

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
February 27, 2015
MINUTES**

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 10:39 a.m. and asked for a roll call. Present and constituting a quorum were: Mark Koson; Amy Bailey; Dan Salzwedel; John Kubiak; Paul Guerin; Salvatore Baragiola; and Claude Austin via telephone.

Present from NMLA were; David Barden; Sylvia Jaramillo; Evelyn McKnight; Wendy Ahlm; Karla Wilkinson; Pam Poteat; Dave Ramirez; Vince Torrez; Wilma Atencio; Linda Hamlin; Mary Stanford; Michael Boland; Randy Bertram; and Greg Blea. Also present were Randy Reeves and Matt Worley with Intralot; Charles Brunt with the Albuquerque Journal; Shannon Struempf, Todd Bauman, Danielle Duke, and Colleen Gannon with GTECH; and Colin Hunter with Barnett Law Firm.

Approve Proposed Agenda: D. Salzwedel moved to amend the proposed agenda by combining two executive closed sessions identified as Items 6A and 5B, adding approval of the CEO agreement after the executive closed session ends and the open Board meeting resumes.. D. Salzwedel entertained a motion to approve the amended agenda. J. Kubiak made a motion to approve the amended proposed agenda; second by A. Bailey. Carried; 7-0.

Approve Minutes of November 04, Board of Director's Meeting: D. Salzwedel called for a motion to approve the minutes. A. Bailey moved to approve the minutes as presented; second by P. Guerin. Carried; 7-0.

Public Comment: No Public Comment.

PERSONNEL Committee Report – A. Bailey, Committee Chair:

Approve Minutes of January 27, Personnel Committee Meeting: A. Bailey made a motion to approve the committee meeting minutes as presented; second by M. Koson. Carried; 7-0.

Executive Closed Session:

A. Bailey made a motion to enter into executive closed session under the open meetings act, section 10-15-1, subsection H2, for limited personal matters to discuss CEO employment and under the open meetings act, section 10-15-1, subsection H7, attorney-client pending litigation to discuss vendor contractual matters; second by S. Baragiola. A roll call vote was taken. M. Koson, yes; A. Bailey, yes; C. Austin, yes; D. Salzwedel, yes; J. Kubiak, yes; P. Guerin, yes; and S. Baragiola, yes.

At 11:53 a.m., A. Bailey moved to bring the Board back into a public meeting with the affirmation that no votes were taken or decisions made during the executive closed session, and that there was no discussion of topics beyond those stated in the motion to go into executive closed session; second by M. Koson. A roll call vote was taken. M. Koson, yes; A. Bailey, yes; C. Austin, yes; D. Salzwedel, yes; J. Kubiak, yes; P. Guerin, yes; and S. Baragiola, yes.

D. Salzwedel stated the meeting was back in open session.

A. Bailey reported that the Personnel Committee completed an evaluation of CEO David Barden and it is the Personnel Committee's recommendation that Mr. Barden remain CEO.

A. Bailey made a motion to extend the employment of Mr. Barden pursuant to negotiation of a new agreement, the terms of which would be subject to Board approval; second by M. Koson. Carried; 7-0.

The Board thanked Mr. Barden for his accomplishments.

OPERATIONS – S. Baragiola, Committee Chair: S. Baragiola reported that the Operations committee met earlier and discussed items 6A, B and C of the board agenda with no decisions discussed on item 6A.

Online Game Rules Resolution: S. Baragiola reported that the draft Board resolution would permit the Lottery to adopt advanced technology and mobile applications.

D. Barden reported that in the resolution, the Board states that it recognizes the importance of technology and mobile advancements as a way to provide new or alternative gaming platforms and solutions such as “Play at the Pump” to grow sales and revenue for the Legislative Lottery Scholarship fund. Over the next 5-10 years, there will be substantial growth in the areas of Internet/technology, and it represents a new step for Lottery sales growth. If the resolution is approved, the Lottery will prepare new online game rules that include future technology and mobile applications. Board approval of draft online rules will be placed on the next Board meeting agenda.

S. Baragiola made a motion that the Board adopt the Online Game Rules Resolution in accordance with the CEO’s comments and recommendation to allow the Lottery to move forward with advanced technology; second by P. Guerin. Carried; 7-0.

Other – NMLA Policies: S. Baragiola reported that the committee discussed a process for the Board to approve policy changes proposed by the CEO and staff, offering a recommendation that as the need arises for policy updates, the CEO will forward changes to the appropriate committees to vet before the Board reviews for approval and Board adoption.

D. Salzwedel asked if this is the CEO’s recommendation as well. D. Barden stated yes.

D. Salzwedel reported that since the recommendation has the Board’s consensus, this process should be placed on the next Board agenda for adoption.

Finance/Audit – M. Koson, Committee Chair:

Approve Minutes of January 12, Operations Committee Meeting: M. Koson made a motion to approve the committee meeting minutes as presented; second by J. Kubiak. Carried; 7-0.

