

REQUEST FOR INFORMATION

INCREASING NET REVENUES AT NJ STATE LOTTERY

PURPOSE

The State Treasurer is seeking ideas and information to increase net revenues generated to the State by the New Jersey State Lottery (Lottery). The State seeks recommendations to improve any or all aspects of the Lottery's operation including: sales and marketing strategies and functions; product offerings; back office operations; information technology; and financial management. Any proposed services or solutions may include the use of third party providers.

BACKGROUND

The Lottery is a division of the Department of the Treasury and was established on February 16, 1970 pursuant to N.J.S.A. 5:9-1 et seq. This legislation also created the Lottery Commission, the body that promulgates rules and regulations governing the establishment and operation of the Lottery. The first tickets were sold on December 16, 1970 and the first lottery drawing was held on January 7, 1971.

The Lottery has a staff of approximately 150 employees organized around seven work functions, including: Administration; Operations; Management Information Systems; Marketing; Sales; Security, Audit, Licensing; and Finance. For additional details regarding the Lottery's current structure and operations, please go to www.state.nj.us/lottery and see the attached document "New Jersey Lottery - Selected Observations " prepared by Macquarie Capital.

The Lottery's present vendors are as follows:

Advertising: Brushfire, Cedar Knolls, NJ

http://www.state.nj.us/treasury/purchase/noa/contracts/t0654_09-x-39622.shtml

Instant Game: Pollard Banknote Ltd., Manitoba, Canada
GTECH Printing Corporation, Plant City, FL
Scientific Games International, Alpharetta, GA

http://www.state.nj.us/treasury/purchase/noa/contracts/t0566_02-x-33519.shtml

Online Games: GTECH Corporation, West Greenwich, RI

http://www.state.nj.us/treasury/purchase/boa/contracts/t1320_08-x-39707.shtml

During Fiscal Year 2011 (7/1/2010-6/30/2011), the following Lottery games were in operation:

- Pick-3
- Pick-3 Instant Match
- Pick-4
- Pick-4 Instant Match
- Jersey Cash 5
- Jersey Cash 5 Instant Match
- Pick-6 Lotto
- Mega Millions (Multi-State Game)
- Powerball (Multi-State Game – Started 1/31/2010)
- Various Instant Scratch Off games

Sales revenues for these games totaled over \$2.6 billion for the fiscal year ending June 30, 2011. For the same period, administrative expenses totaled \$22.3 million; sales commissions totaled \$147 million, vendor fees totaled \$33 million, and prize expenses totaled \$1.544 billion. As a result, the Lottery was able to contribute \$930 million to education and institutions on a net revenue basis.

REQUIRED INFORMATION

In accordance with the provisions of this Request for Information, you are requested to provide written responses to the following:

1. To what extent, and in what areas, could current resources or alternative private parties be used to increase annual Lottery net revenue to the State?
2. Are there any new or alternative business/financial models, possibly involving the use of private parties, which could help maximize Lottery net revenues to the State?

Responses should include, but not be limited to, proposals that speak to risk shifting, forms of financial guarantees, income targets, and incentive compensation.

Please include the following in all responses:

- A description and incremental cost of any alternative compensation plans you may recommend for any private party which would be necessary to maximize Lottery net revenue to the State.
- A legal and financial analysis as to the impact of current contracts supporting the operations of the Lottery on any options or possible alternative business/financial models.
- A legal analysis as to the application of existing federal and state law upon each option or possible alternative business/financial model. Responses may provide business/financial models that contemplate changes in federal or state law but such models should be separated from those models that assume no change in federal or state law. All responses must identify any legal assumptions clearly.
- A statement of prior experience in providing any proposed services or solutions, results attained, and references with contact information.
- Cost estimates for proposed services or solutions and any related assumptions.

PLEASE NOTE

Responders agree that all documents are subject to public disclosure. A responder may designate specific information as not subject to disclosure pursuant to the exceptions to OPRA found at N.J.S.A. 47:1A-1.1 or the common law Right to Know, when the responder has a good faith legal and or factual basis for such assertion. The State reserves the right to make the determination as to what is proprietary or confidential, and will advise the responder accordingly. The location in the response of any such designation should be clearly stated in a cover letter. The State will not honor any attempt by a responder to designate its entire proposal as proprietary, confidential and/or to claim copyright protection for its entire response. In the event of any challenge to the responder's assertion of confidentiality with which the State does not concur, the responder shall be notified and shall be solely responsible for defending its designation.

These proposals shall become the property of the State once submitted.

ANALYSIS AND EVALUATION

The Department of the Treasury's analysis and evaluation process will include direct meetings in January or February 2012 with some or all respondents.

RFI RESPONSES

Please email responses to: Margaret.Quinn@Treas.State.NJ.US

Responses are requested by January 17, 2012.



