

NEW JERSEY STATE LOTTERY COMMISSION

PUBLIC MEETING SEPTEMBER 17, 2020

Chairman D'Anton called the Commission meeting into session at 10:00 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)
Rudy Rodas, Governor's Auth. Unit (by phone)

VISITORS (BY TELEPHONE)

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

STAFF (BY TELEPHONE)

Fran Edwards
Missy Gillespie
Jerry Guarino
Dean Ialacci
Robert Kersey
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, Chairman D'Anton 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 D'Anton requested a motion to approve the minutes of the August 20, 2020 Commission meeting. Vice Chair Blazovsky made the motion, which was seconded by Investment Designee Terwilliger. Chairman D'Anton asked if there were any comments and there being none, the motion carried.

DIRECTOR'S REPORT

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

All games total sales were: \$292.7 million
Lotto games total sales were: \$27.6 million
Daily machine games total sales were: \$93.4 million
Scratch-Off Tickets total sales were: \$171.6 million

Executive Director Carey stated that Pick-6 had sales of \$4.4 million compared to \$5.4 million the prior year, which was a decrease of 18%.

Executive Director Carey stated that CASH4LIFE had sales of \$4.9 million compared to \$5.2 million the prior year, which was a decrease of 5.7%.

Executive Director Carey stated that Mega Millions had sales of \$8 million compared to \$10.4 million the prior year, which was a decrease of 22%.

Executive Director Carey stated that Powerball had sales of \$10.2 million compared to \$10.5 million the prior year, which was a decrease of 3%.

Executive Director Carey stated that Pick-3 had sales of \$38.1 million compared to \$34 million the prior year, which was an increase of 9.6%.

Executive Director Carey stated that Pick-4 had sales of \$24.6 million compared to \$21 million the prior year, which was an increase of 12.5%.

Executive Director Carey stated that Jersey Cash 5 had sales of \$18.7 million compared to \$12.1 million the prior year, which was an increase of 54%. The changes to the matrix and the starting jackpot are proving to be very successful for Jersey Cash 5. The average jackpot for Jersey Cash 5 in August 2019 was \$225,000 and in August 2020, the average jackpot was \$530,000. John White, Deputy Director of Finance, added that Jersey Cash 5 sales for the month were the highest ever for that game.

Chairman D'Anton asked if the higher sales resulted in higher profits for the Lottery. Executive Director Carey responded that draw games, such as Jersey Cash 5, have a higher profit margin than the Scratch-Off games. Two-thirds of sales are from Scratch-Offs and one-third of sales comes from the draw games.

Executive Director Carey stated that Quick Draw had sales of \$8.4 million compared to \$11.4 million the prior year, which was a decrease of 26.3%.

Executive Director Carey stated that Scratch-Off tickets had sales of \$171.6 million compared to \$159.6 million the prior year, which was an increase of 7.5%. Scratch-Offs totals for August are numbers that Lottery would expect to see during the holidays, which are typically the best time for Scratch-Offs sales.

Executive Director Carey stated that the monthly Pension Fund L contribution was \$83.4 million compared to \$77.8 million the prior year, which was an increase of 7.1%.

Executive Director Carey stated that fiscal year to date Lotto Games had total sales of \$57 million compared to \$64 million the prior year, which was a decrease of 10.9%.

Executive Director Carey stated that fiscal year to date Pick-3 had total sales of \$77.3 million compared to \$68.9 million the prior year, which was an increase of 12.1%.

Executive Director Carey stated that fiscal year to date Pick-4 had total sales of \$49.6 million compared to \$43.3 million the prior year, which was an increase of 14.6%.

Executive Director Carey stated that fiscal year to date Jersey Cash 5 had total sales of \$31.6 million compared to \$22.9 million the prior year, which was an increase of 37.7%.

Executive Director Carey stated that fiscal year to date Scratch-Off tickets had total sales of \$347.6 million compared to \$316.6 million the prior year, which was an increase of 9.8%.

Executive Director Carey stated that since May the New Jersey games have had a very strong performance. There were fewer gambling opportunities for consumers. Improved sports betting opportunities may affect Lottery sales over the next few weeks and months.

Executive Director Carey stated that net proceeds for the fiscal year to date exceeded \$166.7 million or 28.3% of sales. Fiscal year profits from lotto games were \$19.8 million or 32.6% of sales. Fiscal year profits from daily games were \$70.8 million or 39.6% of sales. Fiscal year profits from Scratch-Offs were \$75.2 million or 21.6% of sales. Even though Scratch-Off games have a lower profit margin, they generate more in profit to the Lottery because of their strong sales.

Executive Director Carey stated that the current balances in annuity investment accounts total \$110 million.

