

NEW JERSEY STATE LOTTERY COMMISSION

PUBLIC MEETING, NOVEMBER 17, 2015

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
Roger Gibson, Deputy Attorney General

VISITORS

Russ Knapp, Northstar
William Murray, Northstar
Lou Cleary, Northstar
Sam Fromkin, Northstar
Dustin Racioppi, The Record
Samantha Marcus, The Star Ledger

STAFF

Denise Coleman
Duane Daniels
Michael DeCheser
Judy Drucker
Janice Eckstein
Frances Edwards
Karen Kokoll
Megan Mazzoni
Richard Pagnani
Steve Palmieri
Debbie Raub
Mary Ann Rivell
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 October 15, 2015 Commission Meeting and the November 4, 2015 Special Commission Meeting. Commissioner Slater made the motion, which was seconded by Vice Chairman Toscano. Chairman Ragazzo asked if there were any comments and Treasurer Designee Tom Neff stated that he was not present at the November 4, 2015 Special Commission Meeting so he cannot vote. Lacking a quorum to vote on the November 4, 2015 minutes, Chairman Ragazzo requested a motion to rescind the approval of both sets of minutes. Commissioner Slater stated he would rescind both sets of minutes and made the motion to approve the minutes of the October 15, 2015 Commission Meeting. Vice Chairman Toscano seconded the motion. Chairman Ragazzo asked if there were any comments and there being none the motion carried.

Chairman Ragazzo stated that the minutes of the November 4, 2015 Special Commission Meeting would be tabled until the next meeting.

DIRECTOR'S REPORT

Executive Director Hedinger stated that for the month of October, we are again seeing a resurgence in sales. The monthly figures showed significant growth with every category of games except the jackpot games.

Executive Director Hedinger noted that year to date we are experiencing 5.1% growth in overall sales and over a 4% growth in the amount of transfer we were able to make. That does not include total transfer that we will make once unclaimed prizes are factored in. The year is off to a very healthy start.

Executive Director Hedinger reported that the in-state draw and instant games are showing significant and healthy growth. However, the jackpot games are still not measuring up as well. At \$200 million we see a significant growth in sales with a significant contribution available to the state, as opposed to a starting level of \$15 million where the contribution is only in the \$300 thousand range.

Executive Director Hedinger noted that there is a list of profits from each of the games broken down for review. We are maintaining our 30% contribution level. The report shows 29.7% but that does not include all of the estimated forfeited prizes that would be available.

Executive Director Hedinger stated that receipts and deposits for the month were over \$223 million.

Executive Director Hedinger noted that there were 106 electronic fund transfer (EFT) failures totaling almost \$380 thousand. The Accounts Receivables Unit settled or closed 78% of EFT failures from September. Field Account Adjusters visited 370 retailers in October which resulted in the collection of \$258 thousand.

Executive Director Hedinger reported that the cumulative outstanding accounts receivable balance was over \$3 million. Our bad debt reserve is almost \$3 million.

Executive Director Hedinger stated that the balances in the unclaimed prize reserve accounts for October were about \$7.8 million.

Executive Director Hedinger noted that the balances in the annuity investment accounts total over \$175 million.

Executive Director Hedinger stated that the S & P ratings have not changed since last month.

Executive Director Hedinger noted that the three top selling non-core games for October totaled almost \$34 million

Executive Director Hedinger reported that the Core and Family Games for the month totaled over \$80 million in sales. These games contribute a substantial amount to our bottom line.

Executive Director Hedinger stated that the four new instant games that were introduced in October were "Holiday Lucky Times 10," "Wild Cherry Bingo Doubler," "20X Money" and "100X the Cash." They made up nearly 12% of the total sales for the month.

Executive Director Hedinger reported that for online product activities, the Powerball game change took place on October 4. We hope to see higher Powerball jackpots that will attract players back to the game.

Executive Director Hedinger noted that a Pick-4 Green Ball Promotion ran from September 28 to October 4. The green ball was drawn three times during the promotion which resulted in additional prizes of more than \$631 thousand paid to the players. The promotion resulted in 4% growth in Pick-4 sales compared to the prior year. One of the reasons why our Pick-3 and Pick-4 games have remained so vital and vibrant is that we constantly do promotions that are very popular with the players.

