none, the motion carried.

DIRECTOR'S REPORT

Acting Executive Director Carey reviewed the Lottery's December results and activities. Highlights were:

All games total sales were: \$288.5 million
Lotto games total sales were: \$38 million
Daily machine games total sales were: \$79.8 million
Scratch-Off Tickets total sales were: \$170.5 million

Acting Executive Director Carey stated that Pick-6 had sales of \$4.9 million compared to \$7.8 million the prior year, which was a decrease of 36%.

Acting Executive Director Carey stated that CASH4LIFE had sales of \$4.7 million compared to \$3 million the prior year, which was an increase of 51%.

Acting Executive Director Carey stated that Mega Millions had sales of \$17.1 million compared to \$16.9 million the prior year, which was an increase of 1.2%.

Acting Executive Director Carey stated that Powerball had sales of \$11.3 million compared to \$13.9 million the prior year, which was a decrease of 18.8%.

Acting Executive Director Carey stated that Pick-3 had sales of \$33.6 million compared to \$34.5 million the prior year, which was a decrease of 2.5%.

Acting Executive Director Carey stated that Pick-4 had sales of \$22.1 million compared to \$22.4 million the prior year, which was a decrease of 1%.

Acting Executive Director Carey stated that Jersey Cash 5 had sales of \$10.6 million compared to \$13.3 million the prior year, which was a decrease of 20.7%.

Acting Executive Director Carey stated that Cash Pop had sales of \$2.1 million.

Acting Executive Director Carey stated that Quick Draw had sales of \$9.5 million compared to \$11.7 million the prior year, which was a decrease of 19%.

Acting Executive Director Carey stated that Fast Play had sales of \$1.4 million compared to \$1.8 million the prior year, which was a decrease of 25%.

Acting Executive Director Carey stated that fiscal year to date all games had total sales of \$1.6 billion compared to \$1.7 billion the prior year, which was a decrease of 8.9%.

The contribution to date to Pension Fund L for the fiscal year was \$466.3 million, which was a decrease of 14.7%.

Acting Executive Director Carey stated that fiscal year to date Pick-6 had sales of \$29.8 million compared to \$49.5 million the prior year, which was a decrease of 39%.

Acting Executive Director Carey stated that fiscal year to date CASH4LIFE had sales of \$29.4 million compared to \$19 million the prior year, which was an increase of 52%.

Acting Executive Director Carey stated that fiscal year to date Mega Millions had sales of \$76.4 million compared to \$188.9 million the prior year, which was a decrease of 59.5%.

Acting Executive Director Carey stated that fiscal year to date Powerball had sales of \$60.9 million compared to \$109 million the prior year, which was a decrease of 44%.

Acting Executive Director Carey stated that fiscal year to date Scratch-Offs had sales of \$942.2 million compared to \$924.58 million the prior year, which was an increase of 1.9%.

Acting Executive Director Carey stated that fiscal year to date all games had total sales of \$1.42 billion compared to \$1.41 billion the prior year, which was an increase of 0.8%.

Acting Executive Director Carey stated that fiscal year to date New Jersey only games had total sales of \$1.45 billion compared to \$1.46 billion the prior year, which was a decrease of 0.6%.

Acting Executive Director Carey stated that the Director's report includes a Sales and Revenue Report to show the expenses. Included are prize expense, gaming system fees, instant ticket fees, marketing and advertising fees, Manager Expenses, the Northstar Incentive fee and Lottery Administration.

Acting Executive Director Carey stated that net proceeds for the fiscal year to date were \$466.3 million or 28.8% of sales. Lotto games were \$79.1 million or 38.6% of sales. Daily games were \$180.9 million or 38% of sales. Instant games were \$200 million or 21% of sales.

Acting Executive Director Carey stated that total to date FY19 net proceeds, also include 30% of the current estimated forfeited prizes or \$6.2 million.

Acting Executive Director Carey stated that receipts and deposits for the month of December were \$291.5 million.

Acting Executive Director Carey stated that current balances in annuity investment accounts total \$113 million.

The three top selling non-core games for December were "\$200X the Money Bonus," which generated \$17.2 million in sales, "Winter Wishes," which generated \$10.8 million in sales and "\$1,000,000 Spectacular" which generated \$8.8 million in sales.

Total sales for Core and Family Games for the month were more than \$107 million. The "Crossword" family of games had \$28.4 million in sales, "Holiday" family of games had \$25.9 million in sales and the "Spectacular" family of games had \$17.7 million in sales.

