

NEW JERSEY STATE LOTTERY COMMISSION

PUBLIC MEETING, JULY 25, 2017

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

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

Carole Hedinger, Executive Director
John Custodio, Deputy Executive Director
Jonathan Peitz, Deputy Attorney General
Tom Huth, Gov. Auth. Unit (by phone)

VISITORS

Bill Murray, Northstar
Foster Krupa, Northstar
Joe Cavallo, Northstar
Sarah Brennan, Northstar
Sam Fromkin, Northstar
Joe Cavallo, Northstar
Rick Garzillo, IGT
Don Dupuis, IGT
Steve Fiedler, IGT
Matt Verme, IGT
Chris Havard, Ferrara

STAFF

Regina Arcuri
Denise Coleman
Duane Daniels
Michael DeCheser
Frances Edwards
Janetta Foy
Kalliopi Kostis
Megan Mazzoni
Charlene Mello
Richard Pagnani
Steve Palmieri
Debbie Raub
Mary Ann Rivell
Margaret Square
John White
Melissa Williams

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 June 20, 2017 Commission Meeting. Commissioner Slater made the motion, which was seconded by Chairman Ragazzo. Vice Chairman Toscano asked if there were any comments and there being none the motion carried.

DIRECTOR'S REPORT

Executive Director Hedinger stated she wanted to begin by introducing Chris McDonough, the Director of the Division of Investments. He is the new member of the Lottery Commission by virtue of the law that transferred the Lottery to the Pension funds. He will sit on our Board, taking one of the vacant seats. The Division of Investments takes care of all the pension funds and invests them. We welcome Commissioner Chris McDonough to our Board.

Vice Chairman Toscano also welcomed Commissioner McDonough. Commissioner McDonough thanked the Vice Chairman for the welcome.

Executive Director Hedinger noted that we ended FY '17 last month. We will not have the final audited results for a few months. We are in the process of finalizing all of our accounts and getting them audited. We will exceed \$945 million contribution indicated in the Director's Report since that only includes the amount of cash transfers that have been made so far in FY '17. We will, after final audit and final transfer of our unclaimed prize money, exceed last year's contribution to the State.

Executive Director Hedinger reported that we reached \$3.186 billion in sales. That is slightly less than the prior year. We are very cognizant of managing our portfolio in order to maintain our 30% contribution. While the top line sales may not be as high as last year, the actual bottom line revenue is higher. That is all a function of management of our portfolio to increase and maximize profits.

Executive Director Hedinger stated that in Fiscal Year 2017, profit from lotto games was \$179 million or 40.56%. Profit from daily games was \$356.9 million or 39.89%. Overall, we have maintained just above the 30% threshold for our minimum revenue contribution.

Executive Director Hedinger reported that receipts and deposits for the month were \$269.8 million.

Executive Director Hedinger noted that there were 88 electronic fund transfer (EFT) failures totaling \$270.6 thousand for the month. The Accounts Receivables Unit settled or closed 83% of EFT failures from May. Our Account Adjusters visited 338 retailers and collected \$223 thousand.

Executive Director Hedinger stated that the cumulative outstanding accounts receivable balance at the end of June was \$3.4 million. The total of bad debt reserve is \$3.2 million.

Executive Director Hedinger reported that the balances in the unclaimed prize reserve totaled \$29,596,303. This will be audited for final transfer over to the State.

Executive Director Hedinger stated that the balance in the annuity investment accounts were over \$137 million. The S&P ratings have not changed since last month.

Executive Director Hedinger noted that the three top selling non-core games for June contributed \$36.7 million or 24% of sales for the month.

Executive Director Hedinger reported that the Core and Family Games contributed \$68.2 million or 44% of total sales.

Executive Director Hedinger noted that the three new instant games introduced in June were "Double \$\$," "Liberty Bills" and "All Cash Club." They contributed \$5.1 million or 3% of total sales.

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

Executive Director Hedinger reported that there was no instant game advertising during the month of June.

Executive Director Hedinger noted that two new Fast Play games were added in June and two were suspended. There are twenty-five Fast Play games available for sale.

