

**Budget Workshop and Regular Board Meeting
New Mexico Lottery Authority
May 02, 2013**

Call to Order: K. Hoeksema called the meeting to order at 9:03 a.m. K. Hoeksema asked for roll call. Present and constituting a quorum were; Mark Koson, Reta Jones, Ken Hoeksema, Dan Salzwedel, Salvatore Baragiola and Clifford Stroud via phone. A. Bailey will join meeting later on.

Introductions: The following employees were present from NMLA: Tom Romero, Adriana Binns, Sylvia Jaramillo, Evelyn McKnight, Pam Poteat, Dave Ramirez, Vince Torrez, Wilma Atencio, Mary Stanford, Michael Boland, Scott Ward, Linda Hamlin, Karla Wilkinson, Vanessa Goodspeed, Wendy Creel, Jessica Quintana, Gale Johnson and Randy Bertram. Also present were Randy Reeves, Matt Worley, Randall Marshall, Frank Duran, Karen McCallum, Adam Greenhood, Colin Hunter, Nick Piatek, Bob Conklin, and Mary Smith, NM Attorney General's office.

Approve Agenda: K. Hoeksema proposed changes to the draft proposed agenda. Item 6 will moved before item #3. D. Salzwedel requested adding "Restructuring Board Committee" to item #7 – Board Chair, item C. "Announcements" will then become item D.

M. Smith with Attorney General's office reported that items added to draft proposed agenda may be added as a discussion item only. Action cannot be taken on the item, until the next board meeting.

K. Hoeksema called for a motion to approve the amended proposed agenda. M. Koson moved to accept the amended proposed agenda; second by R. Jones. All in favor, 6-0.

Minutes: Board asked a question on why minutes from the previous meetings were not provided. W. Atencio reported that placing past meeting minutes on agenda or action taken on past meeting minutes were not part of the Budget Workshop meetings. D. Salzwedel stated that board meeting minutes must be part of every meeting and had a question on the last meeting and the special meeting that took place in April. W. Atencio reported that the meeting minutes from the past two meetings were ready and available. M. Smith commented that if the past meeting minutes were not part of the draft proposed agenda and were not posted 24 hours in advance of today's meeting, no action can be taken. Minutes must be prepared within 10 working days. D. Salzwedel requested copies of the minutes for the Board.

General Update: T. Romero reported that the general update will be covered throughout the Budget Workshop and Board Meeting.

Open Meetings Notice Resolution: T. Romero presented the Open Meetings Act and Notice Resolution for Board adoption. During the 2013 legislative session, changes were made to the Open Meetings Notice, which now requires that the final agendas be posted at least seventy-two (72) hours prior to a meeting. The lottery conferred with the Attorney General's office, specifically Mary Smith and the lottery's Open Meetings Notice Resolution was updated with the proper language. The new amendments will take effect June 14, 2013.

Board requested that Open Meetings Notice Resolution be posted on the NMLA website.

K. Hoeksema called for a motion to approve the Open Meetings Act and Notice Resolution. D. Salzwedel moved to approve the Open Meetings Act and Notice Resolution; second by S. Baragiola. All in favor, 6-0.

5/13/13/wa

Disposal of obsolete, worn out or unusable tangible personal property: T. Romero reported that for the past several years, the lottery has participated in the NM State's annual auction that takes place usually in July or August of each year under the direction of the NM State Police. All of the divisions worked collectively to put a list of all the equipment, materials, furniture, outdated equipment, security systems, retailer equipment that could be disposed of this year. All items listed on the list have fully depreciated and the value of said property is zero. In the past, the lottery has received a couple of hundred dollars for the items and this amount was put back into the lottery's account. A list of equipment was presented to the Board for review.

Pursuant to state statutes, 13-6-1 NMSA, the lottery is requesting Board approval to dispose of obsolete, worn out or unusable tangible personal property through the state auction.

K. Hoeksema entertained a motion for board approval to Dispose of obsolete, worn out or unusable tangible personal property as provided on the list. D. Salzwedel made the motion to approve the disposal of obsolete, worn out or unusable tangible personal property as provided on the list. R. Jones second. All in favor, 6-0. There was no further discussion.

Advertising RFP: A. Binns provided a brief overview on the Advertising RFP process, evaluation and lottery's recommendation of awarding the advertising contract. The RFP was issued on February 22, 2013 and notices were sent to 25 agencies and advertising of the RFP were placed in the newspaper. Proposals were due on March 22, 2013 and the lottery received two proposals. The CEO appointed an evaluation committee comprised of NMLA staff members and the proposals were evaluated based on the RFP requirements. Based on the proposals received and evaluation process; A. Binns is requesting that the Advertising contract be awarded to "K2MD" for a four year contract beginning July 01, 2013 through June 30, 2017 at a cost of \$287,500 per year. In addition, the lottery is requesting with Board approval, authorize the CEO to enter into contract negotiation with K2MD.

K2MD (formerly Kilmer and Kilmer) has been the lottery advertising agency since 1996. A. Binns reported that during the initial stages of the RFP issuance, she reviewed many US lotteries advertising RFP's and reviewed several private and public entities Advertising RFP's, prior to issuing the RFP and made it simplistic so that the lottery could receive many responses from advertising agencies.

