

NEW JERSEY STATE LOTTERY COMMISSION

PUBLIC MEETING, FEBRUARY 20, 2018

Vice Chairman Toscano 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

Patrick Toscano, Vice Chairman
Frank Ragazzo, Chairman (by phone)
Robert Slater, Commissioner (by phone)
Christopher McDonough, Commissioner (by phone)
Dini Ajmani, Treasurer Designee

John M. White, Acting Executive Director
Robert E. Kelly, Deputy Attorney General
Craig Ambrose, Gov. Auth. Unit

STAFF

Regina Arcuri
Denise Coleman
Michael DeCheser
Janetta Foy
Megan Mazzoni
Charlene Mello
Perna Mukhija
Richard Pagnani
Steve Palmieri
Debbie Raub
Mary Ann Rivell
Margaret Square
Tom Weber

VISITORS

Russ Knapp, Northstar
Foster Krupa, Northstar
Erica Helms, Northstar
Sarah Brennan, Northstar
Sam Fromkin, Northstar
Jon Renner, Brushfire
Chris Havard, Ferrara

After the Pledge of Allegiance, Vice Chairman Toscano 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.

Vice Chairman Toscano requested a motion to approve the minutes of the January 23, 2018 Commission Meeting. Commissioner Slater made the motion, which was seconded Chairman Ragazzo. Vice Chairman Toscano asked if there were any comments and there being none the motion carried.

DIRECTOR'S REPORT

Acting Executive Director White reported that during the month of January sales from all games were \$272 million. That was 7.2% above January of the prior year. It is also 1% above the budgeted amount for January for FY18. The lotto games lead the charge with sales. Lotto games were 71% above the previous January and 38% above the budgeted amount for January. All games year to date have \$1.9 billion in sales. This is 4.1% above the same period for the first seven months of FY17 and 2.5% above the budgeted amount for the year. It is the jackpot games that are helping overall sales. Year to date jackpot games are 24% above the same period last year and 23% above the budgeted amount. These numbers have helped with the contribution. The contribution for January was \$83.5 million which is 10% above the contribution of the previous January and it is 3% above the budgeted amount for January. Year to date the overall contributions of over \$579 million is 6.9% above the same period of the first seven months of Fiscal 17 and 3% above the budgeted amount for the first seven months of Fiscal 18. Again, it is the jackpots games that are helping overall sales.

Acting Executive Director White stated that both the lotto jackpot games and the daily games are running about 40% profit margin for the year to date. The instant games are running at almost 22% year to date. To date, the FY18 contributions, including 30% of the current estimated forfeited prizes, is 31.3%. Additional forfeited prizes will be included in future transfers as audits are completed.

Acting Executive Director White noted that receipts and deposits for the month were \$230 million.

Acting Executive Director White stated that there were 118 electronic fund transfer (EFT) failures totaling \$421 thousand for the month. The Accounts Receivables Unit settled or closed 81% of EFT failures from December. Field Account Adjusters visited 380 retailers and collected \$325 thousand.

Acting Executive Director White reported that the balances in the unclaimed prize reserve totaled over \$21 million. Once the audits and final settlements from other states on the multi-state games are completed, these funds will be moved into the contribution.

Acting Executive Director White noted that the balance in the annuity investment accounts were \$127 million. The S&P ratings have not changed since last month.

Acting Executive Director White stated that the three top selling non-core games for January contributed \$29.7 million for the month.

Acting Executive Director White reported that the Core and Family Games contributed \$78.7 million.

Acting Executive Director White noted that the Lottery introduced four new instant games during January and these games made up \$11.5 million or 8% of total sales.

Acting Executive Director White stated that there were four new games presented for Commission rule approval and subsequent vendor production.

Acting Executive Director White reported that in instant game advertising activities "Love to Win Doubler" instant game, which was introduced in January, resulted in a lot of point of sale materials at retail locations.

Acting Executive Director White noted that there are now 567 retailers selling Quick Draw.

Acting Executive Director White stated that the Jersey Collect 'N Win monthly second chance promotion for draw games tickets continued. There have been seven grand prize winners each winning \$50,000. The January winner is from Kearny in Hudson County. Over 26,000 players are registered for the promotion with 987,000 entries in the month of January.

Acting Executive Director White reported the Lottery currently has 25 Fast Play games available to players.

Acting Executive Director White noted that there were a number of high tier winners throughout the state in January. There were two \$1,000,000 winners in the January 6 Powerball drawing. There was one from Ocean County and one from Bergen County. The drawing also produced nine \$50,000 winners. Jersey Cash 5 XTRA had four big winners during the month. There was a \$644,000 winner from Camden County, a \$153,000 winner from Gloucester County, a \$495,000 winner from Morris County and a \$256,000 from Passaic County.

Acting Executive Director White stated that the Lottery continues to have a strong presence on various social media platforms.

Acting Executive Director White reported that Lottery Consumer and Retailer Websites Support responded to 300 email requests and inquiries from VIP Club members and users.

