

Regular Meeting of Board of Directors
New Mexico Lottery Authority
August 17, 2016
MINUTES

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 12:32 p.m. and asked for a roll call. Present and constituting a quorum were: Mark Koson; Claude Austin, Amy Bailey, Dan Salzwedel, John Kubiak, Paul Guerin and Sal Baragiola.

Present from NMLA were; David Barden; Sylvia Jaramillo; Evelyn McKnight, Wendy Ahlm and Wilma Atencio. Also present were; Jon Zajdel and Steve Beck with Intralot and Othiamba Uni with Think New Mexico.

Approve Proposed Agenda: D. Salzwedel entertained a motion to approve the proposed agenda. J. Kubiak made a motion to approve the proposed agenda; second by A. Bailey. Carried; 7-0.

Approve Minutes of June 08, 2016 Board of Director's Meeting: D. Salzwedel entertained a motion to approve the June 8th minutes. C. Austin moved to approve the minutes; second by A. Bailey. Carried; 7-0.

Public Comment: None.

Operations – S. Baragiola, Committee Chair:

Approve Minutes of June 08, Security Operations Committee Meeting: S. Baragiola made a motion to approve the June 8th committee meeting minutes as presented; second by P. Guerin. Carried; 7-0.

Conflict of Interest Policy: S. Baragiola reported that the board has been presented with two policies – Conflict of Interest Policy and No Purchase, No Play, No Win Policy. In the Conflict of Interest Policy, the title has been changed to Code of Conduct Policy. The operations committee reviewed and vetted the policy in its entirety. P. Guerin suggested two changes that need to be included in the policy and are necessary changes. On Page 8 of 9, section 3A – the committee recommends that the term “or Board Member” be inserted after employee in the first and last sentence and “or service on the Board” be inserted after lottery at the end of the first sentence. The changes should read as “No former employee “or Board Member” of the lottery may represent and employment with the lottery “or service on the Board”. “Or Board Member” is inserted after employee in the second sentence. These changes were approved and recommended by the committee. Other changes included updating and deleting sections that were duplicative within the policy. In addition, the No Purchase, No Play, No Win Policy in its entirety already existed in the Conflict of Interest – Code of Conduct Policy. The committee voted to repeal this policy because it was a duplicate policy and existed in another policy.

D. Salzwedel asked S. Baragiola are we okay in voting for both policies together or do you think we should do this separately? S. Baragiola stated since both items appear on the agenda separately, he will make two motions for each policy.

S. Baragiola made a motion that the Board approves the changes as noted and discussed for the Conflict of Interest Policy renamed to the Code of Conduct Policy by allowing the CEO to make those changes; second by P. Guerin. Carried; 7-0.

D. Salzwedel reported that all Board agenda items being discussed today have been reviewed by all board members prior to today's meeting.

08/31/16/wa

No Purchase, No Play, No Win Policy: S. Baragiola made a motion that the Board approves the elimination of the No Purchase, No Play, No Win Policy because it is a duplicate policy and it already existed in its entirety in the old policy Conflict of Interest Policy, renamed to Code of Conduct Policy as presented; second by C. Austin. Carried; 7-0.

OTHER: None.

Finance/Audit – M. Koson, Committee Chair:

Approve Minutes of June 08, Finance Audit Committee Meeting: M. Koson made a motion to approve the June 8th committee meeting minutes as presented; second by A. Bailey. Carried; 7-0.

Fiscal Year 2016 Financial Statements: M. Koson reported that this is an information item only and that S. Jaramillo provided an overview of the FY 2016 Financial Statement to the Finance Audit committee. S. Jaramillo reported for fiscal year 2016, the NM Lottery has returned \$46,324,157 to the Legislative Lottery Scholarship program and has met the statutorily required 30% return each and every month. The net revenue is \$961,000 dollars more than the revised FY 16 budget, but \$5.2 million more than fiscal year 2015 resulting in a 12.65% increase over fiscal year 2015. This isn't on the financial statements, but the return for fiscal year 2016 is nearly \$3.9 million more than the fiscal year 2016 Consolidated Original Annual Budget that you approved last June 2015. With the final transfer for FY 16, the lottery has now returned nearly \$701 million to the State of New Mexico for education since the inception of the Lottery.