M. Koson and K. Hoeksema requested a copy of the scoring sheet (evaluation) and a summary report. A. Binns provided an overview of the evaluation. S. Baragiola requested that the board receive periodic reports as it relates to the RFP and how it is being exercised.

The NMLA Board has some questions and concerns on the process and evaluation and requested that any future RFP's issued by the lottery the Board would like to be consulted on the RFP issuance, the RFP Process and recommended that a Board member serve on the evaluation committee.

K. Hoeksema entertained a motion for Board approval awarding the Advertising Contract to K2MD, not to exceed four years, at an annual cost of \$287,500 and the Board authorizes the CEO to enter into negotiations and execute a contract. C. Stroud made the motion to accept the motion; R. Jones second. All in favor, 6-0.

AUDIT:

FY 2014 Internal Audit Plan: M. Boland presented the Annual Internal Audit Plan for FY 14, as required by the Audit Act. M. Boland provided a reported outlining areas and risk factors that will be

audited in FY 14. Michael reported that there are a total of 48 areas and of those 15 are considered high risk and are audited and rotated every two years.

R. Jones reported that in the past, this Internal Audit Plan was presented to the Finance/Audit committee for discussion. M. Boland reported that based on the feedback and efficiency from prior years, this report was not presented to the Finance/Audit committee. R. Jones recommends that the Internal Audit Plan be brought back to the Finance/Audit committee for consideration and discussion.

K. Hoeksema called for a motion to return this Internal Audit Plan for FY 2014 back to the Finance/Audit Committee for review and then back to the Board for approval at the next board meeting. R. Jones moved to accept the motion; second by D. Salzwedel. All in favor, 6-0.

M. Boland presented the 13-008 – Put some Play in Your Holiday VIP Club Sweepstakes Audit Report. M. Boland reported that there were no observations noted. M. Boland submitted the report for acceptance by the board.

K. Hoeksema called for a motion to accept the Put some Play in Your Holiday VIP Club Sweepstakes Audit report. R. Jones moved to accept the audit report; second by M. Koson. All in favor, 6-0.

FY 2013 Consolidated Revised Annual Budget: T. Romero reported that sales are lower than projected, due to Mega Million and Quicksters. The sales for these two online games are not what were expected. S. Jaramillo gave an update of the FY 2013 revised budget.

Board advised that it is late in the current fiscal year to make any adjustments. Other Board members concurred and recommended that the lottery consider moving the timeline on the budget revision to either February or March of every year.

Amy Bailey arrived at Budget Workshop and Board Meeting – 10:19 am.

Questions were posed by Board on revised FY '13 budget and answered by lottery personnel.

K. Hoeksema entertained a motion to approve the FY 2013 Revised Annual Budget. D. Salzwedel made the motion to approve the FY 2013 Revised Annual Budget; R. Jones second. All in favor, 7-0.

BOARD CHAIR

Restructuring Committee:

K. Hoeksema requested that the next item for discussion is Item 7C – Restructuring Committee. D. Salzwedel reported that Board members have three responsibilities and they are: fiduciary responsibility, operational responsibility when it comes to personnel and approval of a budget. D. Salzwedel has concerns on issues being presented; by rushing through the process and not having enough time to study each of these areas. The budget is no exception. D. Salzwedel is concerned about this budget. Deeply concerned that there is no detail and that the board is not involved in the budget process, but understands the process evolving over the years, but it is the board's fiduciary responsibility to be more involved. D. Salzwedel is proposing sub-committees as follows: Audit/Finance, Budget and Personnel. The board needs to be more involved and transmitting of information. A personnel committee is critical.

R. Jones commented on the historical perspective on the board's role from the beginning to where the board is now. The budget process has been discussed in depth at the Budget workshop and all the information is presented at that time to the board. In the past the board has appreciated that the information being passed along was at the whole board level, not just at the finance committee level. The board receives a broad perspective in all the areas of the lottery business and it has been a great

educational meeting as well. It also sets the stage for what the plans were operationally. The meeting was more of a workshop than a presentation allowing for cross discussion between the board and executive staff. The preference of the board was any information, approval of policies contacts and budget were appreciated at the current "all board level" and not at the committee level as suggested by D. Salzwedel.

R. Jones did report that she shares D. Salzwedel concerns on the Finance/Audit Committee and that some items were being passed to the entire board and not properly vetted at the committee level.

R. Jones commented on the personnel committee and in terms of historical perspective, the evaluation of the executive director was seen as critical as the budget process. A sub-committee would meet and come with the evaluation criteria and process of the evaluation. Then at a later board meeting, the entire board would meet with the CEO in an executive session on the evaluation and provide feedback on the evaluation. These are just feedback for the current board to take into consideration and how items were addressed or discussed in the past.

K. Hoeksema requested feedback from Ms. Smith on forming a personnel committee; the legality and accountability of a personnel committee. Ms. Smith referenced the NM Lottery Act and Lottery By-Laws and her understanding is that the Board has direct authority over the CEO and has an indirect authority over the staff (employees). The CEO recommends to the board, the Internal Auditor and Executive Vice President of Security position(s). M. Smith cautions the board on its authority beyond the CEO and when forming this committee, be specific on how it interjects in the lottery operations regarding personnel. Lottery legal counsel concurs with M. Smith and adds that the lottery statutes are specific in its authority of positions.