Acting Executive Director White noted that the VIP Club now has over 450,000 active members.

Acting Executive Director White stated that since the inception of the Million Dollar Replay game in 2011, nearly 250,000 people have made MDR entries. The Million Dollar Replay game has recorded over 62 million entries since its inception.

Acting Executive Director White reported that all drawings for the month of January were completed with no abnormalities.

Acting Executive Director White noted that all on-line 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.

Acting Executive Director White stated that the Public Information Office disseminated Lottery news in January that reached more than eight million daily viewers with an estimated advertising value of nearly \$74,000. Contributing to these results were a Winner Awareness press release when the Powerball hit \$460 million.

Acting Executive Director White reported that in addition to press releases that are sent out routinely regarding winners from various games, there were two other big releases in January. On January 5 there was a press release issued that the Mega Millions and Powerball jackpots together surpass the \$1 billion mark. On January 26 there was a press release on those who two-timed the Lottery. Two lucky New Jersey players actually won two big games twice in their lives.

Acting Executive Director White noted that all press releases, winner stories and photos were provided to the Lottery's business partners at Northstar for the social media team to use as content for the website and social media.

Acting Executive Director White stated that the Lottery Public Information Office continues to monitor all of lottery related Legislative activities. Staff established and updated all new Legislative tracking lists, began opening and updating files for the New Jersey State new legislature session, continued to work with the Council on Compulsive Gambling of New Jersey regarding gambling related legislation and worked with the Treasury Legislative staff on Lottery related legislation.

Acting Executive Director White reported that in the Responsible Play Program a meet and greet event at the Council on Compulsive Gambling of New Jersey headquarters was held to discuss partnerships and upcoming work. Staff began working with Northstar and CCGNJ on the annual Problem Gambling Awareness Month campaign event to be held in March at Lottery headquarters.

Acting Executive Director White noted that a meeting was held with Treasury for additional New Jersey Lottery staff to review the final employee Responsible Gaming on line training video. This is a very good video that all our staff will be required to take as part of their regular routine training that State employees go through.

Acting Executive Director White stated that there were several Speaker's Bureau Events completed in January. There are a few scheduled for February.

Acting Executive Director White reported that there were various Public Promotional Events held in January. The big push was at the Prudential Center (the Rock) in Newark to help push the instant games that were launched in January. As previously discussed, the upper concourse at the Rock is branded with the NJ Lottery's catch phrase "Anything Can Happen in Jersey." There were several events there where the instant games were advertised. There are various events planned for February. The big push, again, is at the Rock where the Pick-6 XTRA game will be the focus for February's activity. As noted in the ad campaign, it's the only jackpot game still can be played for \$1.00.

Acting Executive Director White noted that there were 183 security investigations initiated during the month.

Acting Executive Director White stated that 216 random field inspections were conducted at retailer locations.

Acting Executive Director White reported that the Licensing unit received and processed 73 applications.

Acting Executive Director White noted that at the end of January, there were 8,069 licenses issued.

Acting Executive Director White stated that due to the Division's efforts, along with the Department of Taxation Joint Investigation Project, there was a total of \$35,704.00 in arrearages collected in January. Year to date, the Lottery has collected \$144,206.40.

Acting Executive Director White reported that the Lottery's IMS Department is working to complete the InfoShare Logical Systems Architectural Review in preparation for the next meeting with OIT. Security will use InfoShare for case management and document management of its security investigations. OIT hosts this application for a number of state agencies with access through the state's web portal.

Acting Executive Director White noted that as part of the MUSL audit requirement, Telnet was disabled for its lack of security. It was easily hackable since it transfers all data in clear text. It has been replaced by more secure solutions.

Acting Executive Director White stated that IMS staff made a few trips to the business continuity site to reconfigure laptops and repair those found to have issues with Symantec Endpoint Encryption. Microsoft updates were applied to most laptops. The backup pool closing and drawing document thumb drive was updated. This thumb drive is used to store critical documents should the draw and pool closing functions have to be performed at the back up site without access to the network to retrieve these documents.

Acting Executive Director White reported that Finance and IMS staffs continue to work diligently together to support the transfer of revenues to Pension Fund L that will help fund pensions as per Chapter 98 of the Public Law of 2017.

Acting Executive Director White noted that the Validations Department processed over 5,200 claims totaling more than \$28 million that were paid to winners, including annuity payments.

Acting Executive Director White stated that there were 23 claims that were processed and garnished because of current and previous matches. Since inception in 1992, we have collected \$8.1 million in arrearages, low income home energy assistance, food stamps and overpayments of welfare, student loans and other SOIL programs.

Acting Executive Director White reported that due to changes with the Internal Revenue Service, the deduction percentage for winnings over \$5,000 has been reduced to 24% starting with prize payments dated February 9, 2018.

Acting Executive Director White noted that the Retailer/Call Center Services Unit handled 7,127 incoming calls during the month.

Acting Executive Director White stated that the Warehouse unit received 5,914 packages during the month. The Tri-factor machine continued to perform without incident.

