

Regular Meeting of Board of Directors
New Mexico Lottery Authority
June 10, 2015
MINUTES

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 1:01 p.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.

Present from NMLA were; David Barden; Sylvia Jaramillo; Michael Boland and Wilma Atencio. Also present was Matt Worley and Randy Reeves with Intralot; and C. Hunter.

Approve Proposed Agenda: D. Salzwedel entertained a motion to approve the proposed agenda. J. Kubiak made a motion to approve the proposed agenda; second by C. Austin. Carried; 6-0.

Approve Minutes of April 09, Board of Director's Meeting: D. Salzwedel entertained a motion to approve the April 9th minutes. S. Baragiola moved to approve the minutes; second by M. Koson. Carried; 6-0.

Approve Minutes of April 9, Operations Committee Meeting: D. Salzwedel entertained a motion to approve the April 9 Operations Committee meeting minutes. S. Baragiola moved to approve the minutes as submitted; second by P. Guerin. Carried; 6-0.

Public Comment: No Public Comment.

CEO Update: D. Barden provided a brief update on lottery operations. Online sales are down by 13.6%. Lack of jackpot run ups played a role in declining online sales; Powerball sales were down by 19% from last year; Mega Million sales were down by 18%.

Instant ticket sales are up and we should end the fiscal year at \$81.5 million. At the end of FY '14, Instant ticket sales were \$69 million. Instant ticket sales this past quarter is up 24%. Overall our instant ticket sales have increased 15%. With the decline in online sales, the lottery removed the \$20 game from its portfolio over the past two months to meet its 30% mandate.

D. Barden reported that there will be a matrix change to Powerball in October 2015. The new matrix will go from 5 of 59 to 5 of 69 for the WHITE Powerball and 1 of 35 to 1 of 26 for the RED Powerball. The overall odds for winning the jackpot and more jackpots during the year will be favorable. Under the existing matrix, the jackpots were getting hit faster before they were funded. In addition, the \$10,000 prize level will increase to \$50,000 and a permanent 10x multiplier will be added. The multiplier will apply to jackpots between \$40 million - \$150 million. The 10X multiplier will not apply to the Jackpot.

The Points and Rewards program holding steady with a 4% increase, translating into \$646,000 in sales. The mobile app usage has increased significantly since the inception of the Points and rewards program. The VIP Club participation has increased by 31% - 32,000 participants.

The lottery has left the AS/400 System and migrated to Intralot's back office system. There are a few issues remaining that staff is working through. The lottery should be fully migrated by July 1, 2015. By migrating to the online vendor's back office system, the liability shifts to Intralot 100%. This is a positive aspect of the migration.

The Online RFP went out and the response was good. The lottery will be making its recommendation at the next Board of Director's meeting in August. D. Barden reported that the cost for vendor fees will likely double from 1.5% to possibly 3% to 3.5%, which will impact the lottery's budget; therefore, the lottery is in the process of reorganizing and restructuring its operations to meet the demands of the added cost. Another area that may be impacted is retailer commissions.

The lottery is conducting a penetration testing of its Network System. A group of network engineers were brought in to test the entire system to determine if the lottery is at risk of a cyber-attack. The testing has been positive thus far. This testing will become part of the lottery's requirement and will be tested annually.

The purchase of the NM Lottery Building is in the final stages and close late June early July.

Finance/Audit – M. Koson, Committee Chair:

Approve Minutes of April 09, Finance Audit Committee Meeting: M. Koson made a motion to approve the committee meeting minutes as presented; second by J. Kubiak. Carried; 6-0.

FY 2016 Consolidated Original Budget: M. Koson reported that S. Jaramillo presented the FY 2016 Consolidated Original Budget in detail to the Finance Audit Committee. Committee members reviewed and vetted the budget in detail. The committee recommends that the FY 2016 Original Budget be approved by the Board of Directors.

S. Baragiola asked if there is a mid-year review of the Budget. D. Barden reported that the budget is revised in March or April of each year.

D. Salzwedel asked if the other Board members wanted S. Jaramillo to present the FY 2016 Budget to the other remaining board members. No one requested a presentation and all were in agreement to approve the FY 2016 Consolidated Original Budget.