Executive Director Hedinger stated that in the Fast Play category, there are ten Fast Play games available as of October 31. They are averaging about 17 cents per capita for the first 13 weeks. This is greater than expected from these games.

Executive Director Hedinger reported that our social media continues to be very active.

Executive Director Hedinger stated our website had over one million visitors for the month.

Executive Director Hedinger noted that we responded to 348 email requests received from the VIP Club.

Executive Director Hedinger reported that our VIP Club continues to grow. We received over 3,000 new registrations during October. We now have an enrollment of more than 325,000 active members.

Executive Director Hedinger noted that the Million Dollar Replay game has recorded almost 35 million entries since inception. It is an extremely popular feature that has grown considerably.

Executive Director Hedinger stated that the drawing for the finalists for the top 15 prizes that culminate each year's Million Dollar Replay game will be held in February. It will be combined with a celebration for the Lottery's 45th anniversary. We are hoping to get a great number of those finalists in attendance so that we can celebrate the Million Dollar Replay by having the winners present.

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

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

Executive Director Hedinger noted that there were many press releases issued.

Executive Director Hedinger stated that we are working on the Lottery's 45th anniversary and our Legacy Wall. When that is completed, we will have a place to show off some of the awards and other important achievements of the last 45 years. We are the third oldest lottery and have a very long and good history.

Executive Director Hedinger reported that in the Responsible Play Program, we worked with the Council on Compulsive Gambling of New Jersey this month to develop and finalize a press release that they issued regarding their resolution to address the expansion of gambling in New Jersey. The Council is concerned about the expansion of gambling. They do not take a stand for or against gambling, they just point out that if there is an expansion of gambling, there needs to be responsible, proactive steps taken to help those that have problems. We completely agree with that position and worked with them to develop that press release.

Executive Director Hedinger noted that we continue to work on our Level 4 Responsible Gaming certification. Level four is the highest and final certification from the World Lottery Association. We expect to submit that application after the new year.

Executive Director Hedinger stated that we continue to work with Northstar to finalize a Spanish version of our Responsible Play brochure.

Executive Director Hedinger noted that we continue to monitor any proposed legislation that might affect the Lottery. The courier bill that had been introduced last summer, which would have allowed couriers to buy lottery tickets and deliver them to people's houses, was vetoed. The lottery opposed that bill as it was not very secure, especially with games like Fast Play. We need to maintain the integrity of our games.

Executive Director Hedinger reported that there was a full schedule of events that took place in October.

Executive Director Hedinger stated that there were a number of Speaker's Bureau Events that occurred in October with a few scheduled for November.

Executive Director Hedinger noted that there were 167 security investigations initiated during the month.

Executive Director Hedinger reported that 103 random field inspections were conducted.

Executive Director Hedinger stated that the Licensing staff received and processed 106 applications and 16 licenses were issued.

Executive Director Hedinger noted that there are 7,747 licenses issued as of October 31, 2015.

Executive Director Hedinger reported that we collected a total of \$3,159.11 for the month of October through our efforts with the Division of Taxation. We have collected almost \$15 thousand for FY16.

Executive Director Hedinger stated that IMS staff has set up all the laptops to print at the back up site facility. We will do a full test of that facility in the near future. Each component of the BCS facility has been tested and it is ready to go.

Executive Director Hedinger reported that in Systems and Programming there were a number of report issues that were handled to keep our back office running smoothly.

Executive Director Hedinger noted that the Validation staff received and sorted over 4,400 claim forms during the month of October with an additional 300 walk-in claims. Almost 4,700 claims were entered into the system and almost 4,900 were edited. During the month, over 4,200 claims totaling \$26 million were paid to winners, including annuity payments.

Executive Director Hedinger stated that there were 43 Social Security number matches in October. Eighteen claims were processed and garnished because of current and previous matches. Two claims were released from previous matches.

Executive Director Hedinger reported that since inception in 1992, the New Jersey Lottery has collected over \$7 million for various set off programs.

Executive Director Hedinger noted that the Retailer/Call Center Services Unit handled 4,318 incoming calls during the month. They made 92 outgoing calls to retailers. They handled 229 requests for assistance with instant ticket pack status changes. They handled 1,003 winner claim status calls during the month, with 195 of these calls answered at the front desk.