Acting Executive Director Carey stated that the four new games introduced during December were "2020 Cash Celebration," "Win For Life," "Double Match Bonus" and "\$1,000,000 Spectacular."

Acting Executive Director Carey stated that new games launched on January 6 were "Loose Change," "Love to Win \$50's," "Bingo Bonus Square" and "7's."

Acting Executive Director Carey stated that there were a few high tier winners throughout the state in December. Jersey Cash 5 had one \$449,119 winner on December 2 in Bergen County. Jersey Cash 5 had two \$234,625 winners on December 11, one in Bergen County and one in Passaic County. Powerball had one \$1,000,000 winner on December 25. There was one scratch off winner of \$250,000 in Ocean County and one scratch off winner of \$500,000 in Middlesex County. Acting Executive Director Carey stated that Fast Play Progressive had a high tier winner on December 18 of \$57,773.00.

Acting Executive Director Carey stated that all drawings for the month of December were completed with no abnormalities.

Acting Executive Director Carey stated that all on-line game pools were closed according to procedures with no abnormalities. All Powerball and Mega Millions Drawings were verified and processed with no abnormalities. The Internal Control System (ICS) was processed for each drawing without any imbalances. All appropriate winning number information was broadcast correctly to all media contacts. All in-house staff received appropriate information via email.

Acting Executive Director Carey stated that he attended the Speaker's Bureau event held at Our Lady of Hope Seniors Club in Gloucester Township on January 13.

Acting Executive Director Carey stated that the Lottery held the 50th Anniversary Kick-off events at the Bridgewater Mall and the Wild Wild West Casino in Atlantic City.

Acting Executive Director Carey stated that the new Tricasters used for the video production of draws were purchased and installed.

Acting Executive Director Carey stated that the Validations department received and sorted 3,253 mailed claim forms during the month of December and an additional 354 walk-in claims. Staff entered 3,815 claims into the claims tracking system. During the month of December, there were 1,982 claims totaling over \$5 million that were paid to winners including annuity payments.

Acting Executive Director Carey stated that the Retailer/Call Center handled 5,688 incoming calls during the month. They also handled 2,237 winner claim status calls during the month of December. The Call Center received more calls and fewer claims were paid because the Lottery does not issue payments the last two weeks in December in order to begin the tax process.

Acting Executive Director Carey stated that there were 224 open investigations at the end of the month. There were 125 security investigations initiated. There were 157 security investigations completed. There were 76 licenses issued.

Acting Executive Director Carey stated that an aging report on security investigations will be given at the February Commission meeting.

Acting Executive Director Carey concluded the Director's Report.

Acting Executive Director Carey asked if there were any questions or comments.

Vice Chair Blazovsky asked when there will be a proposal to deal with the declining sales in Cash Pop.

Acting Executive Director Carey asked Adam Perlow, Vice President and Chief Operating Officer of Northstar, to respond. Mr. Perlow stated that they will have that very shortly.

Vice Chair Blazovsky stated that it seems that Fast Play is really hitting. Is there is any way to tweak that game in order to have a more sustained time period. Mr. Perlow responded that there are plans to change odds on the progressive jackpot to allow it to grow.

Acting Executive Director Carey stated that there is a meeting scheduled for that afternoon to discuss the Business Plan.

Vice Chair Blazovsky stated that the Sales and Revenue chart was very helpful.

Acting Executive Director Carey thanked the Finance Unit for putting the chart together.

Vice Chair Blazovsky asked how the prize expense increased or decreased over the last five years. John White, Deputy Director of Finance, stated that it has remained consistent and it is tied to sales.

Vice Chair Blazovsky asked if the percentage stays about the same. Acting Executive Director Carey responded that the overall prize expense for the Lottery has been about 60%, with draw games around 50% and scratch-offs around 66%. Northstar has more leeway to move things with scratch-off games, but Lottery still has to make a 30% contribution.

Vice Chair Blazovsky asked how the prize expense for instant tickets could move?

Mr. Perlow stated that one reason for the fluctuation is because a year like last year, where there were very high Mega Millions and Powerball draw sales, there was a different balance between the lower margin scratch-off games and the higher margin draw games. In a year like this, scratch-off tickets will be a higher percentage of sales and the prize expense will increase. Deputy Director White stated that last year the contribution was just under 32%.

Vice Chair Blazovsky stated that she understands the contribution but she is referring to the fluctuation in the prize amount. She asked how that looked over last few years for perspective. Deputy Director White stated that it is tied to the Mega Millions and Powerball games. In 2016 we had the \$1.6 billion jackpot in Powerball, overall the portfolio had a lower prize expense and higher profit margin. In the years where there are no high jackpots, like this year and 2017, the margins are a little bit lower.

