

Special Security and Operations Committee Meeting
New Mexico Lottery Authority
February 21, 2018
MINUTES

Call to Order: S. Baragiola called the meeting to order at 9:31 a.m., and asked for a roll call. Present and constituting a quorum were Sal Baragiola and Paul Guerin. D. Salzwedel will join the meeting shortly in place of former Board Member, C. Austin who passed in late 2017.

Present from NMLA were; David Barden, Sylvia Jaramillo, Karla Wilkinson, Wendy Ahlm, Vanessa Mellone and Wilma Atencio.

Also present were Aubrey “Butch” McGowen, new Board Member; Thom Cole, Santa Fe New Mexican. Four additional individuals joined meeting at 10:07 a.m. – M. Koson; Toben Molica, Scientific Games; Frank Lemon, Belinda Milton and Gloria Kubiak.

Approve Proposed Agenda: S. Baragiola moved to approve the proposed agenda. P. Guerin moved to approve the agenda as presented; second by S. Baragiola. Carried; 2-0.

Public Comment: None.

Security and Operations Committee Report – S. Baragiola, Committee Chair:

Award RFP - #18-001 Instant Ticket Printing & A Player Loyalty Program: D. Barden reported that the RFP for the Instant Ticket Printing and A Player Loyalty Program was issued in October 2017 and two evaluation committees were assigned, one for the Instant Ticket Printing and the other for A Player Loyalty Program.

The previous Instant Ticket RFP was issued in 2009 and the selected vendor based on Best and Final Offer was International Gaming Technologies (IGT). Scientific Games International (SGI) was the primary Instant Ticket Printer for the lottery from start up in 1996 to 2009. The 2009 RFP process was very competitive. The lottery received three responses from SGI, IGT and Pollard Banknote; they’re all strong, vital global companies. The lottery prints approximately 45-50 games/instant tickets a year depending on sales. The lottery printed 29 million tickets last year.

In FY 2015/2016, the lottery’s scratcher sales increased which resulted in a \$3.2 million additional revenue for the lottery tuition fund. This has not been the case for the past 2 fiscal years with sales on a downward trend. The lottery’s goal is \$73 million in scratcher sales this year.

D. Barden reported that SGI was selected as the award winner for both the Instant Ticket Printing and A Player Loyalty Program. SGI has 8,400 employees worldwide on six continents. Their primary headquarters is in Nevada and their lottery headquarters is located in Alpharetta, Georgia. The lottery received three bids; two for Instant Ticket Printing and three for the A Player Loyalty Program. IGT did not bid. This could be a result of not having an opportunity to make money due to the 30% mandate and the elimination of their secondary printing site which was a requirement in the RFP. Had they submitted a bid, this could’ve been a discussion in the negotiation process.

K. Wilkinson provided an overview of the RFP Process including evaluation and final rate from the vendor selected. K. Wilkson reported that the RFP was issued in October 2017 for Instant Ticket Printing Services and A Player Loyalty Program. The RFP was written as one, but was evaluated and scored separately by two different committees. The current Instant Ticket Printing and Related Services contract with IGT, and SGI (Secondary Printer) expires on March 18, 2018.

The lottery received two proposals for the Instant Ticket Printing and Related Services – SGI and Pollard Banknote. IGT sent a letter declining to bid. Based on the scoring the evaluation committee recommended that the proposal submitted by SGI offered the lowest pricing and best benefits for the lottery and requested that the CEO enter in to negotiations with SGI for the Best and Final Offer (BAFO) as the Primary Instant Ticket Printer.

K. Wilkinson reported that the effective rate with our current vendor, IGT, is 1.55 percent of net sales, not counting added printing options. SGI's Best and Final Offer was a revised rate of 1.599% of net sales. That is a reduction of 0.191% from the submission price of 1.79%. This reduction will provide the lottery a savings of over \$1,130,720 over the eight (8) year term; a base term of six years (6) plus two (2) one-year options. In addition, SGI is providing over \$1.6 million in added printing options, at no cost to the lottery. This brings the effective rate down to 1.27% of net sales. As a result of the final negotiations, the lottery will realize a savings of approximately \$2,730,720 over the eight-year contract period.

S. Baragiola asked when was our last experience with SGI? D. Barden reported 2010. SGI was the lottery's primary instant ticket vendor from start up until 2010. SGI is probably the #1 Instant Ticket Provider for lotteries.

S. Baragiola asked the savings is based on what number of sales, the \$73 million? D. Barden reported yes, the \$73 million. The vendor based its pricing on the \$73 million and the 30% requirement. There isn't much room to grow profits since we cannot increase the prize payout and keep in line with the mandate.

D. Salzwedel joined meeting at 9:47 a.m.

P. Guerin asked how was the scoring conducted? K. Wilkinson reported that there was a technical and cost section and each was scored independently. P. Guerin asked if the weight of the technical was more than the cost? K. Wilkinson reported, yes. The technical score was 55 and the cost score was 45 for a total of 100.

P. Guerin asked the added printing options, we don't have that now? K. Wilkinson reported currently we have 24 options with IGT over a period of 4 years (extended to 6 years with the extensions) and can be used in any manner. We now have 16 better quality options which will give the scratchers a more appealing and attractiveness to the players and also provides more flexibility for the lottery. Pollard Banknote has the same or slightly better quality to their scratcher products, but they're more expensive. Their bid came in at 2.29% of net sales. Pollard Banknote will be our secondary printer, based on their best and final offer.

D. Salzwedel asked if the threshold of \$73 million in sales isn't met, is there a penalty? D. Barden reported no penalty.

K. Wilkinson provided a brief overview of the Loyalty Program. The lottery received three proposals for A Player Loyalty Program (PLP) – SGI, Pollard Banknote and Alchemy3. IGT declined to bid. The committee evaluated and scored the three proposals. Based on the scoring the evaluation committee determined that the proposal submitted by SGI offered the lowest pricing and best benefits for the lottery and recommended SGI be the administrator of the Player Loyalty Program and requested that the CEO enter into negotiations with SGI for a best and final offer.

SGI best and final offer included a revised two-year program which reduced the annual fee from \$850,000 to \$350,000. This represents a cost savings to the lottery \$1,000,000 for the two-year contract.

W. Ahlm reported that more than 3.8 billion people participate in loyalty programs. The New Mexico Lottery Player Loyalty Programs (PLP) is extremely valuable in that it allows the lottery to directly market and engage our players. It is a direct line of communication. It provides an opportunity for the lottery to conduct surveys, offer added value in the form of prizes and incentivize purchases and participation to motivate sales. It provides great content for the lottery's advertisement campaigns. Our current program is called Points & Rewards. The PLP is a great source of communication between the lottery and its core players and look forward to rolling out this new loyalty program with SGI.

K. Wilkinson requested approval from the Operations Committee to recommend for the full board to approve and award a contract to the recommended vendor.

S. Baragiola made a motion to recommend to the full board that the Security and Operations Committee approve and award both the Instant Ticket Printing and A Player Loyalty Program to the recommended vendor - SGI as presented; second by D. Salzwedel. Carried; 3-0.

Other – S. Baragiola requested from the CEO and lottery management to provide a report to the Board of Directors on the lottery's cumulative savings since the CEO's tenure.

ADJOURNMENT: S. Baragiola moved to adjourn the Security and Operations Committee meeting; second by P. Guerin. Carried; 3-0. The meeting adjourned at 10:11 a.m.

Sal Baragiola

Sal Baragiola, Committee Chair

Date

3/20/18