

Regular Meeting of Board of Directors
New Mexico Lottery Authority
July 01, 2014
MINUTES

Call to Order: Board Chair D. Salzwedel called the meeting to order at 9:01 a.m. and asked for a roll call. Present and constituting a quorum were; Mark Koson, Claude Austin, Dan Salzwedel, John Kubiak, Paul Guerin and Salvatore Baragiola. A. Bailey absent.

The following employees were present from NMLA: David Barden, Sylvia Jaramillo, Evelyn McKnight, Wendy Creel, Pam Poteat, Dave Ramirez, Vince Torrez, Wilma Atencio, Scott Ward, Karla Wilkinson, Pat Koop, Troy Alwin, Mary Stanford, Jessica Jinzo and Michael Boland. Also present were Randy Reeves and Matt Worley from Intralot, Karen McCullum and Frank Duran of K2MD, and Mary Smith of Attorney General's office.

Approve Proposed Agenda: D. Salzwedel called for a motion to approve the proposed agenda. J. Kubiak moved to accept the proposed agenda; second by M. Koson. All in favor, 6-0.

Approve Minutes of May 06, Board of Director's Meeting: D. Salzwedel called for a motion to approve the minutes from the May 06, 2014 Board meeting. C. Austin moved to approve the minutes as presented; second by P. Guerin. All in favor, 6-0.

Public Comment: D. Salzwedel asked anyone who wished to speak publicly to complete a form. No Public Comment.

Open Meetings Act Update: M. Smith with the Attorney General's Office provided an overview of the NM Lottery Authority Board's compliance with the Open Meetings Act and Public Meetings Act and abiding by NM laws. In addition to the Open Meetings Act, M. Smith referenced the NM Lottery Act and the NM Lottery Board By-laws and its authority in conducting board meeting and committee meetings. Each meeting must have a public meeting notice, an agenda and minutes.

CEO Update:

Employee Recognition: D. Barden, the Board and the NM Lottery recognized Troy Alwin for five years of service and Diana Bleier for ten years of service.

D. Barden Reported that Fiscal Year 2014 closed on June 30 with an inventory on all tickets and premium items. The year's sales and revenue will be announced in late July or early August. May's revenues were approximately \$11.3 million. The lottery transferred \$3.39 million to the Lottery Tuition Fund. Year-to-date profits are nearly \$38 million compared to \$40.1 million last year. This year's transfer will be less than fiscal year 2013 due to smaller Powerball jackpots. Powerball sales across the US are down with New Mexico's sales down \$8.5 million. With the recent addition of California to the PB Group, there is discussion about changing the matrix within the year.

Today is Super Tuesday and the lottery is introducing three Scratchers with more than \$4 million in prizes: \$1 "Super 7s" with top prizes of \$2,100; \$3 "Crossword Jewels Multiplier" with top prizes of \$30,000; and \$5 "Word-O-Rama with top prizes of \$50,000. June sales were strong with one day of sales reaching \$321,000, our best-selling day in more than four years. It should be noted that the lottery reduced the mid-year estimate on scratchers to \$70.5 million from the original \$72.5 million goal. We were \$30,000 below the original goal of \$72.5 million.

P. Guerin requested a year-over-year comparison of sales. D. Barden reported that the lottery has a sales graph chart that covers the past seven years and the Instant Ticket Product manager will provide this report weekly to Board.

On June 28th, after the Isotopes game, the lottery gave away two Ford F-150 trucks from the Trucks & Bucks promotion. The giveaway was attended by Rich Ford, the lottery's partner in this promotion. Over the weekend, Rich Ford's logo appeared on Powerball tickets at a zero cost. The Rich Ford placement is part of the lottery's strategy to begin building proof of performance and testimonials that will be essential to acquiring paying ticket advertisers. Thanks to the excellent relationship with Rich Ford, the New Mexico Lottery will likely be the only U.S. lottery to offer a limited edition 50th anniversary Mustang as a prize. Only 1,964 limited edition 50th anniversary Mustang cars have been made. The lottery will offer it as a prize in a second-chance drawing next year.

On July 4, lottery staff will be in Las Cruces for the Harley Davidson giveaway event.

The lottery introduced a midday Pick 3 drawing on June 9 with great success. On its second day, the midday drawing resulted in 14 prizes of \$500 each. PICK 3 sales are up with a 10% increase with annual sales expected to grow by \$2.55 million. On June 8, the lottery launched its latest Quickster game called Red Hot Jackpot Bingo. Average weekly Quickster sales are up almost 60% from \$11,844 to \$18,865.

