

NEW JERSEY STATE LOTTERY COMMISSION

PUBLIC MEETING JULY 30, 2020

Executive Director Carey called the Commission meeting into session at 11:00 a.m. in the Lottery Office located at One Lawrence Park Complex, Lawrenceville, New Jersey.

COMMISSION MEMBERS

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

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

VISITORS (BY TELEPHONE)

Adam Perlow, Northstar
Erica Helms, Northstar
Foster Krupa, Northstar
Sam Fromkin, Northstar
Kristen Connelly, Northstar
Joe Cavallo, Northstar

STAFF (BY TELEPHONE)

Fran Edwards
Missy Gillespie
Jerry Guarino
Dean Ialacci
Robert Kersey
Kalli Kostis
Jason Lee
Charlene Mello
Joe Oleszkiewicz
Rick Pagnani
Steve Palmieri
Debbie Raub
Mary Ann Rivell
Ryan Schaffer
Margaret Square
John White

After the Pledge of Allegiance, 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.

Executive Director Carey requested a motion to approve the minutes of the June 18, 2020 Commission meeting. Executive Director Carey stated that there was an error in the minutes on page 6 where Executive Director Carey asked for a nomination for Vice Chair of the Lottery Commission. Treasurer's Designee Piracha nominated Vice Chair Blazovsky, which was seconded by Chairman D'Anton. The minutes originally circulated to the Commissioners stated that Treasurer's Designee Ajmani voted. However, Mr. Piracha was present at the meeting for Ms. Ajmani, nominated Vice Chair Blazovsky and voted in favor of the nomination. A corrected version was sent to the Governor's Office and a corrected copy will be circulated to the Commissioners following this meeting. Investment Designee Terwilliger made the motion to approve the minutes as amended, which was seconded by Treasurer's Designee Ajmani. Executive Director Carey asked if there were any comments and there being none, the motion carried.

DIRECTOR'S REPORT

Executive Director Carey stated that the Fiscal Year which concluded on June 30, 2020 was challenging. The Lottery had sales of \$3.2 billion and contributed \$937 million in revenue to the State. Sales in FY19 were \$3.482 billion and FY20 sales were down 7.7% compared to the prior year. The results are unaudited figures and the total amount of the final contribution to the State will increase when the Lottery's Fiscal Year 2020 financial audit is complete.

Reviewing the FY20 results, and comparing those results to the prior year, Executive Director Carey stated that in Fiscal Year 2019, the New Jersey Lottery benefited from high jackpots in the multistate games Powerball and Mega Millions, resulting in record sales. There was a \$1.5 billion jackpot for Mega Millions in October 2018, and a week later Powerball had a \$750 million jackpot. There were several

other jackpots exceeding \$400 million in FY19. In FY20, there was one jackpot between the two games that exceeded \$400 million.

Executive Director Carey stated that FY20 saw much slower sales compared to prior years with the multi-state jackpot games. In January of 2019, Mega Millions had an annuity advertised Jackpot that peaked at \$437 million. It took approximately 24 draws to reach this peak. Nearly a year later in December of 2019 (FY20), Mega Millions had a jackpot that peaked at \$375 million a decline of \$62 million or 14.2%, which also took 24 draws to reach this less lofty peak.

Executive Director Carey stated that sales for Powerball and Mega Millions were down significantly this year compared to the prior year, and were further impacted as both games reduced starting jackpots from \$40 million to \$20 million because of the COVID-19 pandemic. The impact of the COVID-19 pandemic had a significant impact on sales in March and April, although sales bounced back in May and June.

Executive Director Carey stated that collectively Mega Millions and Powerball had sales of \$271 million compared to \$521 the prior year, a drop of \$250 million. The total drop in sales for all Lottery games was \$267 million compared year over year, so while it was not all related to the multistates, they were a big factor.

Executive Director Carey stated that Lottery's core games are Scratch-Offs, Pick 3 and Pick 4. Those games had higher sales compared to FY19 and benefited from very strong performances in May and June despite the COVID pandemic. Sales in June 2020 for Pick 3 and Pick 4 were up 13% compared to June of last year, an extra \$4.5 million. Scratch-offs did \$1.8 billion total sales in FY20, up 0.8% compared to the prior year.

