

Regular Meeting of Board of Directors
New Mexico Lottery Authority
May 06, 2014
MINUTES

Call to Order: Board Chair D. Salzwedel called the meeting to order at 1:34 p.m. Present and constituting a quorum were: Mark Koson, Amy Bailey, Claude Austin, Dan Salzwedel, John Kubiak, Paul Guerin and Salvatore Baragiola.

D. Barden introduced Pat Koop, an independent contractor who will be in charge of the strategic plan for Scratcher sales and assisting with the advertising budget. The plan will be ready in June. Pat has worked with lotteries in Florida, Maryland and South Carolina.

The following employees were present: Wendy Creel, Evelyn McKnight, Sylvia Jaramillo, David Barden, Pam Poteat, Dave Ramirez, Vince Torrez, Wilma Atencio, Scott Ward, Linda Hamlin, Karla Wilkinson, Michael Boland and independent contractor Pat Koop. The following people signed an attendance list: Randy Reeves, Matt Worley, Richard Kilmer, Frank Duran, Charles Brunt and Mary Smith of the Attorney General's office.

Approve Proposed Agenda: D. Salzwedel called for a motion to approve the proposed agenda. A. Bailey moved to accept the proposed agenda; second by J. Kubiak. All in favor, 7-0.

Public Comment: D. Salzwedel stated that if anyone wished to speak publicly, there was a form to complete. There was no public comment.

Approve Minutes of March 4 Board of Director's Meeting: D. Salzwedel called for a motion to approve the minutes from the March 4, 2014 Board meeting. S. Baragiola moved to approve the minutes as presented; second by P. Guerin. All in favor, 7-0.

CEO Update:

D. Barden reported that he has re-organized the workforce. S. Jaramillo is now the Director of Administration and Chief of Staff. This department will oversee day-to-day operations, such as fleet, warehouse, building, lease, maintenance and other related functions. The re-organization also includes creation of a business development function with L. Hamlin. This new area will focus on bringing in new revenue/business into the lottery by offering advertisements on our pads and tickets – online and scratcher tickets. In the marketing department an animator position has been added to bring more flexibility to the advertising budget

The "I Love New Mexico" photo contest was a success with more than 9,000 entries. Advertising for this Scratcher game will appear on Albuquerque bus wraps and the Railrunner train in June.

The lottery is also working to integrate a promotional webpage with the VIP Club. The VIP Club has 17,000 members, when a state the size of New Mexico could have as many as 200,000 members.

Plans are underway now to buy media for advertisements on an annual basis. This will reduce costs and stretch the advertising budget further.

Odds cards are being updated to improve cost efficiency. Rather than print individual odds cards for individual games, one card will describe odds for all active Scratcher games.

Converting the back office system (BOS) to a vendor supported application pursuant to our online contract will take place December through January. It will save \$268,000.

The Super Tuesday Scratcher launch strategy is helping increase sales. The May Super Tuesday launch introduced four Scratchers.

A new national \$5 game called "Monopoly Millionaires Club" is expected to launch October. A "Monopoly Millionaires Club TV show will air for 52 weeks. The lottery is expected to have a winner, just like all the other US lotteries. Rules are being written by the Multi-State Lottery Association and they will be similar to Powerball rules.

A PICK 3 midday draw will begin June 8. The lottery estimates a 10-12% increase in ticket sales.

A \$5 Red Hot Jackpot Bingo Quickster will also launch on June 8.

The ability to automate the drawing process in games such as PICK 3, Roadrunner Cash and Red Hot Jackpot Bingo is being investigated as part of the conversation of the back office system.

Lottery staff will meet with Intralot to develop a retailer recruitment plan. An assessment is underway to determine what sales representative processes could be automated.

Future events include a Mother's Day celebration in Taos; the Trucks and Bucks drawing at the June 28 Isotopes Game with a corresponding Isotopes ticket/lottery ticket promotion, and focus groups in Albuquerque and Las Cruces concentrating on Scratcher ticket designs.

The Voice Over Internet Protocol Phone System RFP is completed. Although \$200,000 had been allocated for the phone system, the award came in at \$143,000.

The internal policy for Lotto Bucks distribution has been updated to include board members.

The lottery will help promote the Alzheimer's Associations help line.

A four-year contract with the New Mexico Council on Problem Gambling has been signed. Under the terms of the contract, the lottery will pay the council \$70,000 a year and with an additional \$1,000 a year if sales increase by 4%.

The process to identify savings across all vendor contracts continues.

FY 2015 Consolidated Original Annual Budget: S. Jaramillo presented the proposed FY 2015 Consolidated Original Budget:

- \$42.8 million in revenue
- \$71.9 million in net instant sales
- \$70.9 million in drawing sales, including
 - \$38 million for Powerball
 - \$9 million for Mega Millions
 - \$7 million for Roadrunner Cash
 - \$3 million for Monopoly Millionaires
 - \$3.4 million for Lucky Numbers Bingo
- \$142.8 million in gross revenues

Included in FY 2015 budget is a three percent cost-of-living salary increase for all employees. D. Barden added that any future salary increases will be based on annual employee evaluations and that a salary study will be conducted in the next fiscal year.

M. Koson made a motion to approve the FY 2015 Consolidated Original Annual Budget as presented; second by C. Austin. All in favor, 7-0.

Resolution to Establish Contingency Reserve: D. Barden presented a Resolution to Establish A Contingency Reserve and recommended transferring \$267,000 into the reserve from the existing reserve fund. The fund is designed to provide greater stability in managing expenses and to enhance scholarship revenues.