Executive Director Hedinger stated that we had four high tier winners in June distributed throughout the State. We had two \$1,000,000 winners from Mega Millions drawings, one in Bergen County and one in Somerset County. We had two large Jersey Cash 5 prizes won in Morris County and Ocean County. We publicize those very heavily through our social media to let people know that there are many prizes that are life changing that occur throughout New Jersey. It's not just always the big jackpots that get the news.

Executive Director Hedinger reported that we continue to heavily invest in social media. We have learned that most people try the Lottery through word of mouth from other people. The emphasis on social media becomes very important to spread the word among people.

Executive Director Hedinger noted that we had 1,295,314 visitors to our website.

Executive Director Hedinger stated that we responded to 150 email requests and inquiries from VIP Club members and users.

Executive Director Hedinger noted that the VIP Club increased its membership with 3,958 new registrations during the month. We now have 417,576 active members.

Executive Director Hedinger reported that since inception of the Million Dollar Replay game in April 2011, 211,499 people have joined. We have received over 54 million entries in the Million Dollar Replay game since it started.

Executive Director Hedinger stated that all drawings for the month of June 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 reported that the Lottery was prominently featured in an industry trade magazine, "Insights", with two articles. The first was a feature story on Foster Krupa, former New Jersey Lottery, long time marketing employee, who is now employed by Northstar. It was wonderful article on him and it was nice to see Foster recognized. He has been a valued person for the New Jersey Lottery. Most of our success in instant tickets, where we have lead the industry in many ways, is directly attributable to Foster. It was well deserved and the industry obviously recognizes that. The second article discussed how lotteries manage their unclaimed prize funds.

Executive Director Hedinger noted that the Public Information Office disseminated Lottery news in June that received more than 28.3 million daily views with an estimated advertising value of more than \$260 thousand. The effort of the PIO department to get our media placed in various publications is worth money. Tracking that, it amounts to over \$1 million a year in value added advertising by the efforts of that department.

Executive Director Hedinger reported that in our On-line Winner Awareness Content, we are very active with providing information to Northstar for them to post on all the social media sites. Everything to know about our winners, with real human interest stories is posted on social media. One of our stories was about a couple who won a very large prize, who are taking care of their grandchildren because they lost their daughter. They have struggled to raise their grandchildren. It was a great story and it went viral. It's good to see these stories get a lot of publicity and awareness.

Executive Director Hedinger stated that we continue to monitor all of our Legislative activities. The most important thing to know about June is that the Act that transferred the Lottery to Pensions was signed along with the Budget at the end of June. We are now officially raising money for segments of pension funds for PERS, TPAF and Police and Fire. Depending on a formula that is calculated based on eligible members, our revenue will now go to fund proportionately those sections of the pension funds that support those retirees. Those would be the ones that are working for or have worked for State institutions and Education that the Lottery has supported. That has the effect of bolstering the entire pension plan. This is going to be beneficial to the State overall and will have no impact on the Lottery as far as our operations are concerned. We will continue exactly as we have before. It is a big project and we are in the middle of transitioning our accounts to account for the fact that our revenues will now go over to the pension fund instead of the State Treasury. Which, in and of itself is a task, but something that we are certainly going to manage. There was no other legislation that we are following that affects us.

Executive Director Hedinger noted that we continue to work hard on our Responsible Play Program. We will be scheduling the "Not 18, No bet" press conference in August. That is an annual event before school begins that emphasizes the fact that you must be 18 or older to play the Lottery. MaryAnn Rivell went to the National Conference on Problem Gambling so we'll have a report on that next month.

Executive Director Hedinger reported that there were a number of Speaker's Bureau Events completed in June and there are a few scheduled for July.

Executive Director Hedinger stated that there were many Public Promotional Events held in June and there are a large number scheduled for July. July has been busier because we launched our new game, Quick Draw. We had a lot of Quick Draw game launch promotions that took place during the month.

Executive Director Hedinger noted that there were 203 security investigations initiated during the month.

Executive Director Hedinger reported that 153 random field inspections were conducted at retailer locations.

Executive Director Hedinger stated that the Licensing unit received and processed 140 applications and 63 licenses were issued.