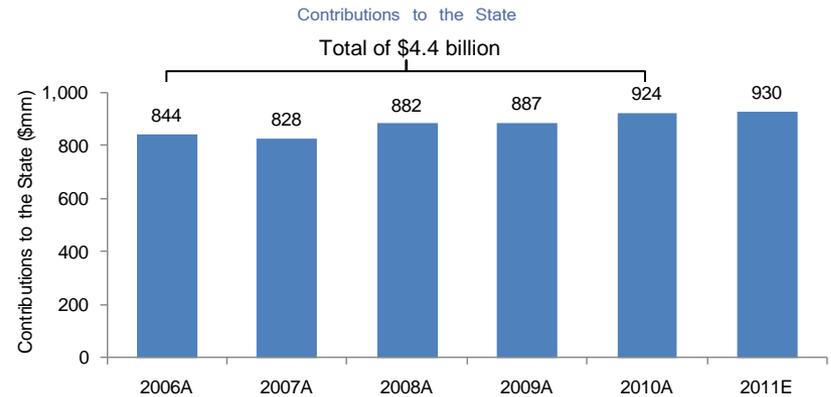
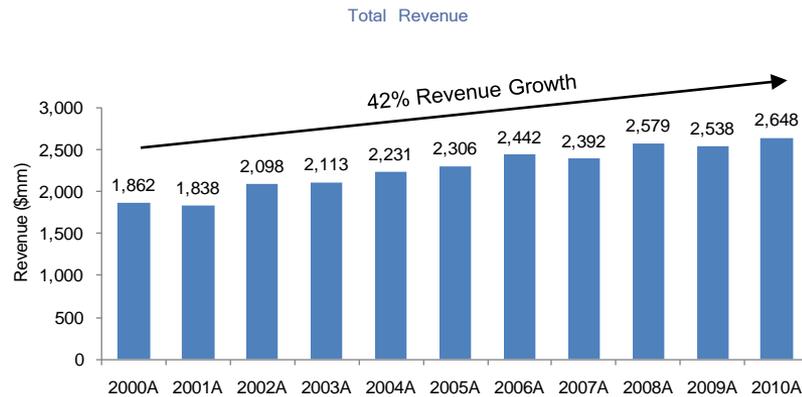
NEW JERSEY LOTTERY SELECTED OBSERVATIONS



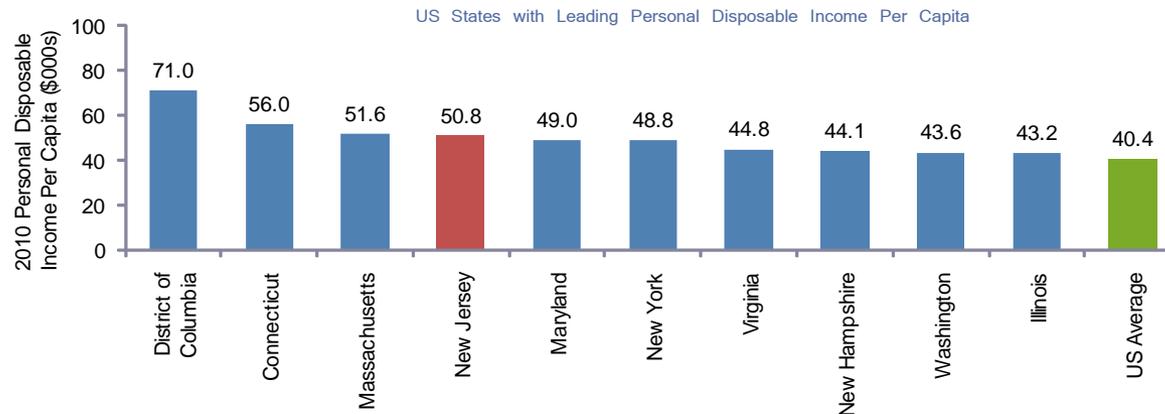


Lottery Strengths and Comparative Performance

- As we discussed during our prior meeting, the Lottery is a valuable asset and has been a meaningful source of revenue for the State of New Jersey (the “State”)



- Moreover, there are demographic attributes of New Jersey that provide a solid environment for the Lottery, including high per capita income and the propensity to game

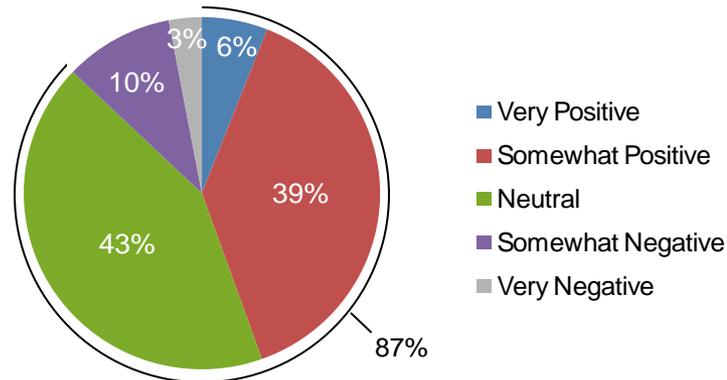




Lottery Strengths and Comparative Performance

- The Lottery exhibits several strengths that create a solid foundation for improvement
 - With a forty year history, the Lottery is well regarded in the industry and by the population of New Jersey

