

Regular Meeting of Board of Directors
New Mexico Lottery Authority
April 09, 2015
MINUTES

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 12:04 p.m. and asked for a roll call. Present and constituting a quorum were: Mark Koson; Claude Austin; Dan Salzwedel; Paul Guerin; and Salvatore Baragiola. J. Kubiak absent. A. Bailey joined meeting at 12:22 p.m.

Present from NMLA were; David Barden; Sylvia Jaramillo; Evelyn McKnight; Wendy Ahlm; Karla Wilkinson; Pam Poteat; Dave Ramirez; Vince Torrez; Wilma Atencio; Linda Hamlin; Michael Boland; Gale Johnson; and Vernon Johnson. Also present was Matt Worley with Intralot; Vanessa Alarid with GTECH Corporation.

Approve Proposed Agenda: D. Salzwedel moved to amend the proposed agenda by removing Executive Closed Session from Item 5. Item 5A and 5B will be discussed in open session. D. Salzwedel entertained a motion to approve the amended agenda. C. Austin made a motion to approve the amended proposed agenda; second by M. Koson. Carried; 5-0.

Approve Minutes of February 27, Board of Director's Meeting: D. Salzwedel moved to amend the proposed minutes by changing the term "all in favor" to "carried" throughout document. D. Salzwedel called for a motion to approve the amended minutes. S. Baragiola moved to approve the minutes as amended; second by P. Guerin. Carried; 5-0.

Approve Minutes of March 20, Board of Director's Special Meeting: D. Salzwedel entertained a motion to approve the March 20th minutes. P. Guerin moved to approve the minutes; second by C. Austin. Carried; 5-0.

Public Comment: No Public Comment.

Administration Building: D. Barden reported that he was charged by the board to look at cost savings measures and one of the areas was the lottery owning its own building. The current building went up for sale last year with a listed price of \$3.9 million dollars. As discussed in previous meetings, the lottery acted on its due diligence by seeking negotiations with the owners for the current building and look at other comparable properties. D. Barden reported that the negotiations have resulted in the lottery receiving a signed document from the seller with a final asking price of \$2.7 million dollars for the building at 4511 Osuna Road NE. This will result in approximately \$1.4 million dollar cost savings over an 11-12 year period dependent on financing. Also, an added saving of \$150-\$200 thousand dollars for moving expenses.

D. Barden drafted a resolution for the procurement of the 4511 Osuna Road building. This resolution will allow the CEO to enter into a contract for the purchase of the existing building and authorize expenditure of such funds as may be necessary to conclude the transaction with any and all cost associated with procuring the building. D. Barden requests that the Board approve this resolution.

M. Koson made a motion to approve the resolution as presented and the CEO consult with the Finance Audit Committee on any terms and conditions on building purchase as the CEO deems appropriately; second by S. Baragiola. Carried; 5-0.

Emergency and Sole Source RFP for Online Services: D. Barden reported that this item was discussed and vetted with Security Operations Committee earlier. This item is a necessity for the lottery to continue its online drawing services. As discussed in a previous meeting, there is a contractual issue due to changes made with the Procurement Code that allows an eight year term for a contract. The lottery sought relief with Senate Bill 355, but the bill died when the session ended. The lottery's contract for online drawing services with Intralot will expire on November 15, 2015. The lottery will be issuing an Online Drawing Services RFP within 3 weeks and hopes to have a new contract in place by November. This type of RFP process generally takes two years. There are currently three vendors who offer online drawing services. The contract rate will increase either double or triple of the 1.5% we currently pay.

The Emergency and Sole Source RFP for Online Services is an agreement that will allow the lottery to use as a contingency for continued operations with its online vendor beyond November 15, 2015. A month by month procurement until the RFP goes out and is awarded. The rate for this agreement is 4.345% - approximately \$600,000 thousand dollars a month for continued operations of the lottery. The lottery will be cognizant in using this agreement.

D. Salzawedel reported that this item was vetted and discussed with the Finance Audit Committee.

S. Baragiola made a motion that the CEO enter into a sole source agreement with Intralot pending the issuance and execution of a RFP for online gaming system subject to budgetary approval during the next budget cycle; second by M. Koson. Carried; 5-0

OPERATIONS – S. Baragiola, Committee Chair:

Approve Minutes of February 27, Operations Committee Meeting: S. Baragiola made a motion to approve the committee meeting minutes as presented; second by P. Guerin. Carried; 5-0.