The key takeaway from the performance last year was that the performance of the multistate games were down significantly year over year. One great year, followed by a down year. Executive Director Carey stated that the pandemic undoubtedly had an impact on sales, but it was not the primary driver of the difference year over year. Sales were down 20% in April. A raffle planned for May was cancelled and Quick Draw, which is meant to be played in bars and restaurants, was impacted by COVID with sales down 15% compared to last year, a difference of \$5 million.

Executive Director Carey stated that Lottery's contribution to the State so far is \$937 million. It is down 11.6% compared to the contribution from last year. The number is unaudited, and as Lottery moves through its financial audit, there will be additional funds that are contributed. Right now, the contribution is 29.14% of sales. By law, the Lottery is required to contribute 30% of sales to the State and we have no doubt that Lottery will hit that target, which is approximately \$964 million. The bulk of the money that will be added to the contribution consists of unclaimed prizes.

Executive Director Carey stated that the State will not make an incentive payment to Northstar New Jersey Lottery Group, the sales and marketing vendor for the Lottery. In May 2019, the Department of the Treasury and the Lottery entered into an amended service agreement with Northstar, which is projected to save approximately \$100 million over the life of the contract. Based on the terms of the agreement and how compensation is calculated under the agreement, Northstar will be paid for expenses but will not earn an incentive payment for the year. The Lottery has approximately \$13 million that was earmarked for an incentive and will not be paid. That will be going to the contribution. It is anticipated that Northstar will make a shortfall payment to the State, which will become part of the Lottery's contribution to the Pension fund, but the amount will not be determined until the Lottery's financial audit is complete.

Executive Director Carey went through some of the big highlights from last year. The Lottery generated \$937 million in profits, which are dedicated to bolstering New Jersey's public employee pension system for teachers, police, fire personnel, and other public employees. Players took home \$1.97 billion in winnings from the Lottery's draw and Scratch-Off games. A player from Middlesex County won the February 11, 2020 Mega Millions jackpot of \$202 million. A player from Middlesex County won the April 8, 2020 Powerball jackpot of \$190 million. Seven players won second tier prizes of \$1 million or more from Powerball or Mega Millions. Three players hit the Pick-6 jackpot, and another 30 players won \$500,000 or more from Scratch-Offs or Jersey Cash 5. And our 7,204 retailers earned over \$180 million in commissions.

Executive Director Carey asked if there are any questions from the Commissioners about the fiscal year results.

Vice Chair Blazovsky asked what happens to the unused marketing and advertising money. Executive Director Carey responded that the Lottery is at the end of year process and we are working on settling those accounts with Northstar. Those funds, possibly several million dollars, will be returned to the state and be part of the contribution.

Vice Chair Blazovsky stated that the monthly report showed \$2.3 million in marketing expenses. Executive Director Carey responded that for accounting purposes Lottery apportions marketing spending in reporting on a pro-rata basis. The Lottery is working with our auditors and Northstar to improve expense reporting. The pro-rata number is based on the marketing spend for the year so there will be a return this year from Northstar of some of the marketing funds because of the pandemic and having to cancel some of their planned campaigns and promotions. There will also be some return and settlements with the management expenses because Northstar furloughed employees.

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

All games total sales were: \$283.7 million
Lotto games total sales were: \$30.8 million
Daily machine games total sales were: \$84 million
Scratch-Off Tickets total sales were: \$168.9 million

Executive Director Carey stated that Pick-6 had sales of \$4.4 million compared to \$4.2 million the prior year, which was an increase of 3.8%.

Executive Director Carey stated that CASH4LIFE had sales of \$4.7 million compared to \$2.7 million the prior year, which was an increase of 74.8%.

Executive Director Carey stated that Mega Millions had sales of \$14.2 million compared to \$17.5 million the prior year, which was a decrease of 19%.

Executive Director Carey stated that Powerball had sales of \$7.4 million compared to \$13.4 million the prior year, which was a decrease of 44%.

Executive Director Carey stated that Pick-3 had sales of \$38 million compared to \$33 million the prior year, which was an increase of 13%.

Executive Director Carey stated that Pick-4 had sales of \$24 million compared to \$21 million the prior year, which was an increase of 14%.

Executive Director Carey stated that Pick-3 and Pick-4 are core games. Last year they did almost \$700 million in combined sales. Lottery's performance in May and June was very strong. May and June were two of the three highest months of sales that the Lottery had during the fiscal year. Executive Director Carey stated that our top month for Scratch-Offs was December. With gambling options limited, players have been looking to lotteries for some fun and enjoyment. July is looking similar to May and June with very strong sales. The Lottery continues to have some good luck for New Jersey players as we had a Mega Millions and a CASH4LIFE top tier winner this month.