Opinion of the New Jersey Lottery (2011)



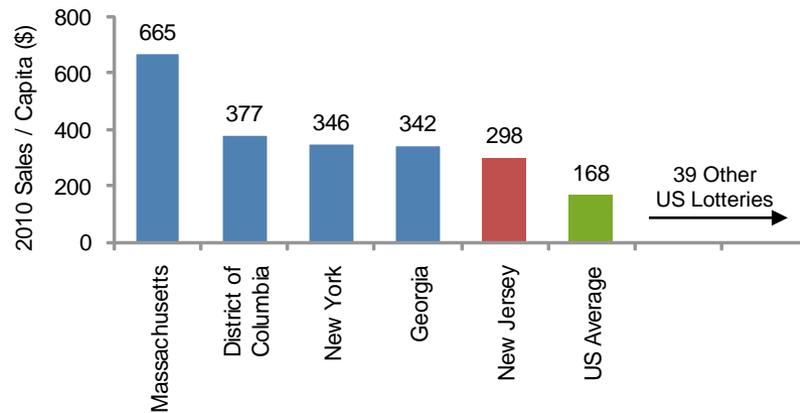
- The recently appointed Executive Director and Deputy Executive Director bring business and industry experience to their roles, have adopted a collaborative approach to rebuild employee morale and engagement and have commenced an effort to improve performance management and measurement and long-term planning at the Lottery
- The Lottery has long serving staff with extensive institutional knowledge



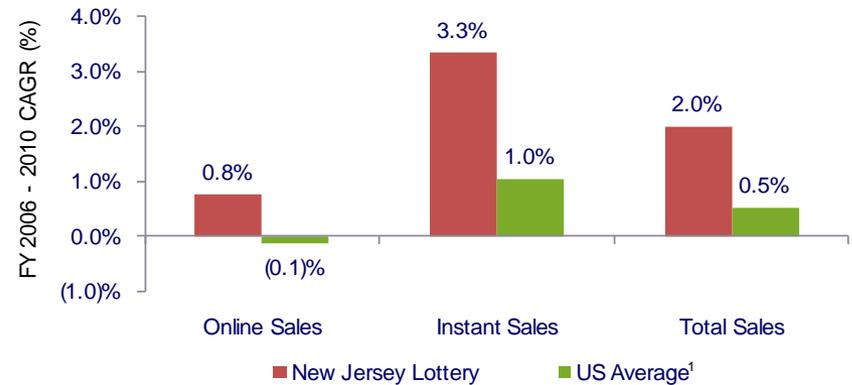
Lottery Strengths and Comparative Performance

- These factors have contributed to performance that is consistent with the better performing US lotteries