Acting Executive Director White reported that the Facilities unit conducted several preventive maintenance inspections and repairs. The physical equipment inventory of Lottery assets was submitted to Treasury Administration.

Acting Executive Director White noted that Northstar's personnel count at the end of January totals 140 employees, which consists of 100 in Sales, 21 in Marketing and 19 in Administration.

Acting Executive Director White stated that the number of active retailers is 7,115.

Acting Executive Director White noted that Northstar's sales team focused on continuing Quick Draw promotions and store by store sales building activities, recruiting new Quick Draw retailers, posting jackpots as a reminder to players and the Pick-6 initiative to increase sales in that particular game.

Acting Executive Director White reported that this concludes the Director's Report.

Vice Chairman Toscano asked if there were any questions or comments.

Commissioner Slater asked about the status of the FY17 audit.

Acting Executive Director White stated that it is completed and was accepted by the Audit Committee in December. He stated it is online but he would send an electronic copy of it to the Commissioners.

Vice Chairman Toscano stated that it is impressive that since 1992 we have collected over \$8.1 million in child support arrearages and other defaults. It is mentioned every month, but most of the population in the state of New Jersey probably doesn't realize how much is collected. That is a lot of money. It is fantastic and a fantastic testament to what the Lottery is all about. It's not just about gambling and winning money.

Chairman Ragazzo stated that we are seven months into the fiscal year and we are still 3% ahead of budget. We only have five months left and we need Powerball and Mega Millions to continue to roll.

Acting Executive Director White stated that the jackpots are climbing. If they continue to climb through February and go into March, the Division would be in decent shape to hit its budgeted targets.

Treasurer Designee Ajmani asked what the reason was behind Quick Draw underperforming versus the budget.

Acting Executive Director White stated that not all the retailers are in place yet. The Lottery continues to add retailers throughout the year. The game began with 400 retailers in July and is now up to 597. The goal is to get between 760 and 800 retailers selling Quick Draw by the close of the Fiscal Year.

Treasurer Designee Ajmani asked what has been the reason for delay in bringing more retailers.

Acting Executive Director White stated the game began with a soft launch back in July and with Northstar the Lottery has been trying to bring them on. Northstar is going to have a big promotion in the spring to help generate sales in the latter part of the year.

Vice Chairman Toscano stated that in essence it's not really a delay.

Acting Executive Director White stated it was a soft launch and was not heavily advertised. Now that the game has gained traction, the Lottery and its business partners at Northstar are pushing aggressively to get the retailers on board.

Chairman Ragazzo stated that that he cannot give much credit to the budgeted number for Quick Draw since it is still in the first year. How do they come up mathematically with a quantitative number?

Acting Executive Director White stated it's harder than the traditional games because all Lottery games except for Quick Draw are sold by all of Lottery retailers. There were 400 retailers at launch. The projection was that the game would generate \$56 million in gross sales. There was to be graduated sales increases every month. Thus each month's sales were going to be higher than the previous month. It wasn't as simple as taking that \$56 million and dividing it by the number of days that the game would be on sale because it didn't start until July 17. It didn't even start at the beginning of the fiscal year. On July 17, there were 400 retailers. On June 30, there will be 760 retailers selling the game. The other thing with the game is during the first full month that it was operational in August, the sales were about \$600,000 a week. At last check, it is hovering at about \$1,050,000 in sales a week. It peaked at \$1,079,000 in sales about a week ago and then it was down to \$1,050,000, which could be weather driven. The overall trend is that sales are going up week over week.

Chairman Ragazzo stated that it is probably better to analyze it at the end of the fiscal year when it all averages out as opposed to looking at that month to month. That is a fair assessment.

Acting Executive Director White stated it is a fair assessment. As former Executive Director Carole Hedinger said in an earlier Commission meeting, the Lottery actually did reconfigure how it is showing this to try to project the growth in a more reasonable manner.

Vice Chairman Toscano complimented Acting Executive Director White on the great job and the smooth transition. It's very impressive.

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

NEW BUSINESS

Acting Executive Director White 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.

Vice Chairman Toscano requested a motion to approve the instant ticket game rules for "Loteria" and "Win For Life." Commissioner Slater made the motion which was seconded by Commissioner McDonough. Vice Chairman Toscano asked if there were any comments and there being none the motion carried.

EXECUTIVE SESSION

There was no Executive Session.

PUBLIC COMMENT

There was no Public Comment.

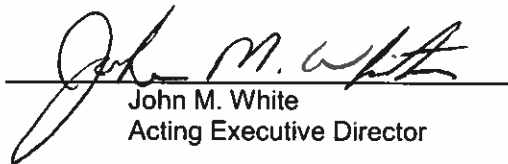
ADJOURNMENT

Vice Chairman Toscano asked for a motion to adjourn the Public meeting. Chairman Ragazzo made the motion which was seconded by Commissioner Slater. 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 February 20, 2018.

IN WITNESS WHEREOF, I hereby set my hand on

the 20 day of March, 2018.


John M. White
Acting Executive Director