NMLA Annual Review of Policies: S. Baragiola reported that last year the Board of Directors approved a process that lottery staff will follow in the annual review of all policies and procedures and the Board would review those policies and procedures. There was a discussion at the February 27 Board meeting and this item was deferred to the Operations Committee to come up with a new process for lottery staff to follow in their annual review of policies and procedures. The recommendation will be in the motion.

S. Baragiola made a motion that the previous board policy of an annual review of lottery authority policies and procedures be rescinded and replaced with a policy of an ongoing review of policies and procedures by Lottery staff, and that any substantive changes to Lottery Policies and Procedures be presented to the appropriate Board of Directors sub-committee for discussion, review, and approval. The sub-committees recommendations will be presented to the full board for discussion and approval. At any time a board member may request that review of a policy, procedure or lack thereof; second by P. Guerin. Carried; 5-0.

Amy Bailey arrived.

Online Purchase Terms and Conditions Policy and Revised External Policies: S. Baragiola reported that item 3 and 4 (a, b, c and d) represent policy changes. Item 3 – Online Purchase Terms and Conditions Policy is a new policy and item 4-a, b, c and d, are existing policies with minor, technical, language clean up changes. Item 3 and 4 were reviewed, discussed and vetted individually amongst the Operations Committee. S. Baragiola requested to make one motion for item 3 - Online Purchase Terms and Conditions and 4 – Revised External Policies (NMLA Rules for Instant Games, General Drawing Rules and Procedures for Second Chance Drawings and Promotional Drawings, NMLA Rules for Online Games and NMLA Rules for Lucky Numbers Bingo)

Online Purchase Terms and Conditions Policy

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D. Barden reported that the Online Purchase Terms and Conditions Policy is a new policy that will provide terms and conditions for players to purchase and play NM lottery online games on their personal computers and mobile devices by setting up accounts and using this service. This policy includes “geo-fencing”, which is a software program that uses a global positioning system to define the user’s geographical boundary. This will allow the lottery to track the use of a mobile device and ensure that players are purchasing tickets within NM boundaries. This new policy will apply to alternative gaming platforms and solutions such as “Play at the Pump” or a new cable television retailer that could offer an application for players to purchase tickets from home.

Revised External Policies: D. Barden reported that some of the changes made for the revised policies are:

- Basic clean up language.
- Updated the requirements for entering second-chance drawings and VIP Club requirements.
- Added language about applicable state and federal taxes on prizes, as well as, prizes that are subject to collection by the New Mexico Human Services Department.
- Added language for SCRATCHER games having a 4 digit game number.
- Updated the Odds Cards verbiage.
- Changed the time period for claiming a prize after the Announced End of Game.
- Updated the how to play information.
- The use of a power of attorney was better defined.
- Changed the time period for claiming a prize after the draw date.
- Defined what happens with “Questionable” tickets.
- Added the noon Pick 3 drawing.
- Changed the time period for claiming a prize after the printed date.

S. Baragiola made a motion to approve item 3 - Online Purchase Terms and Conditions Policy and item 6-4 (a thru d) Revised External Policies be approved based on a review, discussion and approval of the operations sub-committee that occurred at the operations sub-committee meeting on April 9, 2015; second by P. Guerin. Carried; 6-0.

Finance/Audit – M. Koson, Committee Chair:

FY '15 Revised Consolidated budget: S. Jaramillo reported that the executive staff reviewed the performance of sales and divisional budgets and made changes to the budget. The significant changes are:

- increasing instant sales by \$5,000,000;
- decreasing Powerball sales by \$8,000,000;
- increasing Mega Millions by \$3,000,000;
- decreasing Monopoly Millionaires’ Club by \$2,579,000;
- increasing Hot Lotto by \$1,000,000; and
- decreasing Lucky Numbers Bingo by \$3,250,000
- decreasing net ticket sales by \$4,766,000.