Net instant sales were approximately \$83 million, whereas last year net instant sales were nearly \$80 million. Instant ticket sales increased by more than \$3.1 million from last year – a 3.9% increase and surpassed the FY 16 Revised budget by \$730,000. This isn't on the financial statements, but net instant ticket sales surpassed the FY 16 original annual budget by nearly \$1.9 million.

Net drawing game sales for FY 2016 were approximately \$71.2 million. Net drawing sales ended 2016 \$2.4 million ahead of the revised budget. This isn't on your financial statements, but net drawing game sales were \$11 million more than the FY 16 original annual budget – we revised drawing games sales up by \$8.6 million in the revised budget. Net drawing sales for FY 16 were over \$14 million more than net drawing sales for FY 2015. Powerball sales were \$15.6 million more than last fiscal year, and Roadrunner Cash were \$1.1 million more than last year. Mega millions were \$652,000 less than last year and Hot Lotto sales were \$1.7 million less than last year.

Total Operating Revenues were nearly \$3.2 million more than the Revised FY 16 Budget and \$17.3 million more than last fiscal year.

Total Game Expenses ended the year at 101.36% of the revised budget—while operating revenues ended at 102.08% of budget—tracking very closely to each other. Actual game expenses were 66.80% of Gross Revenues; the Budget was 67.30% of gross revenues—the total dollar amount for game expenses was more than the budget due to higher sales than budgeted, but the percentage was less than the budgeted percentage. Game Expenses were nearly \$12.3 million more than last fiscal year; due to higher sales and because the on-line vendor fees increased at the end of November 2015.

Operating expenses ended the year at 3.17%, but without the operational Reserve Fund Expense were 2.37% of gross Revenues with the total operating expenses at 90.32% of the revised budget. Every line item in Operating expenses ended the year lower than the Revised Budget—costs were held as much as possible. Overall we had a \$1.4 million decrease with \$876,000 coming from salaries, wages and benefits. We also saved approximately \$160,000 by purchasing this building and not leasing it. There were also savings in other operating expense line items compared to last year.

08/31/16/wa

M. Koson stated this report was reviewed thoroughly at the finance audit committee meeting and the numbers presented are impressive. There are significant savings and operating on 3% of budget - lottery managing expenses efficiently and maximizing revenue as best as it can. The CEO, management and staff should be commended on a job well done.

J. Kubiak also complimented the CEO's leadership and management team on having a 12.5% increase over last year with lots of competition for gaming dollars. J. Kubiak asked what the interest rate for the building is. S. Jaramillo reported 3.6%. J. Kubiak asked if the lottery could accelerate the payoff of the building. S. Jaramillo stated yes. However, the lottery is getting such a good rate, we would like to continue at the current payoff schedule and to have cash on hand just in case something comes up, but it is up to the Board on how they wish to proceed. No further questions.

Addendum to NMLA Consolidated Approved Budget: M. Koson reported that items 5B – 3 and 4 are action items and everyone should've received the document "Addendum to Consolidate approved Budget" in advance. This item was vetted and reviewed with management at the finance audit committee meeting earlier.

M. Koson made a motion that we attach this Addendum to the NMLA Consolidated approved budget and also to the previous budgets as requested by S. Jaramillo; second by J. Kubiak.