Executive Director Carey stated that Jersey Cash 5 had sales of \$10.6 million compared to \$16.2 million the prior year, which was a decrease of 34%. Sales are up slightly for the month of July.

Executive Director Carey stated that Cash Pop had sales of \$1.8 million for the month.

Executive Director Carey stated that Quick Draw had sales of \$7.7 million compared to \$11 million the prior year, which was a decrease of 31%.

Executive Director Carey stated that the daily games had sales of \$252.9 compared to \$235.5 the prior year, which was an increase of 7.4%.

Executive Director Carey stated that the New Jersey only games had sales of \$257 million compared to \$239 million the prior year, which was an increase of 7.3%.

Executive Director Carey stated that the monthly Pension Fund L contribution was \$85.25 million dollars compared to \$85.5 million the prior year, which is a decrease of 0.4%. Even though sales were up, the contribution actually changed. Part of that is because Scratch-Offs performed very well in June 2020. Scratch-Offs have a lower profit margin than the draw games. Executive Director Carey stated that one of the reasons why the contribution met the 30% was that there was a deposit of unclaimed prizes that was put in for a quarter this month. Carey added that there is an element of uncertainty with the pandemic and we are going to be flexible and maintain the safety of our players and our employees. This fiscal year was challenging and we are going to work hard to do better in the coming year.

Executive Director Carey stated that the balance for all unclaimed prize reserve accounts as of June 30 was \$28.7 million.

Executive Director Carey stated that the top three selling non-core games for June were “\$3,000,000 Mega Bucks,” which generated \$15.1 million in sales, “\$200X the Money Bonus,” which generated \$11.4 million in sales and “100X the Money Bonus,” which generated \$9.1 million in sales.

Executive Director Carey stated that the three new games launched in June were “Quick \$100s,” “Loteria,” “Sapphire/Emerald/Ruby Mine 20X” and “Fast Cash.”

Executive Director Carey stated that new games launched on July 6 were “Pocket Change,” “Lucky Stars,” “Loteria” and “\$3,000,000 Ultimate Riches.”

Executive Director Carey stated that new Fast Play Progressive games launched on July 17 were “\$3 Word Search,” “\$2 Backyard Bingo” and “\$1 Smokin’ Hot Cash.”

Executive Director Carey stated that the Jersey Cash 5 matrix changed to 5 of 45 on June 29, 2020. The starting jackpot increased to a guaranteed \$100,000.

Executive Director Carey stated that there were many high tier winners throughout the state in June. On June 5, Mega Millions had one \$1 million second tier winner in Burlington County. On June 15, Jersey Cash 5 had one \$630,000 winner in Ocean County. In June, there was one \$500,000 instant winner in Essex County. Executive Director Carey stated that we had many \$100,000 and \$200,000 winners, as well.

Executive Director Carey stated that all drawings for June were completed with no abnormalities.

Executive Director Carey stated that all online 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.

Executive Director Carey stated that the Lottery issued a press release on June 29 to remind New Jersey residents to look out for Lottery based frauds and scams. Scammers are using the Lottery’s information to try to defraud New Jersey players. The New Jersey Lottery will never call up a player and ask them to pay money to claim a prize.

Executive Director Carey stated that the Promotions team has returned to the field. They are not attending big events but instead they are setting up booths at local grocery stores to work with our smaller retailers to generate some excitement and sales.

Executive Director Carey invited Adam Perlow, Vice President and Chief Operating Officer of Northstar, to comment on Northstar’s Promotions team. Mr. Perlow stated that players, New Jersey residents and retailers are welcoming the Promotions team with open arms. Many retailers would like to see these promotions happen at their stores and Northstar is accommodating as many as possible. The Promotions team is handing out prizes and players are spinning the wheel to win free prizes. Players are excited and having a great time. All promotions events are done with social distancing, masks and

plexiglass was placed in front of the prize table. All the appropriate steps are in place. Usually, the promotion tables are set up inside the store, but now tables and tents are set up outside for the safety of the staff, the players and the public.

Executive Director Carey stated that Lottery's tech upgrade with IGT continues. IGT has started to install Retailer Pro terminals. As of June 30, there are a few in the field that are being reviewed and tested. The roll out will start in the next few weeks and all of the retailers in our network will be getting updated state-of-the-art retailer terminals.

