

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
August 22, 2018
MINUTES**

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 11:36 a.m. and asked for a roll call. Present and constituting a quorum were: Aubrey McGowen, Dan Salzwedel, Paul Guerin, Mark Koson via phone, Sal Baragiola and Amy Bailey. John Kubiak absent.

D. Barden introduced Carolyn Cabell to the Board of Directors. Carolyn is the COO and Chief of Staff of the lottery. Carolyn joined the lottery on July 17th and has cumulative years of lottery experience. Carolyn has been tasked with several projects that are well underway. Carolyn thanked the Board for the warm welcome and looks forward to working with the Board and NMLA staff.

Present from NMLA were; David Barden, Carolyn Cabell, Sylvia Jaramillo, Michael Boland, Wendy Ahlm, Kevin Duda and Wilma Atencio. Also present were; Steve Beck, Intralot; Matt Bone, Elizabeth Nunez, Sheila Quintana with CliftonLarsonAllen; Othiamba Umi, Julisa Rodriguez and Elena Purcell with Think New Mexico.

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

Approve Minutes of June 06, 2018 Board of Director's Meeting: D. Salzwedel entertained a motion to approve the June 6th minutes. A. McGowen made a motion to approve the minutes; second by S. Baragiola. Carried; 6-0.

S. Baragiola requested that the CEO provide an update on tasked and/or action items from the previous Board of Director's meeting to assure Board members that the items have been completed. This update will be provided by the CEO or designee at all future meetings.

D. Barden reported that four items were completed: organizational chart; NMLA Bylaws; NMLA Rules for Online Games – Pick 4 added; and Code of Conduct Policy.

Public Comment: None.

Board Chair:

Board Officer Elections: D. Salzwedel reported that the Board will elect officers for the present term and reported that M. Koson has requested to be relieved of any committee assignments and thanked M. Koson for his dedication and hard-working efforts as Vice Chair and Chairman of the Finance Audit Committee.

D. Salzwedel reported that the slate of officers up for election are:

Chair – Dan Salzwedel
Vice Chair – Sal Baragiola
Secretary/Treasurer – Amy Bailey
Asst. Secretary/Treasurer – John Kubiak

D. Salzwedel asked if there is any debate or other suggestions by the Board for the slate of officers, which was welcomed for discussion and debate. There were no further questions or objections.

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P. Guerin made a motion to approve the selection of Board officers as indicated and described; second by A. McGowen. Carried; 6-0.

Committee Appointments and Committee Chair Appointments: D. Salzwedel reported that the committee appointments and assignments will be made prior to the next meeting.

Announcements: D. Salzwedel thanked M. Koson for a marvelous job as Vice Chair and Chairman of the Finance Audit Committee and the Board is very appreciative of hard work and continued efforts in moving the lottery forward. M. Koson thanked the Board, CEO and NMLA staff for their leadership and hardworking efforts through the years and looks forward to the future.

REPORTS:

Finance/Audit – M. Koson, Committee Chair:

Audit Entrance Meeting – CliftonLarsonAllen: S. Jaramillo introduced the engagement team for CliftonLarsonAllen to the board members – Matt Bone, Elizabeth Nunez and Sheila Quintana. E. Nunez provided a brief over of the audit entrance conference outlining the process that will be followed for the FY 2018 Financial Audit. The agenda includes the engagement team, required communication, planned scope of services, timeline and other matters. This will be the third year CliftonLarsonAllen will be conducting the financial audit on the lottery. E. Nunez stated that the engagement team will be utilizing the Auditing Standards and Government Auditing Standards by forming and expressing opinions about the financial statements and if they're fairly presented in all material aspects, if internal controls over financial reporting are in place and being followed in accordance with policies and procedures, planning and performing the audit to obtain reasonable assurance that the financial statements are free from material misstatement, communicating significant and particular matters with lottery staff and management. Sample testing will be completed throughout the audit. The audit will take two weeks beginning August 21st. The reporting and financial review will occur the months of September/October and a planned submission to the office of the State Auditor by October 19th with a deadline of November 1, 2018.

P. Guerin inquired about field work testing. E. Nunez reported that is onsite test work with client inquiry and looking at samples from the financial side such as cash transactions, journal entries, any manual journal posted in the fiscal year. Compliance with the lottery act within the lottery structure, such as background checks, new retailers have been added, policies and procedures. P. Guerin asked how does one determine what areas are reasonable areas to audit. E. Nunez reported that the audit firm will used a risk based approach. Look at account balances, what controls are in place, review policies – are there dual controls in place and are they working effectively by comparing the information to the previous year financial audit and other measures that the audit firm uses.