P. Guerin asked for clarification relating to bullet #1 of the Addendum to the NMLA Board of Director's approved Fiscal Year Consolidated Original Annual Budget/Fiscal Year Consolidate Revised Annual Budget. This provides for "the expenditure of funds from a Game Expense line item in a comparable percentage to the actual performance of gross sales to the year to date Board approved "this" Addendum if gross sales are performing at 105% of the approved year to date sales budget, Game Expenses can also track on or about 105% of their year to date budget. S. Jaramillo reported that this item allows that if sales go up it then pushes all the game expenses higher. Expenses follow sales trend and we are allowed to stay within a certain percentage of sales. It doesn't mean we aren't over our budget, it means that sales are pushing all the game expenses higher. D. Barden reported that this would eliminate the lottery from having a Board session to amend its budget. P. Guerin stated this is because the gaming expense would be higher than 100%. S. Jaramillo reported yes. This year is a perfect example. We are \$17 million above last year and were going to pay more in certain category expenses just as a result of sales. It just allows us to move some of those monies to pay our expenses. S. Jaramillo reported that occasionally game expenses do track above sales, especially if our payout is higher than budgeted. Occasionally this is the case. S. Jaramillo tracks to ensure we are in line with our budget. The lottery does have direct expenses such as retailer commissions, online vendor fee, printing expenses that are a percentage of sales.

Carried; 7-0.

Business Meal and Travel Policy: M. Koson reported this item is an action item and S. Jaramillo presented the Business Meal and Travel Policy to the Finance Audit Committee. Committee members reviewed and vetted the proposed changes. The committee further recommends that this item be approved by the Board of Directors.

M. Koson made a motion to accept the changes as presented in the Business Meal and Travel Policy; second by D. Salzwedel.

D. Salzwedel clarified the policy that essentially expenses are going to exceed and this policy allows a person to follow either GSA rate or Standard rate because some cities are more expensive than others. S. Jaramillo reported that is correct. Employees will follow GSA and standard rate and attach it to out of state travel approval form.

08/31/16/wa

S. Baragiola asked if the lottery will be using the one rate schedule. D. Barden reported we will be using the GSA rate schedule for whatever city they post for (NY, Pittsburg, Santa Fe, Atlanta, etc.). This allows the employee to get the government rate. S. Baragiola further recommends that verbiage be added to the current GSA rate schedule be used and replaced on an annual basis, as needed.

M. Koson amended his initial motion to: M. Koson amends his motion to accept the Business Meal and Travel Policy with the changes as presented and replace the existing table in Per Diem Rate method with dollar amounts with current GSA rate schedule; second by D. Salzwedel. Carried; 7-0.

Other: None.

S. Baragiola left meeting.

Personnel – A. Bailey, Committee Chair:

Compensation Guidelines: A. Bailey reported that the Personnel committee met earlier and worked with E. McKnight, Director of HR and three policies were revised. First is the Compensation Guidelines Policy. The Policy was revised after a compensation study to reflect the methodology changes adopted in that study. The point factor scoring system will no longer be used for purposes of compensation and this was stricken from the policy. The evaluation will be based on comp study and job responsibility. Language was added to allow the Chairman to act on behalf of the full Board to provide for employee compensation increases greater than 10% above their current compensation. If it is not feasible to obtain full board approval, this allows the CEO the ability to be competitive within the job market for an employee that may receive another job offer. Other items were deleted because they worked in conjunction with the point system that was no longer relevant and language related to old grades.

A. Bailey made a motion to adopt the revised Compensation Guidelines; second by M. Koson. Carried; 6-0.

Drug Free Workplace Policy – Renamed Safe Workplace Policy: A. Bailey reported that the Drug Free Workplace Policy was renamed and revised to the Safe Workplace Policy. A. Bailey provided an overview of the changes and updated information. The existing definition for controlled substance and mood alternating chemical were stricken and replaced with more thorough definition to clarify very specific areas that the policy covers. The Policy of the Policy was stricken and updated to work more with the revisions of all other policy by bringing them up to date. New language was added in BOLD language by making it clear what is inappropriate in regards to alcohol and controlled substance while at the workplace. This includes over the counter drugs, in addition to prescription and illicit drugs. This policy also incorporates Pre-Employment Drug Testing and employee behavioral assistance. In addition, Duty to Disclose was added as it relates to drugs, alcohol and prescription drugs during their employment.

