

Regular Meeting of Board of Directors
New Mexico Lottery Authority
August 20, 2015
MINUTES

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 11:50 a.m. and asked for a roll call. Present and constituting a quorum were: Mark Koson; Amy Bailey, Claude Austin; Dan Salzwedel; John Kubiak; and Paul Guerin. S. Baragiola absent.

Present from NMLA were; David Barden; Sylvia Jaramillo; Evelyn McKnight, Michael Boland and Wilma Atencio. Also present were Steve Beck, Terry Patterson, Randy Reeves and Matt Worley with Intralot; C. Hunter with Barnett Law Firm and M. Puckett, player.

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

Approve Minutes of June 10, Board of Director's Meeting: D. Salzwedel entertained a motion to approve the June 10th minutes. C. Austin moved to approve the minutes; second by J. Kubiak. Carried; 6-0.

Public Comment: No Public Comment.

CEO Update: D. Barden provided a brief update on lottery operations. D. Barden discussed the newest \$2 instant ticket - Dia De Los Muertos designed by a local artist, Sean Wells. The lottery acquired 6-pieces of art, which is currently displayed. La Fleur's magazine completed an article on the \$2 ticket and the artist. California lottery is interested in the pieces and has contacted the lottery to use the scenes.

D. Barden talked about our latest 2nd Chance Drawing – Mustang Money Giveaway that took place at the Isotopes Game on August 8. The lottery was able to obtain a limited edition Mustang with our partnership with Rich Ford and this was the grand prize. The ticket launched on March 3rd and we had 45,781 entries. J. Gschwind from Alamogordo was the lucky winner. The other two finalists were from Albuquerque and Arizona and each received a cash prize of \$500 dollars.

There will be an upcoming NASPL Conference, October 12-16 in Dallas, TX.

D. Barden reported that he was asked to speak at the Public Gaming Research Institute (PGRI) seminar in September on the "Retailer of the Future".

The Lottery continues to develop its legislative strategy for the 30-day session starting in January 2016.

D. Barden reported that last fiscal year, the lottery returned 30.09%, translating to \$40.9 million and this fiscal year the lottery returned 30.0%, translating to \$41.1 million. These numbers show that the lottery returned more monies to the state this year with a rate of 30.0% and less dollars last year, with a return rate of 30.09% to the legislative scholarship fund. This shows that when sales increase, the lottery can return more dollars.

Instant scratcher sales are up 14.54% over prior year, even though the lottery did not launch another \$20 ticket in May 2015. Scratcher sales continue to climb with a 9.28% increase in the first months of this fiscal year – FY16. The lottery launched a new \$20 game on August 4th.

In fiscal year 2015, online sales were down by 13.8%, over FY 14 and Powerball sales were down 18.5%. D. Barden reported that there will be a matrix change to Powerball which takes effect October 7. There will be a new 10x feature and the overall odds will be better. D. Barden reported he will be attending a MUSL meeting to discuss reserve funding issues and implement a plan. Powerball does not fund any jackpots until they're over \$120 million. Any jackpots that are between \$80 million and \$120 million are funded by the reserve fund. The reserve fund is now zero.

Mega Million sales were down by 16.8%; Hot Lotto sales were up by 5.2%; Roadrunner Cash sales were down by 27.4%; PICK 3 sales are up 21% and Quickster sales up by 16.3%. The lottery will be adding a Sunday drawing for its PICK 3 game in the upcoming year.

The Points and Rewards program has been critical and we now have over 445 thousand entries, with over 6 thousand unique entries. Over 14 thousand entries were entered manually using the mobile app and over 162 thousand entries were scanned using the mobile app. The lottery will look into obtaining its own app that will allow the lottery to have more features. The VIP Club participation has increased since January with over 9,000 new participants translating into a 39% increase.