5th among 44 US Lotteries in Sales Per Capita

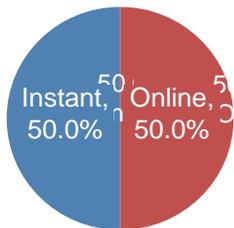


Faster Than Average Growth in Online and Instant Sales

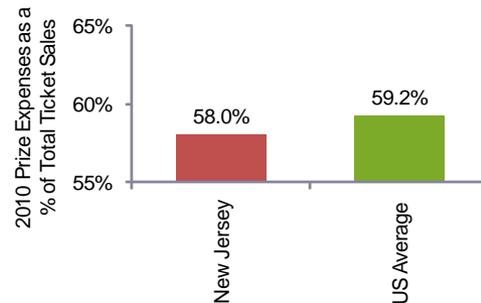


Balanced Portfolio and Relatively Low Prize Payout Ratio

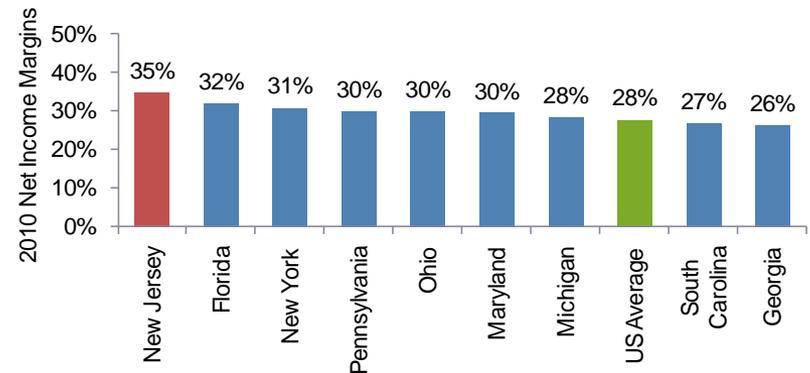
Breakdown of FY 2010 Ticket Sales



Prize Payout Comparison



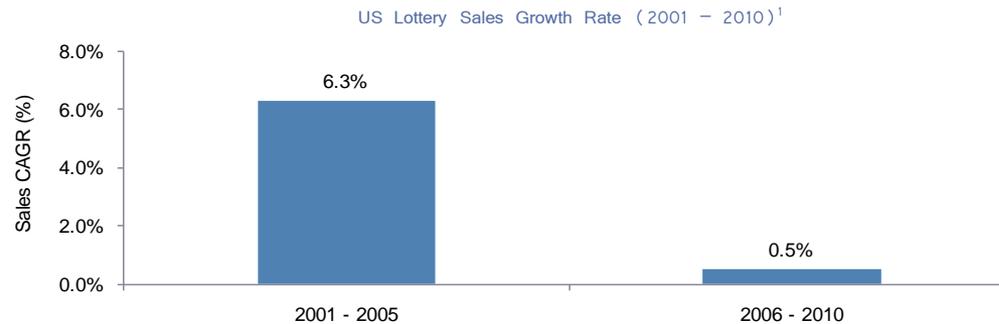
Efficient Lottery with High Net Income Margin





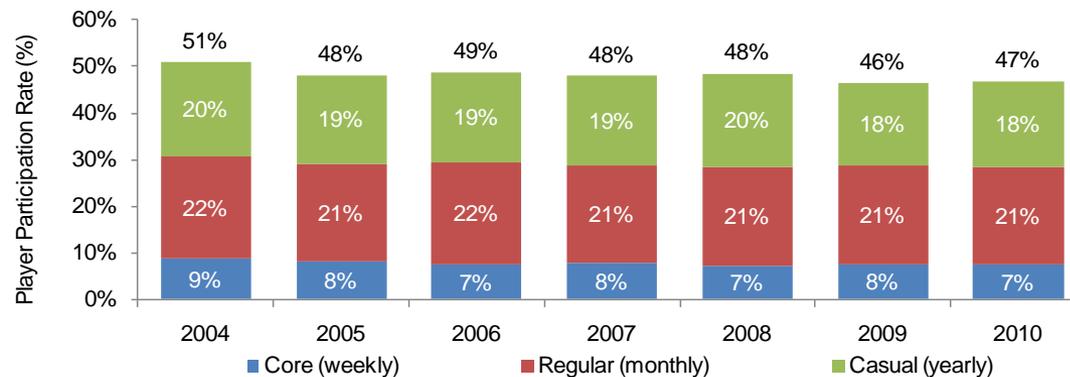
Lottery Industry Context

The Lottery operates in an industry that is maturing and experiencing sales growth decline and uncertain prospects in the context of several challenges and threats



Consumers

- Lottery participation rate among Core and Regular players (those who play weekly or monthly) is low
- Core and Regular player base is gradually declining over the long term

