

NEW JERSEY STATE LOTTERY COMMISSION

PUBLIC MEETING, AUGUST 23, 2016

Chairman Ragazzo called the Commission meeting into session at 10:00 AM in the Lottery Office located at One Lawrence Park Complex, Lawrenceville, New Jersey.

COMMISSION MEMBERS PRESENT

Frank Ragazzo, Chairman
Patrick Toscano, Vice Chairman
Robert Slater, Commissioner (by phone)
Tom Neff, Treasurer Designee (by phone)

Carole Hedinger, Executive Director
John Custodio, Deputy Executive Director
Michael Collins, Governor's Auth. Unit

VISITORS

Bill Murray, Northstar
Lou Cleary, Northstar
Foster Krupa, Northstar
Sarah Brennan, Northstar

STAFF

Michael DeCheser
Judith Drucker
Frances Edwards
Janetta Foy
Karen Kokoll
Kalliopi Kostis
Richard Pagnani
Debbie Raub
Mary Ann Rivell
Margaret Square
John White
Melissa Williams

After the Pledge of Allegiance, Chairman Ragazzo 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.

Chairman Ragazzo requested a motion to approve the minutes of the July 26, 2016 Commission Meeting. Vice Chairman Toscano made the motion, which was seconded by Commissioner Slater. Chairman Ragazzo asked if there were any comments and there being none the motion carried.

DIRECTOR'S REPORT

Executive Director Hedinger stated that our new fiscal year started off with a great month. In July we had two jackpots rolling. Together, those Mega Millions and Powerball jackpots contributed a very healthy \$6.4 million in sales for the month. It was an excellent month and we made a very good transfer to the state. It is certainly nice to start the year off on such a good note as it will help carry us through the slower summer months.

Executive Director Hedinger noted that lotto games contributed almost 42% to our profit, daily games contributed almost 40% and our instant games contributed almost 20%. Overall, estimated revenue for the month of July exceeded the 30% mandate at 31%. Those figures are based on estimates of what our expenses are compared to the sales.

Executive Director Hedinger stated that receipts and deposits for the month were \$277.3 million.

Executive Director Hedinger noted that there were 93 electronic fund transfer (EFT) failures totaling more than \$324 thousand for the month. The Accounts Receivables Unit settled or closed 82% of EFT failures from June. Field Account Adjusters visited 326 retailers and collected \$216.6 thousand.

Executive Director Hedinger reported that the cumulative outstanding accounts receivable balance at the end of July was \$3.7 million. The total amount of bad debt reserve is \$3.7 million.

Executive Director Hedinger stated that the balances in the unclaimed prize reserve accounts for July were \$824,316 thousand. They are very low starting off the new fiscal year as we have allocated the accumulated unclaimed prizes through June 30 to the revenue transfer to the state.

Executive Director Hedinger noted that the balance in the annuity investment accounts is \$157.9 million. There have been no changes in the S&P ratings since last month.

Executive Director Hedinger reported that the three top selling non-core games were "\$5,000,000 Cash Extravaganza," "100X The Cash" and "50X The Cash." They made up 21% of instant sales for July.

Executive Director Hedinger noted that the Core and Family Games for the month made up 47% of our instant sales.

Executive Director Hedinger stated that the three new instant games we introduced in July contributed about 6% of our total sales.

Executive Director Hedinger reported that we advertised the "Wheel of Fortune" instant game during the month with radio, out of home, digital, mobile, online ads and at point of sale.

Executive Director Hedinger noted that a new Fast Play game was added in July. There are now 19 Fast Play games available.

Executive Director Hedinger reported that we had six high-tier winners in July. There was an \$8.3 million Pick-6 prize won on July 4th, three \$1 million winners, a large Jersey Cash 5 drawing and a \$5 million Mega Millions winner on July 29th. Altogether that is over \$17 million paid to New Jersey players.

Executive Director Hedinger noted that our social media continues to grow.

Executive Director Hedinger stated that our Lottery Consumer and Retailer Websites Support services responded to 210 email requests and inquiries from VIP Club members.

Executive Director Hedinger reported that the VIP Club increased its membership with 4,798 new registrations during the month. We now have 369,619 active members.

Executive Director Hedinger stated that all drawings for the month of July were completed with no abnormalities.

Executive Director Hedinger noted that all of our pools were closed according to procedures with no abnormalities.

Executive Director Hedinger stated that we had a number of media relations in July. We provided information through the media regarding the Lottery withholding rate change. Effective July 1st, New Jersey income tax withholdings on Lottery winnings increased from the prior 3% for winnings above \$10,000. If you win in excess of \$10,000 up to and including \$500,000, the rate is now 5% withholding. If you win a prize in excess of \$500,000, the new rate is 8%. These two rates bring in to alignment the more accurate effect of the actual income tax a person will pay when they file their income tax return. Withholding at 3% was artificially low and that would result in people having a large tax due the following year unless they make their estimated tax payments. Any payment in excess of \$10,000 to a player that fails to furnish a tax identification number, that withholding rate is 8%, which is just under the top rate in New Jersey but it is very close to what a person would probably owe. We are in line with other states with taxing Lottery winnings. We began taxing Lottery winnings in 2009, they were not taxed prior to that.

Executive Director Hedinger stated that we received a lot of media coverage in July because of the Mega Millions and Powerball jackpots. The advertising value that we received was close to \$1 million.

Executive Director Hedinger reported that we continue to monitor Federal and State legislation as it might affect us. The courier bill was passed on August 1, 2016 and it now goes to the Governor's Office. That is the bill that allows a person to begin a business where they buy lottery tickets on behalf of a player. They would hold those tickets in a computer, giving a scanned picture of the ticket to the player. We are following this very closely.