Personnel – A. Bailey, Committee Chair:

Leave Policy (Revised): A. Bailey reported that E. McKnight presented the Revised Leave Policy in detail to the Personnel Committee. The revised leave policy will allow employees to redeem up to a maximum of eighty (80) hour of accumulated annual leave as of December 31st of each year, which will be subject to applicable federal and state withholdings. This option will be dependent on budgetary constraints and at the discretion of the CEO. The committee recommends that the Revised Leave Policy be approved by the Board of Directors. The employee's accumulated annual leave balance cannot be reduced to less than one-hundred twenty (120) hours with this redemption.

A. Bailey made a motion to approve Leave Policy as presented; second by P. Guerin. Carried; 6-0.

Operations – S. Baragiola, Committee Chair: Cancelled Meeting.

Finance/Audit – M. Koson, Committee Chair:

Approve Minutes of June 10, Finance Audit Committee Meeting: M. Koson made a motion to approve the committee meeting minutes as presented; second by J. Kubiak. Carried; 6-0.

Disposal of Obsolete, Worn Out or Unusable Tangible Personal Property: M. Koson reported that S. Jaramillo presented the Disposal of Obsolete, Worn Out or Unusable Tangible Personal Property in detail to the Finance Audit Committee. Committee members reviewed and vetted the item in detail. The committee recommends that this item be approved by the Board of Directors.

P. Guerin asked what the lottery does with the computers. S. Jaramillo reported that the lottery began disposing of equipment in the last few years, prior to that the equipment was stored in the warehouse. The lottery follows the Audit Act by first contacting the state for the first right of refusal, but no one wanted the equipment, so the lottery sold the items at the DPS Auction. Donating the computers to school districts is not part of the Capital Asset Management Plan, but including the language in the motion will allow the lottery to donate the computers to schools in NM.

M. Koson made a motion to allow the lottery administration to dispose of obsolete equipment with State School Districts or as otherwise provided by agency policy; second by J. Kubiak. Carried; 6-0.

Financial Statements: M. Koson reported that this item was an agenda item in the Finance Audit Committee meeting, but for the sake of time and efficiency reasons, the committee requested that this

item be presented to the full board. S. Jaramillo provided an update on fiscal year 2015 financial statements. The Lottery has returned \$41.1 million to the Legislative Lottery Scholarship program meeting the statutory requirement of 30% return. The lottery has now returned more than \$654.5 million to education.

Due to the drawing game sales not meeting their FY 15 Revised sales budget, net revenue is nearly \$300,000 dollars less than the revised FY 15 budget, but nearly \$180,000 more than fiscal year 2014.

Net instant sales were approximately \$80 million and accounted for approximately 58.4% of net sales, whereas last year net instant sales were \$69.8 million and accounted for approximately 51.3% of net sales. This shift is significant in that in FY 2007 we had record setting net instant ticket sales of \$91.4 million, which were 61.7% of total net sales – still a 3.3% higher percent of total net sales in 2007, but we are closing the gap.

Instant ticket sales increased by \$10.2 million a 14.5% increase; surpassing the FY 15 Revised budget by \$2.3 million. It also surpassed the FY 15 original budget by over \$8 million.

Net drawing game sales were approximately \$57.1 million. Net drawing sales ended \$3.3 million behind the Revised FY 15 budget. Net drawing game sales were \$13.8 million less than the FY 15 original budget – we revised drawing games sales down by \$10.5 million in the revised budget. Without the increase of net instant sales by \$10 million this year, our return to the Scholarship fund would have been 3 million less. This illustrates how important instant ticket sales are to a lottery.

Operating Revenues were just over \$137 million, which were about \$1 million less than the Revised FY 15 Budget, as well as last fiscal year. Non-Operating Revenues ended the year slightly ahead of the Revised FY 15 budget by nearly \$3,000.

Total Game Expenses ended at 99.6% of the revised budget; while operating revenues ended at 99.28% of budget—tracking very closely to each other. Actual game expenses were 66.31% of Gross Revenues; the Budget was 66.09% of gross revenues. Game Expenses were nearly \$1.3 million more than last fiscal year; partially due to higher sales in fiscal year 2015 and higher prize expense, retailer commissions and on-line vendor fees due to the increase in sales.

Operating expenses ended at 3.69% of total Gross Revenues, with the total operating expenses at 93.68% of the revised budget. Comparing the total operating expenses for this year to last year shows a \$450,000 decrease. About \$242,000 of this was in salaries, wages, and benefits.