Direct Game expenses for prize expense, retailer commissions, on-line vendor fees, and ticket vendor fees have been decreased to reflect the changes in sales along with decreases in the budgets for advertising, promotions, shipping and postage, and drawing game expenses. Salaries, Wages and Benefits have been adjusted by nearly \$450,000. This change has mainly occurred with the re-organization of the lottery and the elimination of some positions through attrition and the transferring of positions within the Lottery. With the decrease in sales of \$4.7 million, the return to the Legislative Scholarship fund has also been

reduced by \$1.4 million. This budget will return 30% to the scholarship fund. S. Jaramillo requests that the FY 15 Consolidated Revised Annual Budget be approved by the Board of Directors.

M. Koson made a motion to approve the FY '15 Consolidated Revised Annual Budget as presented; second by D. Salzwedel. Carried; 6-0.

Financial Statements: S. Jaramillo provided an update on February Financials. With the transfer for February's net income, the Lottery has returned nearly \$641.2 million to education since 1996. The Lottery's Net Income return through February 28, 2015 was over \$27.7 million. This amount was \$484,885 or 1.78% more than the YTD Budget. The lottery continues to return 30% of gross revenues.

Net sales were nearly \$92.5 million dollars. Net Instant ticket sales were nearly \$52 million dollars or 56.21% of net instant sales; an increase of 15.92% this year. Total net drawing game sales were nearly \$40.5 million dollars or 43.79% of net sales; less than the YTD Budget by 5.3 million dollars. This reduction in drawing game sales compared to last year can be attributed to Powerball sales (lack of jackpot run-ups), which were \$4.8 million less this year than last, a decrease of 18.92%. Mega Millions, Hot Lotto and Pick 3 drawing games are ahead of the YTD budget; adding \$2.6 million extra to the budget thru February 28, 2015.

Net sales were 99.30% and Game expenses tracked closely at 99.07% of the YTD Budget. The game expenses that are directly affected by sales followed the sales trends within a few percentage points for the first eight months of the year; these were prize expense, retailer commissions, and on-line vendor fees. While, advertising, ticket vendor fees, promotions, retailer equipment, shipping and postage, responsible gaming, and drawing game expense were lower than the YTD Budget. Game membership surpassed the budget due to the membership expense for the Monopoly Millionaires' Club, which was not included in the original budget, but has now been included in the Revised Budget.

Operating expenses were 86.34% of the YTD Budget or \$538,000 less than the YTD budget. All line items in Operating expenses, except for Leases and insurance and Depreciation and amortization, were lower than the YTD budget.

D. Salzwedel asked when the lottery anticipates the "Pay at the Pump" feature launching. D. Barden reported not until after January 2016 and dependent on the RFP for online drawing services process.

Accounts Payable Audit Report (revised) and Recommendations: M. Koson reported that this item was discussed in the Finance Audit committee and recommend accepting the report.

S. Baragiola asked if M. Boland presented this audit report at the Finance Audit Committee. M. Koson reported that he did not. D. Barden reported this report was thoroughly discussed and vetted at the January Finance Audit Committee meeting with M. Boland. Staff is in agreement with the recommendations. D. Salzwedel reported that this report will make lottery more efficient.

M. Koson made a motion to approve the Accounts Payable Audit Report (revised) and Recommendations; second by S. Baragiola. Carried; 6-0.

Financial Audit Services Award: M. Koson reported that the Financial Audit Services Award was vetted at the Finance Audit Committee. The committee recommends extending the final one year extension to Moss Adams. A new RFP will go out this year for Financial Audit Services for a term of 3 years.

M. Koson made a motion to approve the Financial Audit Services Award as presented and extend the final one year extension to Moss Adams; second by P. Guerin. Carried; 6-0.

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PERSONNEL Committee Report – A. Bailey, Committee Chair:

Approve Minutes of February 27, Personnel Committee Meeting: A. Bailey made a motion to approve the committee meeting minutes as presented; second by M. Koson. Carried; 6-0.

REPORTS:

CEO Update: D. Barden provided a brief update on operations. D. Barden introduced Vanessa Alarid who assisted the lottery during the legislative session with meeting and talking to legislators about Senate Bill 355. Senate Bill 355 sponsored by Sen. John Arthur Smith, died in the second committee of the 2015 legislative session that ended on March 20. This bill contained several issues that would've been beneficial to the lottery. D. Barden hopeful that the Governor of NM will call for a Special Session and SB 355 will be included. Sen. John Arthur Smith indicated that if a special session isn't called for, he is willing to sponsor this bill again at the 2016 Legislative Session.