Approve Minutes of June 06, 2018 Finance Audit Committee Meeting: M. Koson made a motion to approve the June 6th committee meeting minutes as presented; second by D. Salzwedel. Carried; 6-0.

Financial Statements: M. Koson reported that this is in an information item only and deferred to S. Jaramillo. S. Jaramillo reported on the fiscal year 2018 financial statements. The New Mexico Lottery has returned \$40.2 million to the Legislative Lottery Scholarship program. The lottery met the statutorily required 30% return every month. This net revenue is \$1.8 million more than the revised FY 18 budget of nearly \$38.4 million, but nearly \$2.4 million more than FY 17's return of \$37.8 million – a 6.3% increase over FY 17.

The return for FY 18 is nearly \$2.9 million more than the FY 18 Consolidated Original Annual Budget that the board approved last June 2017 which had a \$37.4 million return. With the final transfer for FY 18, the lottery has returned more than \$778.9 million to the State of New Mexico for education since the inception of the Lottery.

FY 18 net instant sales were approximately \$72.3 million, whereas FY 17 they were \$72.4 million. Instant ticket sales decreased by approximately \$100,000 from the prior fiscal year resulting in a 0.15% decrease; net instant sales were virtually flat in FY 18. Instant sales, did surpass the FY 18 Revised budget by nearly \$2.4 million.

S. Jaramillo reiterated that instant sales compared to 2016, we were \$10 million dollars down last year and this had to do with our prize payout expense was 60.01%. When you compare that to our best year 2007 – our prize payout at that time was 63.13%. This shows that with the 30% mandate, we aren't able to raise our prize payout like we did in 2016 to increase instant ticket sales, like we did before.

Net drawing game sales for FY 18 were approximately \$61.7 million. Net drawing sales ended \$3.7 million more than the Revised FY 18 Budget and nearly \$8.1 million more than net drawing sales for FY 17, which were \$53.6 million for that fiscal year. The \$8.1 million difference was due to sales increases over the prior FY. Powerball - \$3.3 million; Mega Millions - \$3.5 million; Roadrunner Cash - nearly \$512,000; Pick 3 - nearly \$260,000 and sales increased between Hot Lotto and Lotto America - nearly \$490,000. This is what contributed to our \$40.2 million return to the state. Instant sales stayed flat. We were able to gain a little due to 2 jackpots. The jackpots produced good sales, but not as much in previous years with the same jackpot amount.

D. Salzwedel asked if the jackpot had any correlation to Mega Millions. S. Jaramillo reported yes it did. Mega Millions – there were 3 Jackpots over \$300 million; 2 Jackpots over \$100 million and 1 at \$42 million. Powerball – there were 4 Jackpots over \$300 million; 3 over \$100 million and 1 at \$55 million. The months that those jackpots got hit, our drawing sales were good and the other months sales went down.

D. Salzwedel asked if there was a significant change to Mega Millions. D. Barden reported yes. The game went from a \$1 game to a \$2 game, sales went up, but the lottery loss 25% of its players.

Total Operating Revenues for the FY were \$134 million, which were \$6.1 million more than the Revised FY 18 Budget and nearly \$8 million more than FY 17.

Non-Operating Revenues ended just slightly ahead of the Revised FY 18 budget and \$22,000 less than in FY 17.

Total Game Expenses ended the year at 104.97% of the revised budget, while operating revenues ended at 104.8% of budget tracking closely with Operating reserves. Actual game expenses were 67.37% of Gross Revenues; the Budget was 67.26% of gross revenues – again tracking closely with each other.

Lastly, Operating expenses ended the year at 2.61% of total Gross Revenues – costs were held as much as possible and came in less than budgeted amounts.

S. Jaramillo reported that her group is working diligently on closing the July financials and anticipates a \$3.1-\$3.2 million return to the state for July's transfer for lottery tuition.

Disposal of Obsolete, Worn Out or Unusable Tangible Personal Property: M. Koson deferred to S. Jaramillo. S. Jaramillo requested approval of the Disposal of Obsolete, Worn Out or Unusable Tangible Personal Property. The board was provided a listing of various categories of both Capital and Non-Capital Assets that have a current resale value of five thousand dollars or less and are either worn out, unusable or obsolete to the extent that the items are no longer economical or safe for use by the New Mexico Lottery. All electronic media and licensed computer software will be sanitized or made effectively inaccessible by shredding any software prior to its disposal and erasure or removal of hard drives from computers and digital equipment with storage capabilities. The list is comprised of old

software for the IT and Accounting department, various computer equipment, such as desktops, laptops, firewall software, monitors, printer, router, cameras, office equipment old chairs, carpet and VCT tile that are either usable or unusable. The lottery will follow the policy to dispose of them properly.