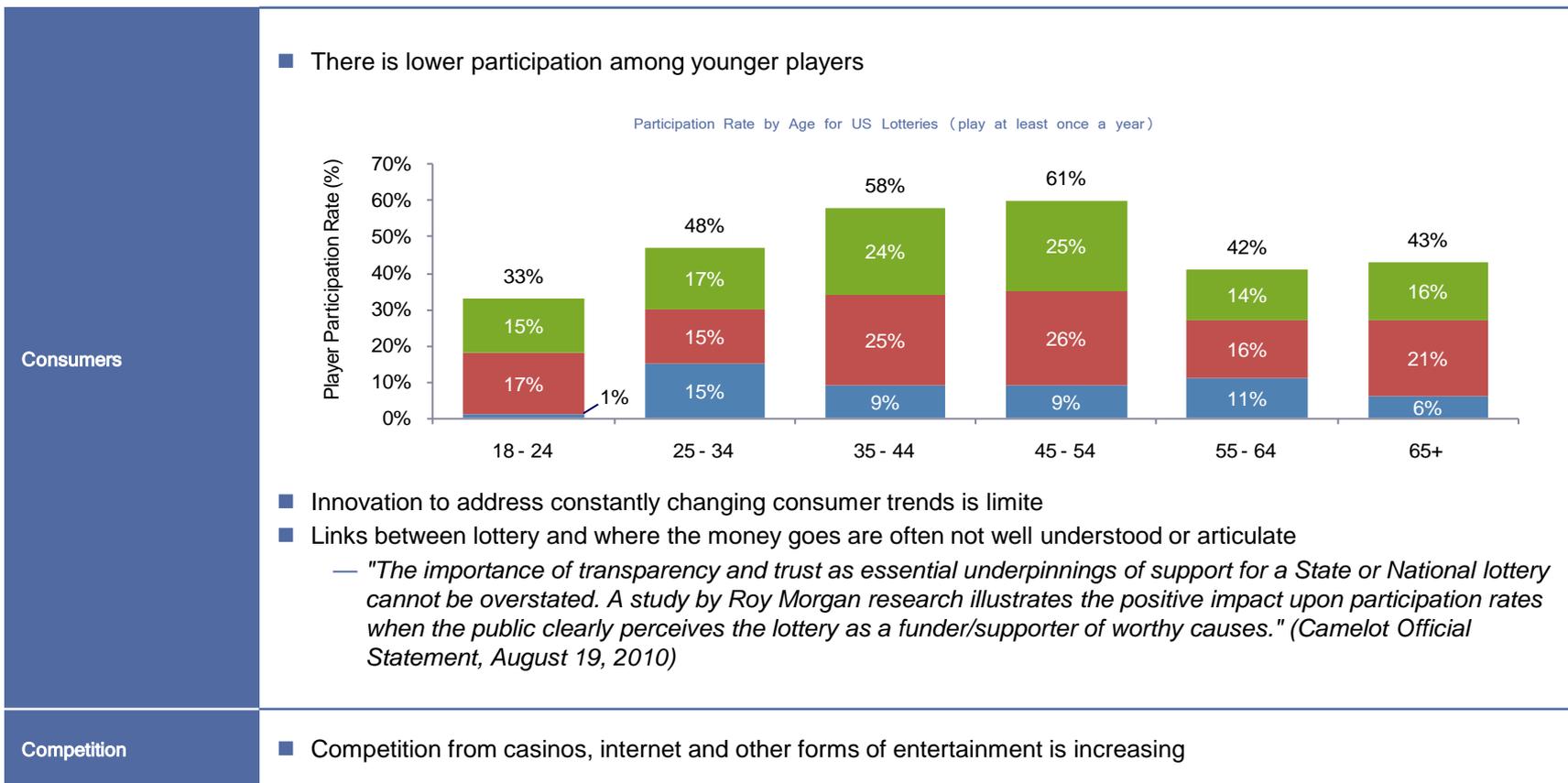


- Large percentage of population does not or rarely plays



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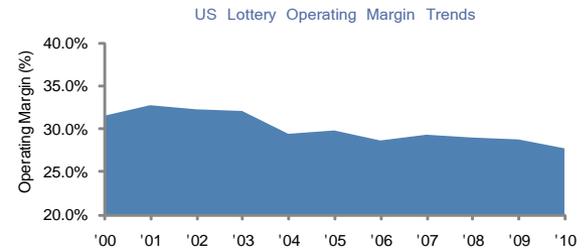
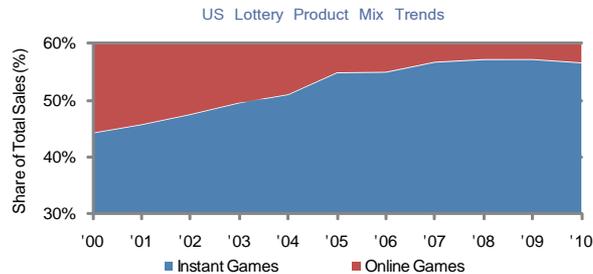


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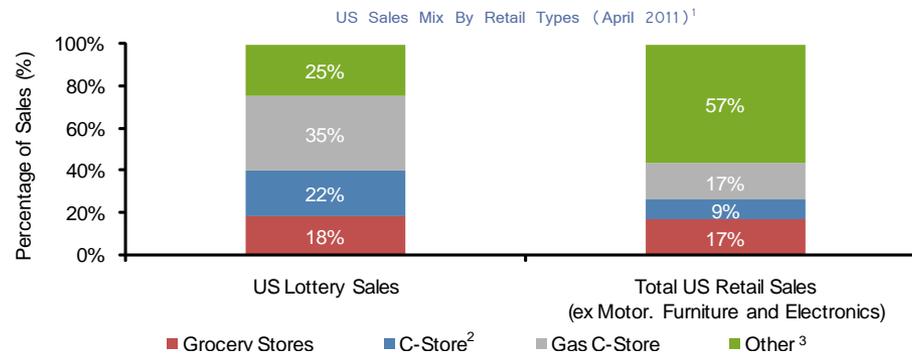
Products

- Sales growth highly dependent on prize payout and jackpot size
- Greater emphasis on instant tickets is driving prize payouts higher, adversely affecting margins



Sales and Distribution Channels

- Distribution and availability has not evolved in step with changing consumer behavior



- Chain stores preferring newer technology and distribution channels that fits their structure (e.g. in-lane solutions)
- There is no transactional internet channel

Source: La Fleur's 2011 World Lottery Almanac, annual reports for US State Lotteries, US Census Bureau