S. Baragiola recommends that the Board reviews the Lottery By-Laws and the Board's authority on lottery operations in terms of analysis and feedback. Use this as a starting point before forming another committee.

Board recommends that adequate and timely information be passed along prior to Board Meetings and all items should be adequately discussed during committee meetings. In addition, the board would like to establish a Personnel committee at the next board meeting. The board will take action on forming this new standing committee as stated in the By-Laws. Board further recommends extending the committee times from 1 hour to 2 hours and schedule board meetings later in the afternoon. The Security/Operations committee will meet from 9 am – 11 am; The Finance/Audit committee will meet from 11am – 1 pm; and the Board Meeting will begin at 2 p.m.

Strategic Plan: The Board was presented with a draft strategic plan for fiscal year 2014. The presentation included accomplishments for FY 2013, the lottery's strategic plan for FY 2014 and an overview of the Budget for FY 2014. T. Romero advised that Mega Millions Group has voted on a matrix change and the changes will be effective October 2013. In addition, T. Romero advised on the contract extensions for Intralot and Printing Vendor (GPC and SGI).

Present Proposed Budget for FY 2014 with Discussion and Questions – Board Action: Items reviewed line item by line item were:

- A. Operating Revenues
 - a. Instant ticket sales
 - b. Powerball sales
 - c. Mega Millions sales
 - d. Roadrunner Cash sales
 - e. Hot Lotto sales
 - f. Pick 3 sales

- g. Quickster sales
 - h. Prize tickets
 - i. Spoiled, stolen and promotional tickets
 - j. Retailer fees
 - k. Bad debts
 - l. Total operating revenues
- B. Non-Operating Revenues
- a. Interest income
 - b. Other income
 - c. Total non-operating revenues
- C. Gross Revenues
- D. Game Expense
- a. Prize expense
 - b. Retailer commissions
 - c. On-line vendor fees
 - d. Advertising
 - e. Ticket vendor fees
 - f. Shipping and postage
 - g. Promotions
 - h. Drawing game
 - i. Responsible gaming
 - j. Game membership
 - k. Total game expenses
- E. Operating Expense
- a. Salaries, wages and benefits
 - b. Leases and insurance
 - c. Utilities and maintenance
 - c. Depreciation expense
 - d. Professional fees
 - e. Other expenses
 - f. Materials and supplies
 - g. Travel
 - h. Total operating expenses
- F. Operating Income
- G. Net Income

T. Romero requested a salary adjustment for staff ranging from 1% to 2% based on Salary for the FY 2014 Budget. T. Romero requested approval by the board to approve the FY 2014 Budget as presented.

There was some discussion by some board members of being more involved in the budget process. M. Koson pointed out that only 6.1% (1.75% - Advertising Budget and 4.35% - Operating Expenses) of the total budget is flexible and controllable by the lottery and board. And there's little room to maneuver with the impending vendor fees, insurance and health care costs coming up.

K. Hoeksema entertained a motion to approve the proposed FY 2014 Consolidated Original Annual Budget. M. Koson made the motion to approve the FY 2014 Consolidated Original Budget as presented. R. Jones second. All in favor, 5-2; opposed were D. Salzwedel and A. Bailey. There was no further discussion.

BOARD CHAIR**Closed Executive Session:**

At 1:03 p.m., K. Hoeksema called for a motion to move into executive session for limited personnel matters. A motion was made by D. Salzwedel to enter into closed executive session for the purpose of discussing limited personnel matters on the conduct/evaluation of one employee of the lottery only; second by M. Koson. A roll call vote was taken to enter into executive session: M. Koson, yes; A. Bailey, yes; R. Jones, yes; K. Hoeksema, yes; D. Salzwedel, yes; S. Baragiola, yes; and C. Stroud, yes. All in favor, 7-0. There was no further discussion.

At 1:54 p.m., K. Hoeksema called for a motion to reconvene the open meeting and to exit the closed Executive Session for limited personnel matters. A motion was made by D. Salzwedel to exit the closed executive session; second by A. Bailey. K. Hoeksema stated that the limited personnel matters was the only item discussed during the closed Executive Session and no votes or actions were taken. All in favor, 7-0. There was no further discussion.

M. Smith reported that no roll call was needed upon exit of closed executive session.

Announcements: K. Hoeksema announced that the Board Officer elections will take place at the next Board of Directors meeting scheduled for Thursday, July 11, 2013 at 2 p.m.

The Security/Operations committee will meet on Thursday, July 11, 2013 from 9:00 am to 11:00 am.

The Finance/Audit committee will meet on Thursday, July 11, 2014 from 11:00 am to 1:00 pm.

ADJOURNMENT:

K. Hoeksema entertained a motion to adjourn the meeting. A. Bailey moved to adjourn the meeting. D. Salzwedel second. All in favor, 7-0. The meeting was adjourned at 1:59 pm.