Executive Director Hedinger noted that at the end of June, there were 8,034 licenses issued. Those numbers are increasing because we are licensing the new Quick Draw retailers.

Executive Director Hedinger reported that due to our efforts, along with the Department of Taxation Joint Investigation Project, there was a total of \$50,595.84 in arrearages collected. The total collected for this fiscal year is \$129,687.84.

Executive Director Hedinger stated that in Technology we conducted our quarterly EFT drill on June 14. The EFT was processed successfully. There were a few minor issues that had to be resolved. We go out to our back up site quarterly and conduct regular operations to make sure that all systems are updated and working. These drills allow us to correct anything that may happen since it is not an emergency situation. If we didn't do this quarterly, and then in an emergency had to go to the back up site and found something wrong, it could be disastrous. We stay on top of it by regularly scheduling these drills.

Executive Director Hedinger noted that there were various other technical systems and programming issues that the unit participated in and performed.

Executive Director Hedinger reported that the Validations staff received and sorted 4,695 mailed-in claim forms during the month of June with an additional 363 walk-in claims. They entered 5,321 claims into the system and 5,716 were edited. During the month, 5,427 claims totaling almost \$21 million were paid to winners, including annuity payments.

Executive Director Hedinger stated that there were 25 Social Security number matches in June. Twenty-eight claims were processed and garnished because of current and previous matches totaling \$27,041.75. There were five released claims from previous matches. Since inception, we have collected almost \$8 million in arrearages.

Executive Director Hedinger reported that the Retailer/Call Center Services Unit handled 5,988 incoming calls during the month. There were 70 outgoing call made, including new retailer welcoming calls and calls to congratulate Retailers selling top prizes. There were 180 requests for assistance with instant pack status changes. They also handled 2,542 winner claim status calls during the month of June of which 238 were answered at the front desk.

Executive Director Hedinger noted that the Warehouse unit was very busy with collecting packages and doing their normal activity. The warehouse is now a thing of beauty and it's in such good working order.

Executive Director Hedinger stated that she is very proud of the efforts of our Supervisor of the warehouse operations, Bob Ptaszewski. He's doing a great job.

Executive Director Hedinger reported that the Facilities unit worked to ensure that the facility was kept in good working order. The building is in very good shape. The renovations have been completed. It was a major undertaking but it had very little disruption to the staff to get that accomplished.

Executive Director Hedinger noted that you can see at the end of the report, the Northstar activities that took place during the month, most of which have been incorporated into our report.

Executive Director Hedinger reported that we have now been officially transferred to the Pension funds. The transition is underway. We have a six month transition period, in which we need to set up our new accounts and have all of the funds reported into these new accounts which are now officially a Pension operating account. We have a new operations account that will collect all revenues and pay all bills. At the end of the month, we will make a cash transfer just as we used to do. But now it will be to a new pension investment account. At that point, Chris McDonough takes over. He takes that cash, invests it, and uses it to pay or help supplement the payment of retirement benefits. It goes in and doesn't come back out. Our operation account is really where all of our work is done. We can collect revenue, spend the money, pay bills and do whatever we have to do before we make that monthly transfer. That is very much like the way we did it before except our transfer used to go to the State Treasury and now it will go to this new investment fund "L". However, we have to set up a completely separate general ledger because we will continue to have assets and liabilities retained by the Lottery that will be on-going. For instance, annuity contracts that were in place before June 30, 2017 will remain assets of the "old" Lottery. We will collect those annuity checks then we pay them out to those annuity winners from the past. There are unclaimed prizes that will be collected this entire year because any prize that was sold before June 30 and not claimed will expire one year after sale and that will occur in FY '18. There will be ongoing transactions that we have to keep separated into the old accounts and the old general ledger from these new accounts. That is all being set up. The law allows a six month transition period for us to do this. Other than the bookkeeping of it, there will be no other impact on us at all. We are working with our Finance staff, staff at the Fiscal department and the Office of Management and Budget to make sure that these accounts are all set up properly.