Vice Chair Blazovsky asked if the percentage of the prize expense is influenced by the mix of tickets in the marketplace. Mr. Perlow responded that it is and also by what players are playing. For scratch-off tickets, it is player preference and players have been moving to higher price points over the last few years nationwide. They are choosing to play higher price point games because the games have higher pay outs.

Vice Chair Blazovsky asked if she could get a chart showing total sales and prize expense as a percentage of total sales. Acting Executive Director Carey responded that we can get that for the Commissioners.

Acting Executive Director Carey asked if there were any other questions.

Acting Executive Director Carey requested a motion to approve the Director's Report. Investment Designee Terwilliger made the motion, which was seconded by Vice Chair Blazovsky.

NEW BUSINESS

Acting Executive Director Carey certified that consideration for each game included, but was not limited to, intended target market, product family, seasonal factors, launch plans, overall market strategy, sales goals, prior experience, current market trends and market place demands. Additionally, as part of our overall responsible gaming initiatives, these games have been reviewed to identify any problematic elements that could present a risk to vulnerable problem gamblers.

Acting Executive Director Carey requested a motion to approve the instant ticket game rules for "Money Madness." Investment Designee Terwilliger made the motion which was seconded by Vice Chair Blazovsky. Acting Executive Director Carey asked if there were any comments and there being none the motion carried.

Joe Cavallo, Senior Director of Technology & Operations at Northstar, gave a presentation to the Commission on the technology update.

Acting Executive Director Carey stated that the technology upgrade was part of the contract that the New Jersey Lottery entered into with Northstar. Northstar agreed to work with IGT to provide a gaming system upgrade to the New Jersey Lottery in 2020.

Mr. Perlow stated that all the devices are IGT's latest version of equipment. New Jersey will be the third state in the country to roll out the Quick Draw touchscreen self-service vending machine. The Game Touch 20, a vending machine designed for Walmart, rolled out nationally last year and will be installed this year in New Jersey.

Acting Executive Director Carey stated that this new gaming system was negotiated by the State during the prior administration. Acting Executive Director Carey stated that Deputy Executive Director Guarino is chairing a committee to work with Mr. Cavallo and Northstar in order to get what is needed. Staff has reached out to some of our colleagues in the industry, including Bill Jourdain at the North Carolina Lottery. The Lottery will work closely in the upcoming year with Mr. Cavallo and his team to get this rolled out well.

Mr. Cavallo stated that 10 other jurisdictions have this gaming system it right now, eight are domestic.

Vice Chair Blazovsky asked if there will be opportunity to add things to the new Aurora system or is it all already contained and we are taking it as is. Mr. Cavallo stated that right now they are going through the requirements process. His staff has met with all the users to find out what are their issues might be or what is on their wish lists going forward. Mr. Cavallo is working with Deputy Executive Director Guarino on additional wish lists that the Lottery may want to add to the systems so that they have a good starting point for January 2021. About once every quarter they do a major software release and once every month they do a minor release. That will continue until the end of the term of the contract. As new issues arise, they are constantly adding them to the system.

Vice Chair Blazovsky asked if they will then be incorporated in the new system. Mr. Cavallo responded that it will be. Mr. Perlow added that it is one of the purposes of the new system, it will allow greater flexibility to add on new innovations to the Lottery.

Acting Executive Director Carey stated that the infrastructure is there with the new equipment to go cashless, if that is the direction the Lottery starts to go in.

Vice Chair Blazovsky stated that in her past experience the requirements definition is one of the most important parts of this process. Vice Chair Blazovsky urges the New Jersey Lottery to take advantage of that and take it very seriously.

PUBLIC COMMENT

There was no Public Comment.

EXECUTIVE SESSION

There was no Executive Session.

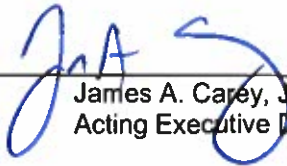
ADJOURNMENT

Acting Executive Director Carey asked for a motion to adjourn the Public meeting. Vice Chair Blazovsky made the motion which was seconded by Investment Designee Terwilliger. The motion carried.

I HEREBY CERTIFY that the foregoing is a true and correct copy of the minutes of the New Jersey Lottery Commission meeting held on January 16, 2020.

IN WITNESS WHEREOF, I hereby set my hand on

the 13th day of February, 2020.


James A. Carey, Jr.
Acting Executive Director