Executive Director Hedinger noted that we had attendees at the 30th National Conference on Problem Gambling that was held in New York. Mary Ann Rivell represented the Lottery along with Bob Kersey from Northstar. We are very active in our Responsible Play Program.

Executive Director Hedinger stated that there were four Speaker's Bureau Events held in July.

Executive Director Hedinger read a letter from the Camden County Senior Day Center complimenting Mary Ann Rivell on a fantastic job at the Speaker's Bureau Event held there. We do not often receive such good news from the public regarding our employees. Mary Ann is an expert in her field. She goes all over the state informing people about the Lottery and the good works that we support.

Executive Director Hedinger noted that there were a large number of Promotional Events that were held in July. In the summer, we are doing many events at the PNC Bank Arts Center with the Lottery trailer and booth. There are also a large number of events planned for August.

Executive Director Hedinger stated that there were 187 security investigations initiated during the month.

Executive Director Hedinger reported that 83 random field inspections were conducted at retailer locations.

Executive Director Hedinger noted that the Licensing staff received and processed 59 applications and 32 licenses were issued.

Executive Director Hedinger noted that at the end of July, there were 7,890 licenses issued.

Executive Director Hedinger stated in our Technology Department, our new Internal Control Systems (ICS systems) went live in July with the placement of the ICS2, the backup system, at our Business Continuity Site.

Executive Director Hedinger reported that we finished connectivity between the Lottery back up site and the IGT back up site in Austin, Texas. That was successfully tested.

Executive Director Hedinger reported that we completed testing and configured the new SQL server for Epicor service pack 8. Epicor runs our back office system.

Executive Director Hedinger stated that the Validation staff received and sorted 4,054 claim forms during the month of July with an additional 341 walk-in claims. They entered 4,874 claims into the system and 5,082 were edited. During the month, 4,441 claims totaling over \$22.8 million were paid to winners, including annuity payments.

Executive Director Hedinger noted that there were 34 Social Security number matches in July. Twenty four claims were processed and garnished because of current and previous matches. Six claims were released from previous matches. Since inception, we have collected more than \$7.6 million for arrearages.

Executive Director Hedinger reported that the Retailer/Call Center Services Unit handled 5,052 incoming calls during the month. They made 108 outgoing calls to retailers. There were 130 requests for assistance with instant pack status changes. They handled 1,665 winner claim status calls during the month of July with 192 answered at the front desk.

Executive Director Hedinger stated that the Warehouse staff accepted more than 4,000 deliveries during the month. There were 90 full packs of instant tickets returned. The Trifactor continues to perform without incident. Two Warehouse staff members attended Forklift Classroom training. We are also preparing for destruction of the May 2015 instant game ends.

Executive Director Hedinger reported that in Facilities, there were several preventative maintenance inspections and repairs conducted at Lottery headquarters. We also moved a monitor and installed certain receptacles in the Studio Control Room.

Executive Director Hedinger stated that this concludes the Director's Report.

Chairman Ragazzo asked if there were any questions or comments.

Vice Chairman Toscano asked why there is a \$47 million difference between last July and this July.

Executive Director Hedinger stated that it was Powerball and Mega Millions sales.

Vice Chairman Toscano asked about if the total amount collected by Security for the month of July was accurate.

Executive Director Hedinger stated it is correct as it is the beginning of the new fiscal year.

Vice Chairman Toscano asked about how it is decided where the promotional events are held and a discussion was held.

Chairman Ragazzo asked if any one remembers when \$300 million seemed to be the highest month.

Executive Director Hedinger stated there were higher months in the last six years.

Chairman Ragazzo stated that he would like to have it noted that we are 15.4% ahead of the budget.

Executive Director Hedinger stated that this indicates how important the jackpot games are to us.

Chairman Ragazzo stated that he was impressed at how well the \$30 instant ticket is selling and that there is an appetite for it. He stated that a \$50 ticket may be next and a discussion was held.

Chairman Ragazzo stated that he noticed that when you walk into headquarters, there is a very nice pamphlet for the Responsible Play Program. He asked if we give that pamphlet out to stores.

Executive Director Hedinger stated that we do and a discussion was held.

Commissioner Slater stated that the Director's Report was very impressive.

Chairman Ragazzo requested a motion to approve the Director's Report. Vice Chairman Toscano made the motion which was seconded by Commissioner Slater.

NEW BUSINESS

Executive Director Hedinger 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.

Chairman Ragazzo requested a motion to approve the instant ticket game rules for "Holiday Lucky Times 10," "Cash Flurries," "Jingle Bills" and "Cash in a Flash." Vice Chairman Toscano made the motion which was seconded by Commissioner Slater. Chairman Ragazzo asked if there were any comments and there being none the motion carried.

Chairman Ragazzo requested a motion to approve the on-line game rules for "FAST PLAY." The game for approval is "Word Search." Vice Chairman Toscano made the motion which was seconded by Commissioner Slater. Chairman Ragazzo asked if there were any comments and there being none the motion carried.

PUBLIC COMMENT

There was no Public Comment.

EXECUTIVE SESSION

There was no Executive Session.

ADJOURNMENT

Chairman Ragazzo adjourned the meeting.

I HEREBY CERTIFY that the foregoing is a true and correct copy of the minutes of the New Jersey Lottery Commission meeting held on August 23, 2016.

IN WITNESS WHEREOF, I hereby set my hand on

the 27th day of September, 2016.

Carole Hedinger
Carole Hedinger
Executive Director