



TREASURY NEWS RELEASE

NEW JERSEY DEPARTMENT OF THE TREASURY

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Treasury Executes new Agreement with NJ Lottery's Sales & Marketing Operator, Saving the State Roughly \$100 Million over Life of Contract

TRENTON - State Treasurer Elizabeth Maher Muoio announced that the Department of the Treasury has entered into an amended service agreement with Northstar New Jersey Lottery Group, which controls the New Jersey Lottery's sales and marketing operations, a move that is projected to save the state roughly \$100 million over the remaining life of the contract.

"After we took office last year, Treasury began reviewing costs and the terms of the Service Agreement over concerns that the state and taxpayers were not fully benefitting from the launch of new games and from the contract as a whole," said Treasurer Muoio. "We found the previous amendment to be egregious in that even if Northstar did little to nothing to boost sales, they were still entitled to an extremely generous incentive payment. As a result of the due diligence of our staff, this newest amendment does far more to protect the taxpayers of this state, and our pension system, which benefits from annual Lottery contributions based on sales."

In October 2013, the prior administration entered into an agreement with Northstar to provide the New Jersey Lottery's sales and marketing operations. The agreement included two annual compensation components - the reimbursement of the vendor's administrative expenses and a performance-based incentive payment (or penalty) based on whether the Lottery achieved certain net income targets in a fiscal year. In December 2015, the prior administration agreed to a contract amendment that lowered the vendor's performance-based compensation net-income targets for the remainder of the term for two causes - the downturn in the Powerball and Mega Millions and a delay in launching Quick Draw, but limited the state's ability to negotiate future amendments only for the launch of Quick Draw.

Treasury noted that since the 2015 amendment to the service agreement, the Lottery's general outlook has improved with Powerball and Mega Millions being restructured, resulting in higher sales and jackpots; and Quick Draw was formally launched in July of 2017. As a result, in fiscal years 2016, 2017, and 2018, Northstar received incentive payments of roughly \$30 million.

In light of this, the amended service agreement that Treasury and Northstar formally entered into on May 3, 2019 most notably increases the performance targets that are used to calculate any incentive payment to Northstar, thereby creating a higher performance bar to be reached before Northstar receives an incentive payment.

These performance targets have been increased in Fiscal Year 2020 and until the contract expires in FY2029 to reflect expected income from the introduction of Lottery's Quick Draw game, which was first launched in August 2017 and is expected to generate \$130 million in sales this fiscal year.

Treasury noted that FY2018 Lottery net income equaled \$1.059 billion. As a result, Northstar received a \$31.9 million performance payment, which represented 3.0 percent of the State Lottery's FY2018 net operating revenues prior to deducting the vendor's performance payment. The new agreement will bring Northstar's incentive payment more in line with the growth of sales.

Additionally, the amendment creates a one year rebate formula to be applied to this year's (FY2019) incentive payment calculation. While, the FY2019 incentive compensation owed to Northstar will be calculated using the formula that was in effect pursuant to the 2015 amendment, the incentive payment will be reduced by (a) an amount equal to 20 percent of the calculated amount plus (b) an additional \$1 million.

As a result of these amendments, Treasury projects that if the Lottery's net income increases one percent annually as anticipated, the state will pay \$52 million less to Northstar in incentive payments over the next five years and an estimated total of \$79.5 million less over the entire 10-year remaining term of the contract, which ends in 2029. If growth of the Lottery is even greater than one percent, the state could realize a savings of close to \$100 million over the remaining life of the contract.

Finally, the contract has been amended to stipulate that Northstar's manager's expenses will not include any expenses related to personnel travel, meals, and entertainment, and will not include the Northstar management bonuses. The contract, as initially awarded, allowed Northstar to pass all of its operating expenses on to the state. Those expenses will now be paid out of Northstar's future incentive payments, and if Northstar receives no incentive payment, then the expenses will come out of Northstar's own funds. This is expected to yield the state additional savings as well over the remainder of the contract.