Executive Director Carey stated that for the month of June, the Validation staff received and sorted 3,764 mailed claim forms during the month. There were no walk-in claim forms due to the COVID-19 emergency and the closure of the Lobby on March 20. Staff during the month of June staff paid 2,741 claims totaling \$13 million. Under normal circumstances, and prior to the pandemic, it was taking about three to four weeks for a player to receive payment after mailing in a claim. Over the last couple of weeks, our Validations department has fallen behind. Carey explained that the pandemic impacted Lottery operations and made it difficult to pay claims in a safe and secure manner. The Lottery receives almost 3,500 claims a month. It is now taking about six to eight weeks to pay a claim instead of three to four weeks. Carey added that a plan was in place to eliminate the backlog as soon as possible. The Lottery has continued to pay claims during the entire pandemic.

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

Executive Director Carey requested a motion to approve the Director's Report. Investment Designee Terwilliger made the motion, which was seconded by Chairman D'Anton.

NEW BUSINESS

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.

Executive Director Carey requested a motion to approve the instant ticket game rules for \$1 "Happy Holidays," \$2 "Happy Holidays," \$5 "Happy Holidays," "\$1,000,000 Spectacular" and "Win for Life." Chairman D'Anton made the motion, which was seconded by Investment Designee Terwilliger. Executive Director Carey asked if there were any questions or comments and there being none the motion carried.

Executive Director Carey requested a motion to approve the three on-line game rules for FAST PLAY. The game rules for approval were "Pumpkin Patch Payout," "Blizzard Bingo" and "5 Card Cash." Chairman D'Anton made the motion which was seconded by Investment Designee Terwilliger. Executive Director Carey asked if there were any questions or comments and there being none the motion carried.

Executive Director Carey requested a motion to approve the "5 Card Cash" game end. Sales of "5 Card Cash" were suspended on May 4 because sales for the game were poor, but even more importantly, by suspending the game we were able limit the number of people in the office during the pandemic. "5 Card Cash" was introduced in 2016 as a niche game. Sales for the game began strong and reached annual sales of \$10 million in 2017. Sales have weakened substantially since its launch and it is by far Lottery's worst selling product. Sales were \$3.8 million last year and trending down. During February, average weekly sales for "5 Card Cash" were \$71,000 per week. There were discussions last year about when would it be appropriate to end the game and it was expected that during FY21 the game would be terminated. A survey of players stated that only 18% of knew that it was suspended. We are going to try to migrate some of those players into Fast Play. The plan is to end the "5 Card Cash" game effective October 5, 2020. "5 Card Cash" had a progressive jackpot that had been slowly building up and that will be rolled into the Fast Play progressive jackpot. Executive Director Carey asked if there were any questions or comments.

Vice Chair Blazovsky stated that she would like the Lottery to do an after-action post mortem and really delve into what really happened with "5 Card Cash." She stated that she knows an initial survey indicated that it was more of a niche game than possibly thought but it was really high and then it dropped off and nothing happened. It would let us see what lessons we could get from that moving forward. Vice Chair Blazovsky stated that it is important to learn from successes as well as not so successful ventures.

Executive Director Carey stated that the Lottery will work on an after-action report for the Commissioners with regard to "5 Card Cash."

Treasurer's Designee Ajmani asked that as part of that analysis, could Lottery include a section on how many dollars were spent on marketing over the lifetime of the game. Executive Director Carey stated that will be included.

Vice Chair Blazovsky stated that with COVID it may be difficult, but can the Commissioners have that report within two months. Executive Director Carey responded that the Lottery will have that for the Commissioners within two months.

Executive Director Carey asked for a motion to approve the end of "5 Card Cash." Chairman D'Anton made the motion which was seconded by Vice Chair Blazovsky. Executive Director Carey asked if there were any additional comments and there being none the motion carried.

PUBLIC COMMENT

There was no Public Comment.

EXECUTIVE SESSION

There was no Executive Session.

ADJOURNMENT

Executive Director Carey asked for a motion to adjourn the Public meeting. Chairman D'Anton made the motion, which was seconded by Vice Chair Blazovsky. 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 July 30, 2020.

IN WITNESS WHEREOF, I hereby set my hand on

the 10th day of August, 2020.



James A. Carey, Jr.
Executive Director