1. Excludes sales over the internet; sales over the internet was over \$100 billion for 2010

2. C-Store represents convenience store

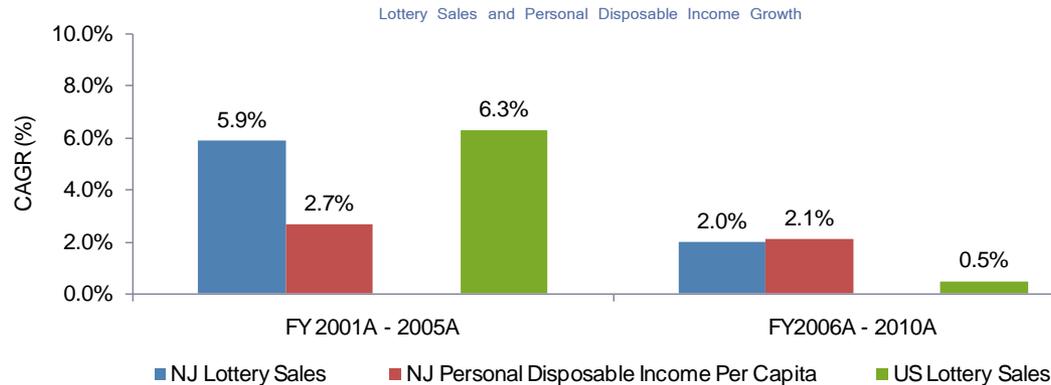
3. Includes general merchandise store, large chain retailer stores, restaurants and non-store retailers



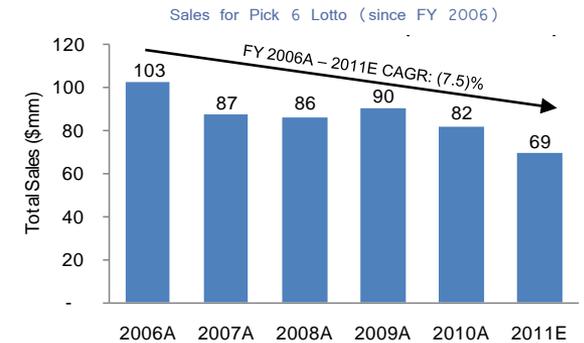
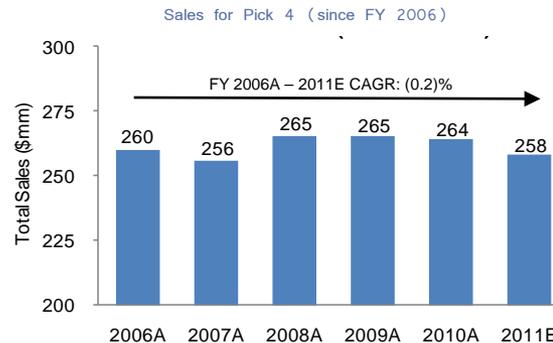
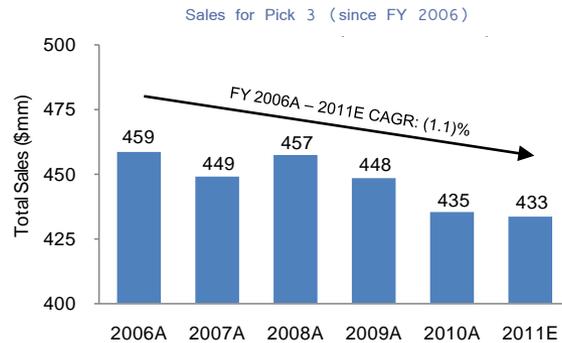
Observations on the Performance of the Lottery