One last line item that you see on your financial statements is Interest Expense. With the purchase and closing of the building taking place on June 26, 2015 and with the loan being funded on June 29, 2015, we had a few days of interest expense in fiscal year 2015.

D. Salzwedel asked what the amortization schedule on the building is. S. Jaramillo reported 60 months and we borrowed \$1.2 million.

Update on NASPL Conference: S. Jaramillo provided a brief overview of the NASPL Professional Development Conference.

Annual Inventory Observation FY 2015: M. Koson reported that this item was reviewed, discussed and vetted in the Finance Audit committee with M. Boland. The committee recommends that the Annual Inventory report be approved by the Board pending any questions or concerns from other board members. No Questions were presented.

M. Koson made a motion to approve the Annual Inventory Observation FY 2015 Report as presented by M. Boland; second by J. Kubiak. Carried; 6-0.

Executive Closed Session: D. Salzwedel reported that the Executive Closed Session would be cancelled and the Online Contractual matter will be discussed in open forum.

Lottery Gaming System and Associated Products and Services Contract: M. Koson and D. Salzwedel reported that this item was presented at the Finance Audit Committee in full detail along with the full board and properly vetted. D. Barden provided a summary of the pending Gaming System Contract as presented to the Finance Audit Committee.

The contract proposal incorporates the following:

- Eight year contract, the RFP requires the vendor to honor a 10 year contract if the lottery is successful in changing its statutory provision
- Base Price Online Fee Rate – 2.9988%; 2.5% on net sales above \$146.5 million
- Vendor will move and share space within the NM Lottery Building
- Receive 1250 New Photon Terminals
- Move Lottery Sales Representative Team and vehicles to Intralot
- Reduce Performance Bond from \$10 million to \$5 million

D. Barden indicated that these are the major elements to the contract, but they are not all inclusive in nature. By moving forward with the contract, the lottery expects to see a growth of 4% in sales per year over the 8-year contract with Intralot.

M. Koson made a motion that the Board approves the Lottery Gaming System and Associated Products and Services Contract based on the terms made by the CEO and vetted by the Finance Audit Committee; second by J. Kubiak. Carried; 6-0.

BOARD CHAIR

Board Officer Elections: D. Salzwedel reported that by policy the Board Officer Elections is conducted annually. The election process could be done individually, collectively or if there is no change to the current standings, the board can proceed. If there are any adjustments or challenges, that should be noted as well.

J. Kubiak stated that the current standing is a well-functioning Board and no need to change the current standings. The full board agreed.

D. Salzwedel asked if there were any concerns, questions, comments.

No Comments.

A. Bailey made a motion that the Board Officers stay in the same position including committee appointments for the next year; second by C. Austin. Carried; 6-0.

Board Officer Positions are:

D. Salzwedel – Chair

M. Koson – Vice Chair

John Kubiak – Secretary/Treasurer

Amy Bailey – Assistant Secretary/Treasurer

Sal Baragiola – Board Member

Claude Austin – Board Member

09/02/15/wa

Paul Guerin – Board Member

Committee Appointments and Committee Chair Appointments

Operations
Sal Baragiola, Chair
Claude Austin
Paul Guerin

Finance/Audit Committee Members:

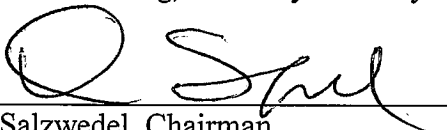
Mark Koson, Chair
Dan Salzwedel
John Kubiak

Personnel Committee Members:


Amy Bailey, Chair
Mark Koson
Dan Salzwedel

Announcements: None.

ADJOURNMENT: D. Salzwedel asked for a motion to adjourn the meeting. J. Kubiak moved to adjourn the meeting; second by A. Bailey. Carried; 6-0. The meeting adjourned at 12:59 p.m.



Dan Salzwedel, Chairman
Date 11-18-15



John Kubiak, Secretary/Treasurer
Date 11-18-15