In other news, the logo has been updated. The new design shows a sleek and determined bird racing over a landscape of rolling lottery balls. We needed to simplify the logo for digital media, an environment that did not exist 18 years ago. The logo was designed in house by Joby Elliott, who has worked in our graphics department for six years. In addition, our newly hired animator Andrew Dormody has created animated Scratchers ads for television, in-store Player Advertising Displays, the website and Facebook. With an in-house animator, we can produce more advertising content at lower cost. For first time ever, the lottery is advertising on transit systems, specifically busses in the Albuquerque, Farmington and Santa Fe area and the Rail Runner train. The lottery has also purchased advertising to promote jackpots over in-store radio in Smiths and Albertson's stores. The Employee Performance Evaluations have been completed and well underway on this project.

D. Salzwedel inquired on the Intralot back office conversion. D. Barden reported that the project has been delayed two months and should be complete after the new year of 2015.

MARKETING: W. Creel reviewed current advertising initiatives.

OPERATIONS Committee Report – S. Baragiola, Committee Chair:

General Drawing Rules and Procedures for Second Chance Drawings and Promotional Drawings: S. Baragiola reported that the General Drawing Rules and Procedures for Second Chance Drawing and Promotional Drawings were presented and discussed at the Operations committee in full detail. No additional changes were made,

S. Baragiola made a motion to adopt the amended General Drawing Rules and Procedures for Second Chance Drawings and Promotional Drawings as presented; second by C. Austin. All in favor, 6-0.

D. Barden gave an update on "Monopoly Millionaires Club," a game that the board has already approved along with budget detail in the FY 2015 Consolidated Original Annual Budget. D. Barden reported that a game description and rules will need to be established. MUSL will prepare general drawing rules for the PB Group; however, each lottery will need to establish state-specific rules.

D. Salzwedel recommends that the Operations Committee vet these rules and have the authority to approve on behalf of the Board since approval would be necessary before the next scheduled Board meeting, subject to required public notifications and postings.

S. Baragiola made a motion that the Operations Committee approve new rules or modified rules to the upcoming Monopoly game in accordance with the policy that we just passed because there is procedures and rules within this policy that say how that will go forth so in accordance with this policy and the request that the Operations Committee to review the rules in accordance with this policy; second by P. Guerin. All in favor, 6-0.

FINANCE/AUDIT Committee Report – M. Koson, Committee Chair: M. Koson reported that all items were discussed at the Finance/Audit Committee in length and each presenter will provide an overview. S. Jaramillo will present the financial statements, disposal of obsolete, worn out or unusable tangible personal property, and the fiscal year budget and expenditure authorizations. D. Barden will present the Business Meal and Travel Policy, and M. Boland will present the FY 2015 Internal Audit Plan.

Financial Statements: S. Jaramillo presented a detailed review of the May 2014 financial statements. With the transfer at the end of May, the Lottery has returned a total of nearly \$610.4 million to education. The lottery's net income return was nearly \$37.9 million. The Lottery has returned 30.10% of gross revenue to the state, exceeding the 30% mandate. Net sales were \$125.8 million. Net Instant ticket sales made up 50.82% of these net sales, while total net drawing game sales made up 49.18% of net sales. Total net drawing games sales were nearly \$61.9 million, less than YTD revised. This reduction in drawing game sales compared to last year can be attributed to having two Powerball jackpots that reached nearly \$600 million in November 2012 and May 2013. This fiscal year Mega Million had a large jackpot reaching \$648 million in December 2013 and Roadrunner Cash had a record jackpot of \$890,000 in October 2013. Game expenses followed closely in line with net sales. Responsible gaming has surpassed the budget due to reducing the amount for responsible gaming by \$7,000 during the revised budget process. All line items in Operating expenses were lower than the YTD budget.

Business Meal and Travel Policy: D. Barden presented the Business Meal and Travel Policy, a consolidation of two policies, namely the Business Meal and Travel Policy and the Out of State Pre Approval Procedure. By combining the two policies, redundant language has been eliminated and travel approval forms have been streamlined from three to one. Instructions to use the Federal Per Diem Rate for lodging and lowest reasonable airfare have been added. The Federal per diem rate will vary depending on the city and state. All checks and balances are still in place.

P. Guerin asked why both the meal rate in addition to the lodging rate was not changed to reflect the Federal Per Diem rate. D. Barden reported that the policy will be updated next year and will include federal rates for meals.

M. Koson on behalf of the Finance/Audit committee made a motion to approve the Business Meal and Travel Policy as presented; second by J. Kubiak. All in favor, 6-0.

Disposal of obsolete, worn out or unusable tangible personal property: S. Jaramillo presented a list of disposal of obsolete, worn out or unusable tangible personal property. This year's list is short and mainly made up of obsolete software that has been updated with new versions or is no longer being used, along with random items of equipment and furniture and 121 electronic jackpot signs that are being replaced. As signs are replaced, the number of obsolete signs will increase to 380 signs. In addition, the lottery will also be replacing 100 information centers. All of these items are fully depreciated, broken or obsolete and the value of said property is zero. S. Jaramillo requested approval of this list plus any old

07/15/14/wa

electronic jackpot signs and 18-year-old information centers that will be replaced by new signs and information centers in the next few months.