Executive Director Carey stated that the top three selling non-core games for August were "\$3,000,000 Ultimate Riches," which generated \$13.6 million in sales, "\$3,000,000 Mega Bucks," which generated \$10 million in sales and "200X the Money Bonus," which generated \$7.8 million in sales.

Executive Director Carey stated that the top three selling Core and Family Games for August were the "Crossword" core games, which made up 18% of total sales, the "Multiplier" family games, which made up 14% of total sales and the "Spectacular" family of games, which made up 7% of total sales.

Executive Director Carey stated that the four new games launched on September 8 were "\$20,000 Riches," "\$200,000 Riches," "\$500,000 Riches" and "\$1,000,000 Riches."

Executive Director Carey stated that the three new games being launched on October 5 are "Money Bag Multiplier," "Cash Lines Bingo" and "CA\$H."

Executive Director Carey stated that there were a few high tier winners throughout the state in August. On August 7, Jersey Cash 5 had a \$1.6 million winner in Essex County. On August 10, Pick 6 had a \$4.9 million winner in Hudson County. On August 21, Jersey Cash 5 had a \$1.8 million winner in Morris County, which was the highest Jersey Cash 5 jackpot ever. There were three large Scratch-Off tickets claimed during the month. There was one winner of \$3,000,000 in Salem County, one \$1,150,000 winner in Camden County and one \$1,000,000 winner in Hudson County.

Executive Director Carey stated that all drawings for August 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. On September 1, a press release was issued that misidentified the retailer that sold a \$1,000 a Week for Life winning ticket for the August 31, 2020 CASH4LIFE drawing. The correct retailer was identified after the press release was issued and a corrected press release was issued. All other appropriate winning number information was broadcast correctly to all media contacts. All in-house staff received appropriate information via email. 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 on September 2, the Lottery and Deputy Executive Director Jerry Guarino participated in the annual "Not 18 Yet? No Bet." annual awareness campaign at the Acme Market in Hamilton. The "Not 18 Yet? No Bet." annual awareness campaign is very important to remind the public and our retailers that you have to be 18 years old to play the New Jersey Lottery. The Lottery has a close and good working relationship with the Council on Compulsive Gambling of New Jersey and its Executive Director Neva Pryor. Executive Director Carey thanked Ms. Pryor for partnering with us on that campaign. Executive Director Carey also thanked Deputy Executive Director Guarino for participating in that campaign.

Executive Director Carey stated that there were 259 total open security cases at the end of the month. There were 129 security investigations completed. The Licensing Unit received and processed 85 applications and there were 49 licenses issued.

Executive Director Carey stated that all draw machines and all four random number generators (RNG) had preventative maintenance completed in August. There was a demonstration from Smartplay, a gaming supplying company, of a Random Number Generator system that Lottery is considering as a backup for our draw systems for in-state games and CASH4LIFE. Lottery does not have any intention to discontinue the use of the ball machines for draw games but would like to be prepared as best as possible.

Lottery continues to work on the update of our gaming system with IGT. IGT was able to accommodate us by extending a small Consumer Acceptance Testing (CAT) lab where we test new computer functions. That allows CAT testing to go on in a way that is socially distanced, appropriate and safe for our employees, Northstar's employees and IGT's employees.

Executive Director Carey stated that Validations staff received and sorted 3,876 mailed claims during the month of August. Lottery had issues with paying claims timely in the summer because of the COVID pandemic. In late July, Lottery worked with the Treasurer's Office, the Division of Administration in Treasury, Health and Safety and the Unions to set up a system that ensured workstations were safe and appropriate for our claims staff. Additional staff were brought in and several employees who were familiar with the claims process were temporarily reassigned to help the Validations unit catch up on the backlog of claims.

Executive Director Carey stated that Commissioner Blazovsky asked what the numbers look like in terms of payment of claims. Executive Director Carey reviewed the number of claims received and paid during each week since June. He explained that by August, staff had reduced the backlog of claims. Lottery is getting back towards where claims are being paid within three to four weeks. Executive Director Carey added that he has been very happy with the work of the Validations Unit. It is a difficult job under normal circumstances and the pandemic made it very difficult. When it was taking four to five weeks to pay claims, it was understandable in a pandemic. When it started to take six to eight weeks, that was not fair to our players and we needed to take aggressive steps to improve upon that. Executive Director Carey commended Margaret Square, Deputy Director of Operations, and Nikki Roberts Apeadu, Supervisor of Validations, and the Validations Unit for the hard work they have done during this pandemic to take care of our players and to make sure that our employees were safe and working well.

Executive Director Carey stated that the Retail Call Center handled 3,324 calls during the month. Lottery reopened the front desk for walk-in claims with an appointment only. When the announcement went out last week, we were only taking appointments for players who had tickets that were purchased between March 19, 2019 and about September 20, 2019, the older tickets that would have expired. Lottery did not receive as many appointments as expected so we opened it up to all winning tickets. He explained that the Lottery's front desk has not fully reopened, and we are not allowing walk-ins to come in without an appointment. Executive Director Carey urged players with winning tickets to mail their claims in or use the drop box that Lottery installed in the atrium outside of our main lobby.