D. Barden reported that instant ticket sales up over 24%, the largest increase nationally. K. Wilkinson has done a good job and there is room for growth. Instant sales up 16.5% for the year, we have gone through our peaks and the summer trend for all lotteries is that sales dip. The lottery will try and stabilize this seasonal trend.

MUSL working on Powerball changes which will occur at the end of the 1st quarter. Points and Rewards doing well with a 4.3% increase in the \$1, \$2, and \$3 since the program started. In addition, we have had over four thousand mobile entries, forty-eight thousand scanned entries and increased the VIP Club membership with four thousand new entries. The lottery website is being overhauled and should see changes in the upcoming months.

The lottery will be giving away a Limited Special Edition -50th Anniversary 2015 Mustang GT on August 8th at Isotopes Park. The NM lottery is the only lottery in the country to secure a limited edition with our corporate sponsorship-Rich Ford; car #443 out of 1,964 limited edition cars built.

The lottery will be conducting retailer training with GTECH in the Albuquerque and Las Cruces area. Over 100 retailers will be participating in this training. Two retailers will be made over completely and the lottery will track sales for these two locations. Photos of the make-over will be provided at the next meeting. The last sales training was in 2008.

An update on retailer accounts; lottery is lagging behind last year. We had a net gain of 45, lost 38 and brought in around 86 retailers. The lottery will focus on retailer recruitment. The Back Office System will go live on April 20th.

D. Barden reported that he traveled to Washington, D.C. to meet with the NM US Representatives to discuss the Wire Act. The Wire Act was passed in 1961 as part of a Kennedy-era push against organized crime in reference to "sporting event or contest. The act prohibits any telecommunicated wager placed or received by a person located in the United States. In 2010, the District of Columbia enacted a law allowing its lottery to provide both lottery tickets and casino-type games to individuals in D.C., and the D.C. lottery is preparing to launch its Internet products. It was in response to this that two Senators wrote to the AG's office to clarify DOJ's position as to whether the Wire Act would prohibit this. In addition, two state lotteries asked DOJ to clarify its position regarding Internet sale of lottery tickets. DOJ adopted much of the Fifth Circuit's reasoning in stating that, because the Wire Act only prohibits sports betting, there is no federal impediment to states in selling lottery tickets on the Internet. In 2011, the DOJ reversed its decision and takes the position that the Wire Act does not apply to non-sports betting. This change in position has wide ranging implications for the Internet gaming landscape in the U.S. The DOJ

will no longer contend that states cannot license intrastate Internet gambling, provide lottery games over the Internet or compact with each other to provide interstate gaming.

The impact to US lotteries would be substantial and it could potentially stop Powerball sales across the country.

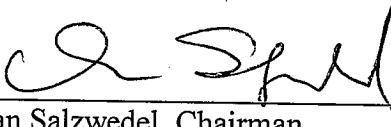
Employee Recognition: On behalf of the Board, the CEO and the Lottery, E. McKnight, Director of Human Resources presented a ten year and a five year service award to employees Vernon Johnson and Gale Johnson, respectively.

BOARD CHAIR

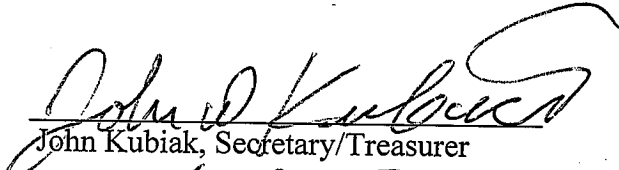
Announcements: Next Board meeting scheduled for June 10, 2015.

Other Items – Information Only: No Report.

ADJOURNMENT: D. Salzwedel asked for a motion to adjourn the meeting. C. Austin moved to adjourn the meeting; second by S. Baragiola. Carried; 6-0. The meeting adjourned at 1:23 p.m.



Dan Salzwedel, Chairman
Date 6-10-15



John Kubiak, Secretary/Treasurer
Date 6-10-15