Administrative Facility: D. Barden reported that in pursuit of additional operational cost savings as directed by board resolution, the lottery has identified a potential estimated savings of \$1.2 million from buying a building. Although it has not yet identified a suitable building, the lottery continues to look at options in the marketplace. The building the lottery currently occupies is up for sale and a sale might accelerate a need to take action.

Financial Statements: S. Jaramillo provided an update on January financials. With the transfer made for January’s net income, the Lottery has returned a total of nearly \$636.8 million to education. For FY 2015 through January 31, the Lottery’s Net Income return is more than \$23.3 million. This amount is 1.65% less than the YTD Budget; \$652,000 dollars less than the first seven months of fiscal year 2014; and 2.72% less than last year’s return to the Scholarship Fund. The Lottery has returned 30% of gross revenues.

Through January 2015, net sales were \$77.7 million. Net Instant ticket sales made up 57.58% of net sales, while net drawing game sales made up 42.42%. Net Instant ticket sales were nearly \$44.8 million, an
03/13/15/wa

increase of 14.69% this year. Total net drawing game sales were nearly \$33 million, 18.5% less this year. The decrease in drawing game sales can be attributed to a lack of jackpot run-up in the Powerball game. Powerball sales were \$5.8 million less this year than last, a 27.6% drop. A jackpot run up to \$564.1 million that ended on February 11, 2015 added more \$3 million to February's Powerball revenues; however we will be at 80% to 82% of the YTD budget for Powerball when February ends. Mega Millions, Hot Lotto and Pick 3 drawing games are ahead of the YTD budget, adding \$2.5 million to the budget through January 31, 2015.

Game expenses followed closely in line with net sales. Net sales were 96.11% of the YTD Budget. Game expenses tracked closely at 95.76% of the YTD Budget. Operating expenses were 86.86% of the YTD Budget.

Employee Recognition: On behalf of the Board, the CEO and the Lottery, E. McKnight, Director of Human Resources presented five years' service awards to employees Randy Bertram and Greg Blea. E. McKnight reported that the lottery has hired a Graphics Designer and Lottery Sales Representative for the Socorro area.

CEO Update: D. Barden gave a brief update on operations.

D. Barden reported that New Mexico Lottery Scratcher sales have moved from the bottom of a national ranking to the top five in a ranking of "Percentage Increase" for instant ticket sales. Even with the 30% mandate, operational cost saving efforts has enabled the lottery shift monies to help increase sales. Scratcher sales are up 15.6% overall, while Scratcher sales in January and February 2015 are up 25%.

The recent Powerball jackpot run-up to \$564.1 million promoted better sales. Saturday night sales were \$2 million and sales for the week were over \$5 million. The Powerball Group is planning a meeting and we anticipate upcoming changes which will help drive more jackpots run ups.

The Points and Rewards program is underway. Since the program started, Scratcher sales for \$1, \$2, and \$3 games have gone up 8.9%. More marketing will drive more program awareness.

Senate Bill 355 sponsored by Sen. John Arthur Smith has moved through two committees and received two positive votes. The Lottery has done a lot of educating to show what happens in other states. During the Senate Finance Committee hearing, someone stated that the New Mexico Lottery was ranked at 19 in performance. D Barden stated he wished the New Mexico Lottery were at 19. Our true ranking is at close to 38 out of 40.

D. Barden said the 30% revenue requirement is a sales barrier. From 2007 to the present, we have lost \$21 million in Scratcher sales, proof that the revenue requirement does not work. The other proof is that 80% of the time, the lottery has used unclaimed prize money to meet the 30% requirement. Every state that has done away with the revenue requirement has seen lottery profits increase consistently. Although it's unclear whether Senate Bill 355 will pass, it has given the lottery the opportunity to talk about solutions rather than the status quo.

Open Meetings Notice Resolution: D. Barden presented the Open Meetings Notice Resolution for Board adoption. D. Barden reported that the resolution needs to be adopted annually as part of the process to ensure the Lottery follows the Open Meeting Act and Notice.

M. Koson called for a motion to approve the Open Meetings Notice Resolution. S. Baragiola moved to approve the Open Meetings Notice Resolution; second by A. Bailey. Carried; 6-0.

Marketing Presentation: W. Ahlm presented an overview of Lottery marketing and advertisements.


03/13/15/wa

BOARD CHAIR

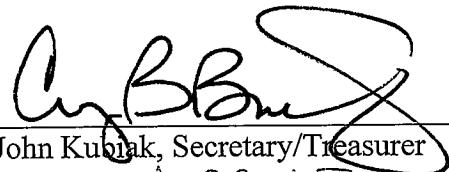
Announcements: No announcements.

Other Items – Information Only: No Report.

ADJOURNMENT: M. Koson asked for a motion to adjourn the meeting. A. Bailey moved to adjourn the meeting; second by S. Baragiola. Carried; 6-0. The meeting adjourned at 12:51 a.m.



Dan Salzwedel, Chairman
Date 4-09-15



for: John Kubiak, Secretary/Treasurer
Date 4-09-15