Executive Director Hedinger stated that the big news is that we launched Quick Draw on Monday, July 17. Right up until launch day we were very busy in getting that game launched. Even though that is a July event, we have to talk about it before the August meeting because it was a huge success. We were informed by the Treasurer in February that the timing was right for us to launch a Keno style game. We were asked what we need to launch this game. That we should make a list of what we would need and the Treasurer would endeavor to get that for us. We said we would only need one thing – the word "go." We were ready. We told him that we could get this game launched by August 1 with 400 retailers. A five month period and we would be ready to go. We didn't need anything, we would get it done. We are very proud to say that we launched with 401 retailers on July 17. There are a number of people that we want to mention and acknowledge because launching a brand new Lottery game is not simple. We had to onboard and get ready those 400 retailers. We had to get the equipment out there and installed. When I say "we" that includes Lottery, Northstar and IGT because this was a big, group effort. We had to get those Lottery retailers trained. We had to cut through red tape. We had to convince some towns that it was okay for bars and taverns to have Lottery because there is a law that prohibits gambling in a bar. We are specifically exempted in the law that prohibits gambling in a bar. There was a mountain of things that needed to be done and we got it done. We got it done very successfully with a minimum of issues that were very quickly resolved. The game, in its first week, with a soft launch, with very little advertising support, did almost \$600 thousand. It's off to a really good start.

Executive Director Hedinger noted that she wanted to recognize people from the IGT team that played a part in this. She recognized Don Dupuis, Steve Fiedler, Rick Garzillo, Joe Cavallo and Matt Verme. Without all of these people, we wouldn't get a game off the ground. When it's time to get our systems in place, whether it was a gaming system or any other game or any application, they are really the magic makers over on that IGT side. We couldn't do it without them. They solve every problem.

Vice Chairman Toscano stated that is terrific. He'd hire them all at his law firm.

Executive Director Hedinger reported that she would like to recognize Bill Murray and the Northstar team. Everyone that was involved that helped in this because it was a large working group that got this done with regular meetings to resolve every little issue.

Bill Murray stated that it was a very good team effort and we are very happy that it is up and running.

Executive Director Hedinger noted that on our side, John Custodio lead a working group with Megan Mazzoni, Janetta Foy, Melissa Williams, Kalliopi Kostis, Jennifer Chintala and Victoria Yip. She asked them to stand up to be recognized. They were on the working group that dedicated themselves to solving all the issues to get this game done. They only represent part of the Lottery effort because everybody at the Lottery, no matter where they worked, supported in one way or another getting this game launched. If

we have people who have to do the Customer Acceptance Testing, they leave their jobs to do that, that means other people that are left in their departments have to pick up that slack. It is a completely Lottery wide effort to get something like this done. The teamwork was fantastic, the project was fantastic. We got it done; we brought it in on time and exceeded our target count of retailers by one Thank you, Lottery, Northstar and IGT. Thank you, Commissioners for supporting us. We got it done.

Executive Director Hedinger stated that we are working hard on the Courier Service regulations. We have had three of the potential Courier companies visit us and demonstrate their business plan. It is a very complex project. We expect that by the end of August or mid-September, we'll have a set of regulations that we'll go through and review. That is coming along but keeping us very busy. Needless to say, between Quick Draw, the pension transfer and the regulations for the Courier Service, we are very, very busy. There is a lot going on and we wanted to fill you in on those items.

Executive Director Hedinger stated that our Chairman was pictured in the Trentonian that he was reelected.

Vice Chairman Toscano congratulated Chairman Ragazzo on that publicity.

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

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

Chairman Ragazzo asked how difficult it is to get a license to sell Quick Draw and a discussion was held.

Vice Chairman Toscano asked about the procedures that the Security Investigators follow during random investigations and discussion was held.

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

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.

Vice Chairman Toscano requested a motion to approve the instant ticket game rules for "Hit \$100," "Diamonds and Dollars," "Cash Bash" and "Instant Cash Millionaire." Chairman Ragazzo 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 McDonough. 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 25, 2017.

IN WITNESS WHEREOF, I hereby set my hand on

the 22nd day of August, 2017.

Carole Hedinger
Carole Hedinger
Executive Director