D. Salzwedel asked where do the items go. S. Jaramillo reported there are various places. In the past, the board has asked the lottery to transfer computer equipment to schools. There's also the state auction.

S. Baragiola asked where do the funds go after the items are disposed. S. Jaramillo reported that any funds received goes back to the lottery. This has only occurred once or twice and the amount was small.

D. Barden reported that the lottery sends out letters to school districts, but computer technology is changing so fast, no one wants our old computers because they're obsolete. P. Guerin inquired about the hard drives. D. Barden reported that all the computers are cleaned and cleared of everything. S. Jaramillo reported that the computer equipment is currently in the warehouse, despite the lottery's efforts in finding a school or district that wants the equipment.

S. Baragiola recommends that the Board rescind the requirement that the lottery first contact school districts before public auction. This will give the lottery flexibility in disposing of property in the most efficient manner. Board agreed. This will now be a directive to have the lottery make reasonable efforts in disposal of equipment.

M. Koson made a motion to approve the Disposal of Obsolete, Worn Out or Unusable Tangible Personal Property as presented; second by A. McGowen. Carried; 6-0.

NMLA Procurement Policy: M. Koson deferred to D. Barden. D. Barden reported that the external Purchasing Policy has been reviewed to bring the policy's provisions up to date in accordance with the Procurement Code and the Lottery Act. The current policy and procedure is out of date and hasn't been updated in a number of years; during that time the State has updated the Procurement Code. D. Barden reported that it is prudent that the lottery updates the purchasing policy by adopting the recommended changes provided by legal, this will provide greater flexibility to the lottery to incorporate and revamp the Purchasing procedures to streamline its process. D. Barden reported that the board has been provided a red lined copy of the changes which is in-line with the procurement code. D. Barden reported that the lottery's Policy and Procedure for Procurement has always been above and beyond what the state recommends in its Procurement Code.

M. Koson made a motion to approve the changes to the NMLA Procurement Policy based upon the Memo dated August 14, 2018 – the Legal Opinion of the in-house counsel of Justine Fox-Young & Adam Baker on the Procurement Policy; second by D. Salzwedel. Carried; 6-0.

Other: None.

Security & Operations – S. Baragiola, Committee Chair:

Approve Minutes of June 06, 2018 Security & Operations Committee Meeting: S. Baragiola made a motion to approve the June 6th committee meeting minutes as presented along with the tasked items that the CEO mentioned earlier were accomplished; second by P. Guerin. Carried; 6-0.

NMLA Board of Director's Bylaws: S. Baragiola reported that this item was discussed and vetted during the security and operations committee meeting and wanted to discuss section 5.4 with the full board. The committee adopted section 5.4 in terms of the title change from Secretary to Secretary/Treasurer. The committee is concerned with the duties and responsibilities outlined in section 5.4 particularly the word "shall" which is not a delegated duty. The Secretary/Treasurer has a significant role such as custodian of records, deposits monies, etc. The committee recommends that this section be rewritten to reflect a more

delegated responsibility so that the Secretary/Treasurer is in a position to ensure that these things are done, but not solely responsible for them. The committee recommends that the CEO rewrite this section and that the duties outlined are of a delegated responsibility with oversight.

D. Salzwedel stated that most Bylaws have conventional language and ultimately Board members that are elected are responsible for the assurance of those duties and agrees that the duties should be delegated from an operational duty to an oversight duty.

S. Baragiola advised that at some point, there should be a Secretary/Treasurer report added to the agenda and report back to the Board.

S. Baragiola made a motion to accept and adopt the recommended red-lined changes along with the title of Secretary/Treasurer for section 5.4 of the NMLA Bylaws and the remaining language outlining the duties for section 5.4 and section 8.1 be reviewed and rewritten by the CEO for resubmission to the Board for discussion, acceptance and approval; second by A. McGowen. Carried; 6-0.

Other: None.