Executive Director Hedinger reported that the Warehouse staff continues to process game end returns in a timely matter. Retailers sent in various packs for credit.

Executive Director Hedinger stated that the Warehouse staff accepted over 5,000 deliveries and handled all the routine warehouse operations.

Executive Director Hedinger noted that the Facilities coordinator had several preventive maintenance inspections and tests completed. We conducted a successful fire drill. The warehouse is in good shape.

Executive Director Hedinger reported that Northstar's employee count is at 131, with 94 in Sales, 21 in Marketing and 16 in Administration.

Executive Director Hedinger stated that the number of active retailers we had on hand at the end of October was 7,210.

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

Chairman Ragazzo asked if there were any questions or comments.

Chairman Ragazzo stated that in spite of the significant decrease in the jackpot levels of Mega Millions, they went from an average of \$190 million in FY14 to \$85 million in FY15, a decrease of 55%, the total fiscal year contributions to the state is still up 4.3%.

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

Chairman Ragazzo requested a motion to approve the revised game rules for "Million Dollar Replay." Commissioner Slater made the motion which was seconded by Vice Chairman Toscano. Chairman Ragazzo asked if there were any comments and there being none the motion carried.

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.

Commissioner Slater stated that the "All Cash Millions" instant game has a 74% prize payout. It has about \$108 million of proposed ticket sales. A ten percent deviation on the prize payout is \$10 million. He stated that we monitor the monthly results of our percentage of prize payout overall, and that we should revisit what we are doing with that. We are pretty close to the 30% prize payout overall for October and for year to date. And that is with using the unclaimed prizes money.

Chairman Ragazzo asked Commissioner Slater to repeat the question. Commissioner Slater stated that the prize payout is 74% and historically we targeted a 65% number as a benchmark for guidance. He stated that we are selling tickets with a 74% prize payout and that tends to move the overall state contribution towards the 30% number of total prizes for the month. It used to run about 34% and the threshold is 30%. The bottom line on this is, do we have a grip on watching the results of the overall, how it's affected by this and what does it look like. Are we safe that we can provide the 30% given the figures?

Executive Director Hedinger stated that she does not think anything is more closely watched than the mix of games and the prize payouts to maintain the 30%. It is calculated constantly and affects the mix of the portfolio. The other factor is that the 30% is guaranteed by Northstar. Northstar probably watches this more closely than anyone.

Commissioner Slater asked about the credit behind the Northstar guarantee and a discussion was held.

Chairman Ragazzo asked if the prize payout number was 71% instead of 74%, would that affect the play. Do people know what the percentage is?

Executive Director Hedinger stated the answer is yes. In the design of a game, in order to make a particular game attractive with a certain prize level that are necessary to keep people playing the game, they know the percentage.

Chairman Ragazzo requested a motion to approve the instant ticket game rules for "Big Money Spectacular." 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 instant ticket game rules for "World Series of Poker." 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 instant ticket game rules for "Lucky Cash." 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 asked if there were any comments and there being none the motion carried.

Chairman Ragazzo requested a motion to approve the instant ticket game rules for "All Cash Millions." 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.

Commissioner Slater reiterated his concerns regarding the Northstar 30% guarantee and a discussion was held.

Chairman Ragazzo requested a motion to approve the three on-line game rules for "FAST PLAY." The games for approval are: "\$2 Jersey Jackpot," "\$5 Jersey Jackpot" and "\$10 Jersey Jackpot." Treasurer Designee Neff made the motion which was seconded by Vice Chairman Toscano. Chairman Ragazzo asked if there were any comments and there being none the motion carried.

PUBLIC COMMENT

Dustin Racioppi from the Record would like to be provided with an update on the annual report for 2015. He would also like the dollar amounts from earlier in the Director's Report on year to date sales. He asked what they were at this same point last year and what were the budgeted amount of sales.

Chairman Ragazzo asked if we know how to get that information to Mr. Racioppi.

Executive Director Hedinger stated that Judy Drucker will respond to him. The annual report will be issued as soon as it is completed.

Dustin Racioppi asked if there is an actual date that the report would be issued.

Executive Director Hedinger stated that it usually issued around this time of the year.

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 November 17, 2015.

IN WITNESS WHEREOF, I hereby set my hand on

the 17th day of December, 2015.



Carole Hedinger
Executive Director