A. Bailey made a motion to approve the renamed and revised Safe Workplace Policy as submitted; second by M. Koson. Carried; 6-0.

Repeal Pre-Employment Drug Testing Policy: A. Bailey reported similar to the Operations committee, the Personnel committee recommended and approved the repeal of the Pre-Employment Drug Testing Policy because it exists in the newly approved Safe Workplace Policy.

A. Bailey made a motion to repeal the Pre-Employment Drug Testing Policy due to it being duplicative or information and language contained in another policy; second by M. Koson. Carried; 6-0.

Other: A. Bailey reported that during the Personnel committee meeting, the authority was given to the CEO and lottery staff to make editorial changes and or corrections/omissions to the policies without impeding a substantive change to the intent of the policy.

08/31/16/wa

A Bailey moved to give the executive staff the authority to correct any error or omissions, typo-graphical errors of a non-substantive nature contained within any of the policies approved today; second by M. Koson.

D. Salzwedel clarified these are non-substantive changes and only editorial, such as grammatical changes.

P. Guerin asked does this only cover policies discussed and approved today. P. Guerin recommends that the motion be amended to include any and all current NMLA Policies and Procedures.

A Bailey amends the motion to any current policy or procedures; second by M. Koson. Carried; 6-0.

D. Barden reported that upcoming Board meeting dates for the next two years have been posted to the lottery website.

CEO Update: D. Barden will be reporting on highlights over the past two years. The lottery has had its highest transfer to the legislative lottery scholarship tuition fund. The CEO would like to applaud the Board for the changes at the lottery. The lottery's statutory commitment is to maximize revenue for the scholarship program and we've been successful despite the 30% mandate, but it won't last long unless changes are made. The World is changing day by day and to stay relevant, we must change and evolve or we will be left behind. Look what's happening with newspaper publications - a dying breed. They must go mobile to stay relevant. The same can be said with companies that have disappeared, such as Kodak, Blackberry, Woolworth and Blockbuster Video. We now have Google, Amazon, Apple, Microsoft, the internet and Apps after Apps making life easier and less complicated.

Two quotes the CEO has posted in his office; "Change is Inevitable" and "Growth is Optional".

Other lottery highlights discussed:

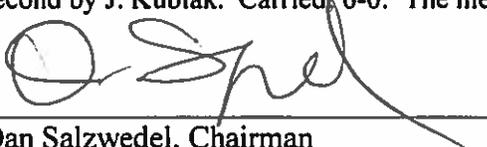
- Conversion to the new system with Intralot our Online Vendor.
- \$17 million – the lottery has pushed the envelope the past two years to get to this amount.
- Instant Scratcher sales up 19%. *CEO stated two years ago that it will take three years for two year results.*
- The lottery is at a crossroad with the 30% mandate. We are an underperforming lottery. We would be transferring \$60-\$65 million to the state. Change is needed to continue to grow and have higher returns. It will take some time, but it will happen.
- Misinformation on the lottery continues. This needs to change.
- Super Tuesday instituted.
- Player Rewards Program with SGI started for the \$1, \$2 and \$3 instant tickets. *If we don't have players buying our product, there would be no scholarship program.*
- The lottery loses 6-10% of our overall sales to our Border States – Arizona, Texas and Colorado. *Players play for prizes.*

D. Barden presented a short presentation on "The Future" an inside look of technology and where the lottery needs to go to stay relevant in today's time.

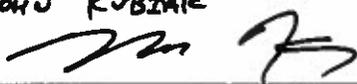
Advertising Update: W. Ahlm presented a power point presentation on advertising initiatives for fiscal year 2016 and upcoming initiatives for FY 17.

Other Items: None.

Adjournment: D. Salzwedel entertained a motion to adjourn. A. Bailey moved to adjourn the meeting; second by J. Kubiak. Carried 6-0. The meeting adjourned at 2:15 p.m.



Dan Salzwedel, Chairman
Date 11-16-14

FOR JOHN KUBIAK


John Kubiak, Secretary/Treasurer
Date 11/16/15