Many of the overall industry characteristics are evident in New Jersey

■ Ticket sales growth has moderated in recent years



■ Several core online games are delivering flat or declining performance

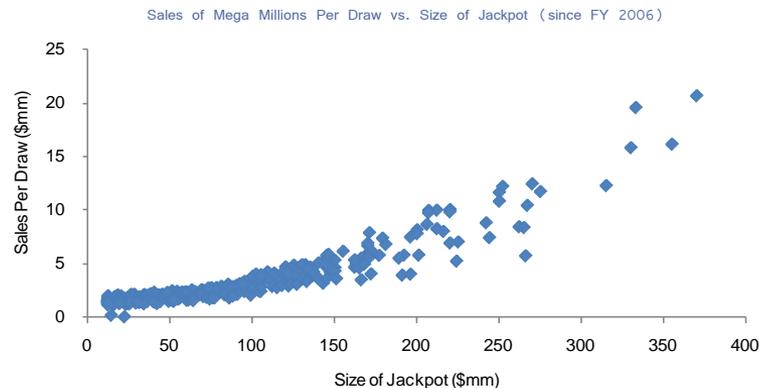




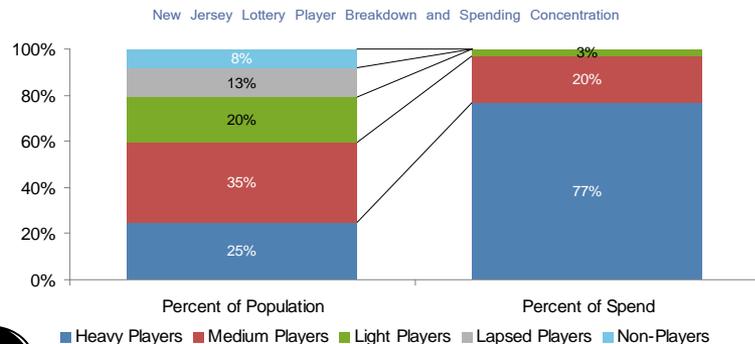
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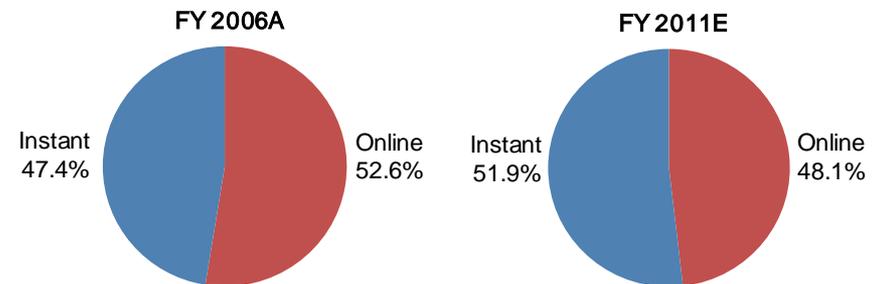
- As “purchase likelihood” increases as jackpots increase, online ticket sales are highly correlated to randomly occurring large jackpots



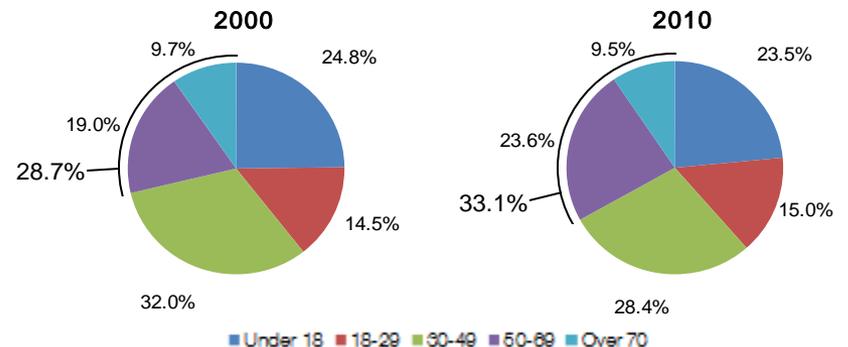
- Lottery spending is concentrated, with the core player base accounting for the majority of the stated spending



- Growth is primarily being driven by instant ticket sales, which will gradually reduce margins



- Population base in New Jersey is aging



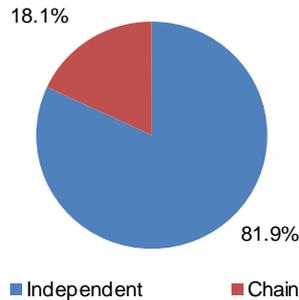


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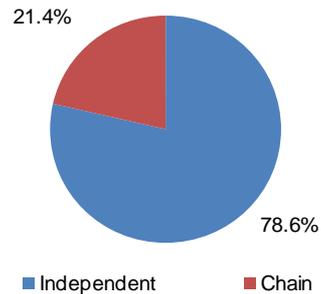
Many of the overall industry characteristics are evident in New Jersey

- Distribution of Lottery tickets is primarily conducted through independent convenience stores

Number of Retailers (FY 2010)

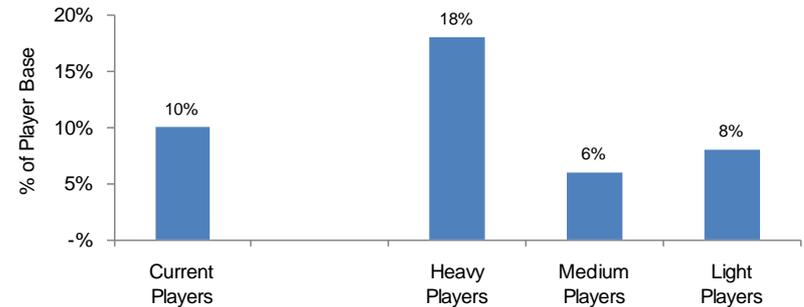


Sales By Retailers (FY 2010)



- Current player awareness of the Lottery's Facebook page is low and the development of an online strategy is in early stages