J. Kubiak asked S. Jaramillo to affirm that the items on the list had zero value, did not contain salvageable equipment and would be disposed of properly and securely. S. Jaramillo reported that the equipment has no value, and that the lottery's name and logo would be removed from equipment prior to disposal.

P. Guerin asked about the communications costs associated with electronic jackpot signs. D. Ramirez reported that the signs are two years old and that since New Mexico is a rural state, communicating new jackpot amounts to signs involve using a pager/beeper network. and communicating involves using a pager/beeper to send message to the signs. The cost has gone up from \$500 a month to \$2000 a month. Jackpot signs in metropolitan areas have been updated and they are updated at no cost by a satellite communications network.

M. Koson on behalf of the Finance/Audit committee made a motion to approve the Disposal of obsolete, worn out or unusable tangible personal property as presented; second by J. Kubiak. All in favor, 6-0.

Fiscal Year Budget and Expenditure Authorizations: S. Jaramillo presented the Fiscal Year Budget and Expenditure Authorizations. This Addendum to the New Mexico Lottery Authority Board of Directors' Approved Fiscal Year Consolidated Original Annual Budget/Fiscal Year Consolidated Revised Annual Budget will provide day-to-day operational flexibility in managing expenditures and authorize the CEO to approve expenditures under addendum criteria while remaining within statutory requirements and Lottery policy. This Addendum will be an attachment to the FY 15 Consolidated Original Annual Budget. S. Jaramillo requested approval of the Addendum.

M. Koson reported that this document was reviewed and vetted and on behalf of the Finance/Audit committee made a motion to approve the Fiscal Year Budget and Expenditure Authorizations as presented; second by J. Kubiak. All in favor, 6-0.

FY 2015 Internal Audit Plan: M. Boland presented the FY 2015 Internal Audit Plan for approval. The Audit Plan is a required by the Lottery Act and is an essential risk assessment tool. Every year, Internal Audit outlines areas to be audited and reviews those areas with management. The plan includes risk assessment and total hours allocated by the Internal Auditor. Flexibility is built into the plan in the event management wishes to look at other areas not identified in the plan.

J. Kubiak inquired about the 80 hours continued education listed on the plan and new technology/software that could assist with the audits. The Board requested that Internal Audit consider using an auditing software package. M. Boland reported that he has looked into "Data Mining" software which could be beneficial to his audits, specifically in the area of IT. M. Boland will acquire software this fiscal year.

M. Koson reported that this item was reviewed and vetted and on behalf of the Finance/Audit committee makes a motion to approve the FY 2015 Internal Audit Plan as presented; second by J. Kubiak. All in favor, 6-0.

Other: M. Koson reported that Moss Adams gave a brief presentation to the Finance/Audit Committee on June 30 which included an overview of the upcoming audit, timeline, areas that will be audited, which includes IT. The audit will run through October 2014.

BOARD CHAIR

Board Officer Elections: D. Salzwedel reported that by policy the Board Officer Elections is conducted annually. The election process could be done individually or collectively. D. Salzwedel

07/15/14/wa

asked if there are any board members that are serving that don't want to serve anymore in their current capacity or anyone that wishes to disqualify themselves it should be noted.

C. Austin made a motion to approve the re-election of the present officers in their current positions for another year and be elected by acclamation. J. Kubiak suggested amending the motion to include current committee appointments. C. Austin concurred with the amendment; second by J. Kubiak.

D. Salzwedel asked if any Board member wished to serve in another capacity. No comments were made. D. Salzwedel asked if there were any concerns, questions, comments. No Comments.

Collective vote taken. All ayes, no nays, 6-0.

Board Officer Positions are:

D. Salzwedel – Chair

M. Koson – Vice Chair

John Kubiak – Secretary/Treasurer

Amy Bailey – Assistant Secretary/Treasurer

Sal Baragiola – Board Member

Claude Austin – Board Member

Paul Guerin, Ph.D. – Board Member

Committee Appointments and Committee Chair Appointments

Operations

Sal Baragiola, Chair

Claude Austin

Paul Guerin, Ph.D.

Finance/Audit Committee Members:

Mark Koson, Chair

Dan Salzwedel

John Kubiak

Personnel Committee Members:

Amy Bailey, Chair

Mark Koson

Dan Salzwedel

Announcements: None.

On behalf of the board, Sal Baragiola congratulated Mr. Barden on a job well done, adding that the board has seen incredible momentum over the past six months, culminating in the report of the May financials, the marketing presentation, preliminary results for Fiscal Year 2014 and the action plan for FY 2015.

ADJOURNMENT: D. Salzwedel entertained a motion to adjourn the meeting. S. Baragiola moved to adjourn the meeting; second by J. Kubiak. All in favor, 6-0. The meeting adjourned at 11:10 a.m.