M. Koson asked if the resolution would be amended if the 30% mandate went away. D. Barden said yes depending on the Board's fiscal direction. D. Barden stated that all businesses need to have some type of reserve account for critical expenditures or emergencies.

S. Baragiola asked what would happen to the excess funds without the revised resolution? D. Barden said the funds would revert back to the state at the end of the fiscal year.

M. Koson made a motion to approve the Resolution to Establish Contingency Reserve and move the existing contingency reserve funds in the amount of \$267,000 to the new fund; second by J. Kubiak. All in favor, 7-0.

FY 14 Annual Financial Audit: M. Boland presented a memo on the Financial Audit services for FY 2014. After a RFP was issued in FY 2013, Moss Adams was selected as the external independent auditor. Moss Adams has completed the first year of its contract. The contract term is for one year with two extensions. M. Boland requested that the board approve the first one-year extension. The Lottery could extend the contract one additional year for FY 2015, but must issue an RFP for an independent auditor for FY 2016.

J. Kubiak made a motion to approve the contract extension to Moss Adams; second by M. Koson. All in favor, 7-0

Money Purchase Pension Plan: D. Barden discussed the current Money Purchase Pension Plan and a new 457(b) plan that would allow employees to make additional contributions to their retirement accounts. The 457(b), a new plan, if adopted by the Board would be funded exclusively by employee contributions and would not supplant the Money Purchase Pension Plan which is funded by the lottery at a rate of 13.25% of an employee's salary. D. Barden also recommended that both plans be parallel in content so as to avoid confusion when adopting the new plans. Also, that new employees be allowed to join both pension plans based on their employment date, thus eliminating a current lottery policy that prohibits employees from joining for six months. D. Barden also informed the Board that the elimination of the waiting periods would allow him to enter both pension plans immediately without a waiting period after the new plans were in place. After further discussion the Board concluded that D. Barden and other new employees should be allowed to join the plans without a waiting period.

D. Barden informed the Board that after evaluating several companies, a committee of employees recommended Verisight to manage both the 457(b) pension plan and the lottery-funded Money Purchase Pension Plan. The two plans would be separate, but contain many of the same investment opportunities.

M. Koson made a motion to approve the transfer of all funds to Verisight and that Verisight manage the existing Money Purchase Pension Plan and the new 457(b) plan as submitted with the six-month waiting

periods waived for both plans and to authorize the CEO to take any necessary actions to implement the plans; second by J. Kubiak. All in favor, 7-0.

Lucky Numbers Bingo: D. Barden presented the Lucky Numbers Bingo Game rules. The new \$2 game could start as early as August. Players could win \$200 by matching a Bingo pattern at overall odds of 1-6.31 or \$10,000 by matching a combination of numbers at odds of 1-3.43. A drawing would occur every 4 minutes. The total prize payout is estimated at 62.8%. The game is designed for a social environment such as bars and restaurants. Intralot would help recruit retailers from those industries. The game would also be available from traditional retailers.

C. Austin made a motion to approve the Lucky Numbers Bingo Game as presented; second by A. Bailey. All in favor, 7-0.

Instant Ticket Contract Amendment and Second Chance City Promotion: D. Barden proposed an Instant Ticket Contract Amendment and Second Chance Promotion. As the secondary instant ticket vendor, Scientific Games (SGI) could negotiate additional price breaks for printing instant tickets or licensed fee games and provide assistance in managing the lottery's promotional site and the VIP Club. D. Barden further proposed that Scientific Games conduct a Second Chance Scratcher ticket promotion to begin after the next fiscal year. The promotion could start as early as mid-July for all active \$1, \$2, and \$3 instant games. Players would enter non-winning \$1, \$2, and \$3 Scratcher tickets and validated entries would be entered into a monthly bonus drawing. There would also be monthly cash prizes to be determined and 300 winners would receive points for store prizes. The promotion would cost over \$75,000, but the lottery would receive added value to offset some costs. Based on results from a similar promotion by the Georgia Lottery, revenue growth is projected at 4% to 6% or \$1.6 million to \$2.4 million.

P. Guerin made a motion to authorize the CEO to enter into an Instant Ticket Contract Amendment with SGI for reductions in printing costs and related services, and to further authorize the CEO to enter into a contract exceeding \$75,000 for the purposes of entering into a Scratcher Promotion with non-winning scratcher tickets; second by A. Bailey. All in favor, 7-0.

CEO Contract: After explaining the document is an agreement rather than a contract, D. Salzwedel called for a motion to approve the CEO Agreement.

A. Bailey made a motion to approve the New Mexico Lottery Authority Chief Executive Officer Compensation Agreement; second by M. Koson.

S. Baragiola asked that the February 14, 2014 hire date be clarified as the agreement's anniversary date for purposes of reviewing performance objectives.

Following a detailed discussion, S. Baragiola amended the motion to approve the NMLA CEO Compensation Agreement with the date of February 15, 2014 to February 28, 2015 with incentive dates of March 1, 2014 to February 28, 2015 to coincide with the Internal Interim Annual Financial Statements and subject to review in February of any given year and as may be required pursuant to the final negotiated contract. Both Amy and Mark accepted the amendment. All in favor, 7-0.

D. Barden accepted the term.

BOARD CHAIR

Announcements: The next Board Meeting with committee meeting is scheduled for June 30th and July 1, 2014.

ADJOURNMENT: D. Salzwedel entertained a motion to adjourn the meeting. C. Austin moved to adjourn the meeting; second by A. Bailey. All in favor, 7-0. The meeting adjourned at 3:50 p.m.