Executive Director Carey invited Adam Perlow, Vice President and Chief Operating Officer of Northstar, to provide an update on Northstar activities. Mr. Perlow stated that last month Vice Chair Blazovsky had asked about Quick Draw promotions. Promotions are held outside of retailers' stores by Northstar's Promotions team. Quick Draw players have the opportunity to win prizes by spinning a virtual wheel on an iPad, which Northstar's staff spins in order to maintain social distancing. In July, there were seven events conducted at retailers. In August, 134 events were conducted at retailers. In September, 199 events have either been conducted or will be conducted by the end of the month.

Executive Director Carey concluded the Director's report.

Chairman D'Anton asked if there are any questions or comments.

Vice Chair Blazovsky asked for a clarification on the difference in the numbers between the first page of the Director's Report, particularly with Scratch-Offs. Scratch-Off sales for the month of August were reported at \$171.63 million. On page 2 of the report, it is reported at almost \$179 million and that pretty much goes the same for the different game groups. What accounts for that difference?

Executive Director Carey asked John White, Deputy Director of Finance, to respond. Mr. White stated that the difference is that the second page lists gross sales and includes several million dollars in free tickets that are awarded as a base level prize and because there are gaming system expenses associated with that. Page 1 of the Director's Report lists net sales for all games.

Vice Chair Blazovsky stated in the Northstar report, they indicate 6,904 active retailers compared to 6,888 at the end of July. She stated that in the Security section, it states that there were 159 disables, three new disabled, 16 retailers who were enabled, and as of the end of August there were 146 retailers who were disabled during COVID. Vice Chair Blazovsky asked how does that number dovetail with the number that is reported by Northstar. Executive Director Carey responded that the disables report in the Security section is a snapshot at the end of August. The disabled number is a flexible number that is constantly shifting. Retailers are disabled for short periods of time because of licensing or payments issues so it is difficult to dovetail it. Executive Director Carey stated that he would speak with Brian

Maziarz, Supervisor of Audit and Testing, to go through specifics in order to answer Vice Chair Blazovsky's question most accurately. He stated that he would provide Vice Chair Blazovsky an update after the meeting.

Vice Chair Blazovsky asked if the number that Northstar is providing, is that minus the 146 on any given day or does it include the 146 in account already. Executive Director Carey responded that he would speak to Mr. Maziarz and Northstar to make sure he provides her with an accurate answer.

Vice Chair Blazovsky thanked Executive Director Carey for providing an update on the claims. She thanked the staff for trying to get on top of that issue. Executive Director Carey thanked Vice Chair Blazovsky.

Chairman D'Anton asked if there were any additional questions or comments.

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

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.

Chairman D'Anton requested a motion to approve the Scratch-Offs ticket game rules for "Hot 7's," "Flaming Hot 7's," "Scorching Hot 7's," "Blazing Hot 7's," "Raging Hot 7's" and "Super 50X." Chairman D'Anton asked if there were any questions or comments.

Chairman D'Anton asked if there are free tickets given out on the "Super 50X" ticket, and if there are, is that included in the number of tickets printed. Executive Director Carey responded that there are free tickets given out. That is included in the ticket quantity of 8.1 million tickets. Free tickets are a way to increase winning opportunities for players. We have looked at some market research, we have talked to players, and players enjoy getting free tickets.

Chairman D'Anton asked how many free tickets are planned. Executive Director Carey responded that 810,000 free tickets are planned, which means that 1 in 10 tickets that are sold will be a winning ticket in that they get another free ticket.

Chairman D'Anton asked what the term is for the annuities and are they yearly payments. Executive Director Carey asked Mr. White to respond. Mr. White responded that on "Blazing Hot 7's" the annuity is \$1 million and it is 25 payments at \$40,000, with a cash value of \$897,000. On "Raging Hot 7's", the annuity is \$3 million and it is 25 payments of \$120,000, with the cash value \$2,689,500. Mr. White stated that they are annual payments.

Chairman D'Anton asked if we charge New Jersey tax. Executive Director Carey responded that winners have to pay New Jersey tax on winnings over \$600. The Lottery withholds taxes pursuant to the IRS rules. Lottery withholds taxes on any winning ticket over \$5,000.

Chairman D'Anton asked if that is just Federal taxes or State tax as well. Executive Director Carey stated that we withhold State tax as well. Mr. White added that the State tax withholding begins at \$10,000. In the case of annuity payments, they are paid a prevailing rate in the year that they are paid. If there is an adjustment in the tax rate by either the IRS or the State down the road, annuity payments are taxed at the revised rate.