M. Koson made a motion to approve the FY 2016 Consolidated Original Budget as presented; second by J. Kubiak. Carried; 6-0.

Financial Statements: S. Jaramillo provided an update on April Financials. The Lottery has returned over \$648.1 million to education, since inception. The net income return through April 30, 2015 was nearly \$34.7 million. This amount was \$428,622 or 1.25% more than the YTD Revised Budget approved in April, and \$189,631 dollars more than for the first 10 months of fiscal year 2014. The lottery has returned 30.00% of gross revenues each month.

Net sales were nearly \$115.6 million dollars; \$91,000 less than the YTD Revised Budget, and \$1.04 million more than last year. Net Instant ticket sales made up 58.1% of these net sales, while net drawing game sales made up 41.9% of net sales. Net Instant ticket sales were more than \$67 million dollars for the first ten months of the fiscal year, surpassing the YTD Revised Budget by more than \$49,000 and were nearly \$9.5 million more than last year; an increase of 16.47% this year compared to last year.

Total net drawing game sales were more than \$48.4 million dollars; less than the YTD Revised Budget by 140,000 dollars; and were nearly \$8.5 million less than 2014's first ten months of the year or 14.87% less this year. This reduction can be attributed to a decline in Powerball sales and lack of jackpot run-ups this year compared to last year. The last jackpot run up ended in February at \$564.1 million.

Game expenses followed closely in line with net sales. Net sales were 99.92% of the Revised YTD Revised Budget, while Game expenses tracked closely at 99.59%.

06/23/15/wa

Operating expenses were 95.92% of the YTD Revised Budget or nearly \$180,000 less than the Revised Budget approved in April. All line items in Operating expenses were lower than the Revised Budget.

S. Jaramillo reported that the lottery is running ahead of last year's budget with a 30.00% return and last year our consolidated return was 30.11% translating that the lottery returned more dollars this year to the state than last year. Dollars are more this year even though the percentage of return was less.

M. Koson inquired about Road Runner Cash sales. D. Barden the lottery would like to make some game enhancements in the near future. PICK 3 sales are up 23.5% from the year before. Sunday Drawings have been added to the PICK 3 game.

J. Kubiak inquired about payouts in neighboring states. D. Barden reported that neighboring states are paying 5-7% more; 68% to 69%. Instant Ticket sales for neighboring states will be provided to the Board.

Capital Asset Policy: M. Koson reported that this item was reviewed, discussed and vetted in the Finance Audit committee with S. Jaramillo and D. Barden. The committee recommends that the Policy be accepted and approved by the Board.

P. Guerin asked if the only option under capital asset is there is no other option other than Property, Plant and Equipment. S. Jaramillo reported that's correct. The term Property, Plant and Equipment will encompass everything, such as the building and any changes that this purchase may entail, works of art and intangible assets.

M. Koson made a motion to approve the Capital Asset Policy as presented; second by J. Kubiak. Carried; 6-0.

FY 2016 Internal Audit Plan: M. Koson reported that this item was reviewed, discussed and vetted in the Finance Audit committee with M. Boland. The committee recommends that the Policy be accepted and approved by the Board with an editorial change of replacing the term risk with priority throughout the document. The committee members felt that the interpretation of the term risk relating to audit items were not a risk item per say, but rather a priority. An example would be if an audit item was deemed high risk one year and that item had been addressed and or resolved, but would remain a high priority the following year.

J. Kubiak reported that this internal document is a living and flexible document that can be changed accordingly by expanding the scope in a particular item or moving the time committed to another audit area.


M. Boland was asked to report back to the finance audit committee with a mid-year audit report and to review other lotteries and their audit plans.

M. Koson made a motion to approve the FY 2016 Internal Audit Plan with one edit change by replacing the word risk with priority; second by J. Kubiak. Carried; 6-0.

BOARD CHAIR

Announcements: Next Board meeting scheduled for August 20, 2015.

ADJOURNMENT: D. Salzwedel asked for a motion to adjourn the meeting. M. Koson moved to adjourn the meeting; second by S. Baragiola. Carried; 6-0. The meeting adjourned at 1:51 p.m.



Dan Salzwedel, Chairman

Date 8-20-15



John Kubiak, Secretary/Treasurer

Date 8-20-15