Current Player Facebook Page Awareness



- Pipeline of new product opportunities is limited

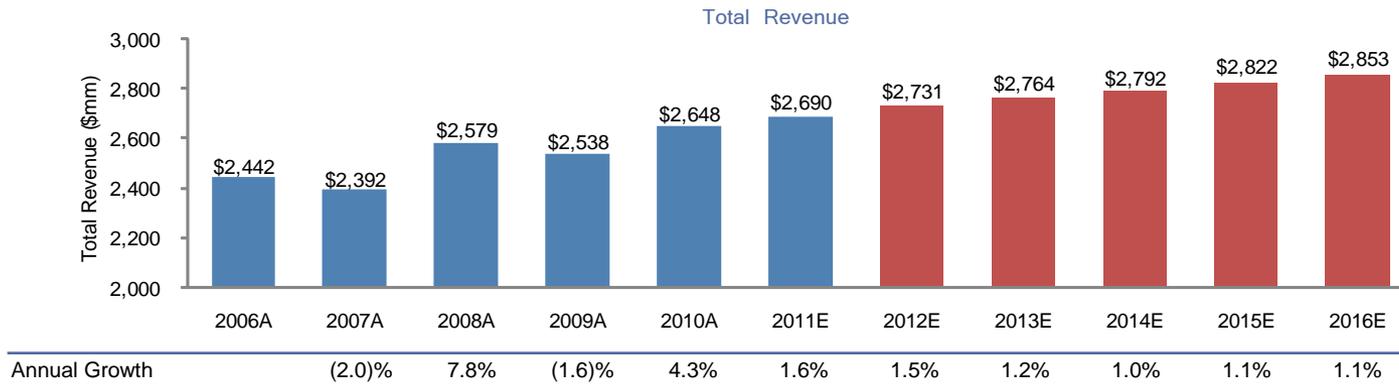
Fiscal Year Ended June 30,

	2008A	2009A	2010A	2011E
New Games	<ul style="list-style-type: none"> ■ \$20 Instant Tickets: Introduced in October 2007 ■ None 		<ul style="list-style-type: none"> ■ Powerball: Introduced in February 2010 ■ None 	
New Add-On Features	<ul style="list-style-type: none"> ■ None ■ None 		<ul style="list-style-type: none"> ■ Powerball: Powerplay introduced in February 2010 	<ul style="list-style-type: none"> ■ Mega Millions: Megaplier introduced in January 2011 ■ Jersey Cash 5: Instant Match introduced in April 2011

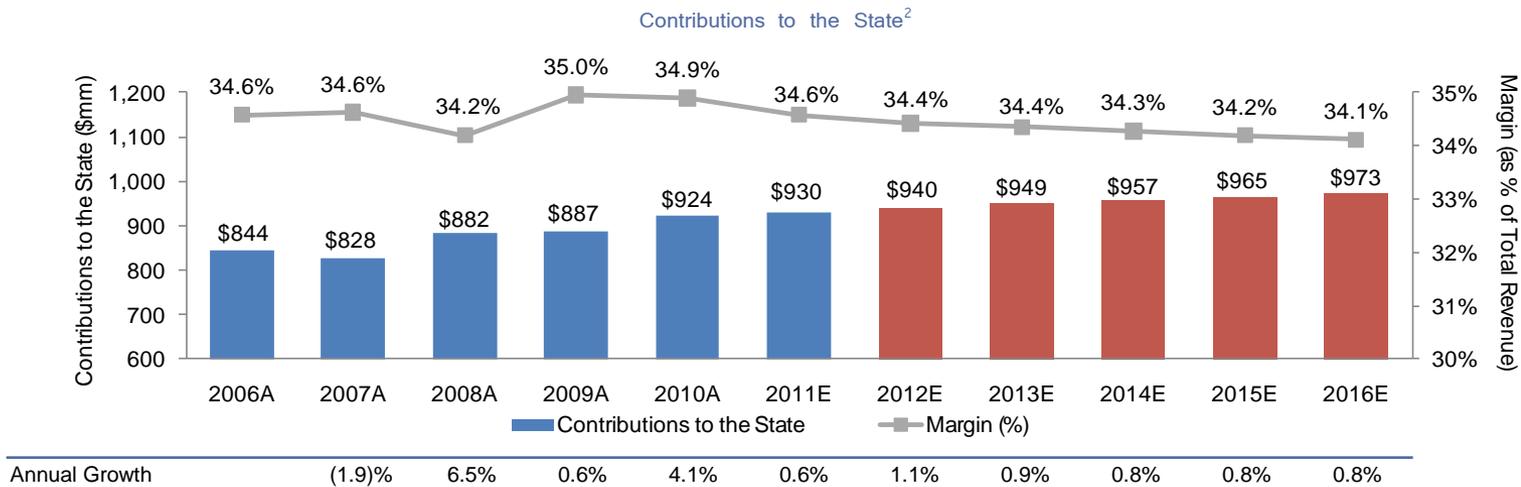


As-Is Scenario

Summary Historical and Projected Financial Information



CAGR ¹	
FY 2006A – 2011E	FY 2011E – 2016E
2.0%	1.2%



CAGR ¹	
FY 2006A – 2011E	FY 2011E – 2016E
2.0%	0.9%

Source: New Jersey Lottery

Note: Graphs represent fiscal years ended June 30; 2006A to 2010A represents actual financial results; 2011E represents the Lottery's budget and is based on 10 months of actual financial results and 2 months of projections in-line with year-to-date performance; 2012E to 2016E represents Lottery management's As-Is Scenario financial projections

1. Represents the Compounded Annual Growth Rate

2. For FY 2012E to 2016E, Contributions to the State represents operating income + interest income + amortization expense



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