Chairman D'Anton asked if winners receive the gross or net amount. Mr. White responded that when Lottery makes the payment annually, we take the tax out. Each payment is handled separately every year depending on prevailing tax rates.

Chairman D'Anton asked if there were any additional questions or comments.

Vice Chair Blazovsky asked if on "Super 50X" are there any planned future reruns, what would those costs be and how would that be decided? Executive Director Carey responded that this is an independent game. It has an initial print run of 8.1 million tickets. If we have a successful ticket, Northstar could approach the New Jersey Lottery and ask to print additional tickets for this game. When additional tickets are printed for a very successful game, it is always done proportionally. For a game like "Super 50X", Lottery would have to print a number of tickets that would include at least one top tier prize to make it worth it to players. In addition, Lottery would have to produce a proportional amount of tickets so that the odds of the game do not change and that there will be a proportional amount of a top tier prize and all lower tier prizes. Lottery does additional print runs for games on occasion. Northstar considered doing an additional print run for the original "Super 50" game and we chose not to do it ultimately. That does not require Commission approval because there is no change to the actual rules of the games.

Vice Chair Blazovsky asked if there would there be the extra charge of \$500,000 or more if there were a rerun. Vice Chair Blazovsky also asked what would be the criteria used to determine if a rerun would be profitable? Executive Director Carey responded that there is an oversized printing charge of 0.65 cents per square inch that is applied to the entire print run. That additional printing charge would be included in any additional tickets printed. Executive Director Carey stated that he is unable to say what the print run would be, how many additional tickets would be printed and the exact cost. That would be an additional fee that Lottery would pay as being part of this particular game.

Vice Chair Blazovsky asked what would be the criteria that you would use to decide if a rerun was profitable. Executive Director Carey responded that Northstar looks at how fast did it sell, is it continuing to sell at a reasonably high rate within a reasonable period of time after the ticket was launched, and is there still player interest in that particular game. If there is player interest, like the "Super 50" ticket that is continuing to perform strongly months after launch, it is an option to increase the print run of that particular ticket and sell more of these tickets. One alternative to printing more tickets is to create a new and similar game, like is being proposed here with the "Super 50X." However, the "Super 50X" ticket is not the same ticket as the "Super 50" ticket. It has a smaller print run, it has a slightly different prize structure and it has some different features and is not just a change of color. Where there are substantive changes to a game, the Lottery approaches the Commissioners to seek approval for the rules of a new game with new rules and a new prize structure.

Vice Chair Blazovsky asked what the criteria would be for a rerun on a particular ticket if all the top tier prizes were no longer available. Executive Director Carey responded that if all the top tier prizes are won, Lottery would pull that ticket and end that game. Once all the top tier prizes are claimed, that is placed on our website and players can see that there are no top tier prizes left. However, sometimes there might still be second tier prizes remaining.

Chairman D'Anton requested a motion to approve the instant ticket game rules. Investment Designee Terwilliger made the motion, which was seconded by Vice Chair Blazovsky. Chairman D'Anton asked if there were any questions or comments and there being none the motion carried.

Chairman D'Anton requested a motion to approve the on-line game rules for FAST PLAY. The game rules for approval were rules for "Crack the Safe." Chairman D'Anton asked if there were any questions or comments on these four games. Investment Designee Terwilliger made the motion, which was seconded by Vice Chair Blazovsky. Chairman D'Anton asked if there were any questions or comments and there being none the motion carried.

PUBLIC COMMENT

There was no Public Comment.

EXECUTIVE SESSION

Executive Director Carey stated that Executive Session will be held to discuss contractual and legal issues related to the Collect 'N Win promotion from last month. If there is any public actions that are taken as a result of Executive Session, it will be reflected in future minutes of the Commission.

Following the Executive Session, Executive Director Carey stated that inadvertently there was no motion to vote to go into Executive Session. The Commissioners all certified that they intended to go into Executive Session.

Deputy Attorney General Robert E. Kelly noted that although we inadvertently did not take a vote, Executive Director Carey very clearly announced during the public session that the Commission was going into Executive Session and the nature of the Executive Session.

Chairman D'Anton requested a motion to close Executive Session. Investment Designee Terwilliger made the motion, which was seconded by Vice Chair Blazovsky. The motion carried.

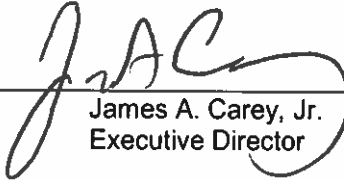
ADJOURNMENT

Chairman D'Anton asked for a motion to adjourn the Public meeting. Vice Chair Blazovsky made the motion, which was seconded by Investment Designee Terwilliger. 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 September 17, 2020.

IN WITNESS WHEREOF, I hereby set my hand on

the 7th day of October, 2020.


James A. Carey, Jr.
Executive Director