CEO

General Update: D. Barden provided a brief update on lottery activities. D. Barden reported that for FY 19, PATP is averaging weekly sales of \$4,800, translating to an 8% increase over last year. D. Barden reported that Murphy Oil has decided to suspend all its PATP nationally due to business needs. The lottery will be losing 12 stations with Murphy Oil. D. Barden reported that Brewer Oil is in the final stages and will be bringing 35 stores to the PATP in the next few weeks. D. Barden did advised Board that the lottery still has several years on the PATP Contract and the lottery is hopeful in adding additional stores down the road.

D. Barden reported that he recently attended the Western Petroleum conference and he spoke with representative from Latitudes Gas Station and Allsup's who advised they were losing sales due to the lottery not releasing a \$20 ticket. D. Barden stated that lottery could not financially afford a \$20 ticket because of the 30% mandate. Both retailers were in support of the lottery's efforts in eliminating the 30% mandate and will be available for the upcoming legislative session to talk with legislators.

D. Barden advised Board that Online Vendor Contract extension for an additional two-years is at a standstill at the moment and not sure if the discussion will continue. D. Barden reported that it appears that the representative for the Online Vendor – Intralot has left the meeting early in case the Board had any questions.

D. Barden reported that the new hot topic in the lottery industry has been Sports Betting. Mr. Cole, reporter for a local newspaper has written some articles on sports betting and what it may mean for the State. D. Barden advised that he has had meetings with the attorneys on the subject and the lottery is researching and conducting its due diligence in this matter. There is opportunity for additional revenues for the lottery if Sports Lottery is something we can conduct in NM. D. Barden reported that Sports wagering generates an estimated \$150 Billion in illegal sales and an estimated \$135 Billion in legal sales. Sports wagering is a hot topic and according to D. Barden, 70% of all Sports wagering worldwide is regulated by lotteries. Three states – Delaware, West Virginia and Rhode Island currently offer Sports Betting through their lottery. D. Barden should have additional information on this item possibly in 6-8 months.

D. Barden reminded the Board of two upcoming meetings. The October meeting will be for the Finance Audit committee meeting on the exit conference for the FY 18 Financial Audit and in November will be the next regular Board Meeting. Marketing will provide a presentation at the next board meeting.

D. Barden provided a power point presentation called FY 18 – The Year of Jackpots. This presentation gave an overview of where the lottery is at in terms of Online Drawing Game Sales and Instant Ticket Sales.

The online drawing slides show that in NM - Powerball, Mega Million, Lotto America and Roadrunner Cash all had four Jackpots ranging from \$300 thousand for RRC to \$758 million for Powerball. Nationally, there were 7 Jackpots won in FY 18 and the national sales for each game and what the sales were for those Jackpots.

Instant sales for NM were slightly down in FY 18 compared to FY 17, but it is out of line with the rest of the US lottery industry. Nine lotteries were up more than 10% over the previous fiscal year. The average growth was more than 6%. Only four lotteries (NM, NJ, DC and Puerto Rico) were down in instant sales compared to the previous year.

The presentation also showed that Oklahoma was at the top of the chart with a 47% increase in sales and a 19% increase in proceeds to education due to the elimination of their mandate this past year - \$63 million for education. An example that eliminating the mandate will translate into increased sales for the lottery and increased proceeds for the scholarship program. D. Barden reported that the lottery will continue with its legislative efforts for elimination of the mandate.

A. Bailey left meeting at 12:45 p.m. for court hearing.

Other: None.

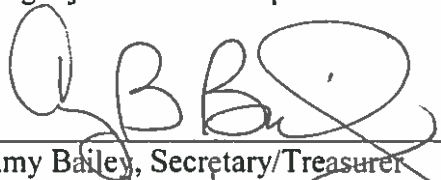
Other Items: D. Salzwedel thanked the Board for the continued confidence in him with his re-election as Chairman and the Board’s continued hard work and dedication to the lottery organization and its beneficiaries. D. Salzwedel also thank D. Barden for his hard work to the lottery and his recent accomplishment being named Chair of the Powerball Committee.

M. Koson also thanked and congratulated D. Barden and appreciates all he’s done for the lottery. M. Koson wanted to report a significant item and point out that the CEO’s contract was revised by eliminating the contract incentives which are now part of his base salary. M. Koson stated this is a very positive move for the lottery.

Adjournment: D. Salzwedel entertained a motion to adjourn. S. Baragiola moved to adjourn the meeting; second by A. McGowen. Carried; 5-0. The meeting adjourned at 12:49 p.m.



Dan Salzwedel, Chairman
Date: 10-30-18



Amy Bailey, Secretary/Treasurer
Date: 10/30/2018