

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
August 23, 2019**

MINUTES

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 10:01 a.m. and asked for a roll call. Present and constituting a quorum were: Aubrey McGowen, Dan Salzwedel, Paul Guerin, Sal Baragiola, and Mark Koson via phone. Amy Bailey absent.

Present from NMLA were: David Barden, Carolyn Cabell, Sylvia Jaramillo, Wendy Ahlm, Kevin Duda, Wilma Atencio, and Michael Boland.

Also present were: Mary Stanford and Steve Beck with INTRALOT; Matt Bone, Elizabeth Nunez, and Sheila Quintana with CliftonLarsonAllen; Othiamba Umi and Josue "Joshua" Gandarilla with Think New Mexico.

Approve Proposed Agenda: D. Salzwedel entertained a motion to approve the proposed agenda. P. Guerin made a motion to approve the proposed agenda as presented; second by A. McGowen. Carried; 5-0.

Approve Minutes of June 26, 2019 Board of Directors Meeting: D. Salzwedel entertained a motion to approve the June 26 minutes. A. McGowen made a motion to approve the minutes; second by P. Guerin. Carried; 5-0.

Public Comment: None.

Audit Entrance Meeting – CliftonLarsonAllen: Elizabeth Nunez provided a brief summary of the audit entrance outlining the process that will be followed for the FY 2019 Financial Audit. The presentation included an overview of the engagement team, required communication, planned scope of services, timeline, and other matters. The engagement team consists of Matt Bone, Engagement Principal; Elizabeth Nunez, Engagement Manager; and Sheila Quintana, Engagement In-Charge. This will be the fourth year or the first year of the second and final contract for CliftonLarsonAllen (CLA).

E. Nunez reported that the engagement team's responsibilities include forming and expressing opinions about the financial statements and if they are fairly presented in all material aspects, in conformity with generally-accepted accounting principles. Responsibilities also include determining whether 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, and communicating significant and particular matters with Lottery staff and management. E. Nunez reminded the Board that the audit does not relieve governance or management of their responsibilities.

Field work and sample testing will be completed throughout the audit. CLA determined the risk approach, which changes year to year, prior to being onsite. Field work began August 19 and will run for a two-week period. The reporting and financial review will occur the months of September and October. A planned submission to the Office of the State Auditor by October 19, 2019, will follow an exit conference with the Lottery and Finance Audit committee.

REPORTS:**Finance Audit Committee:**

Approve Minutes of June 26, 2019 Finance Audit Committee Meeting: D. Salzwedel entertained a motion to approve the June 26 Finance Audit Committee meeting minutes. A. McGowen made a motion to approve the minutes; second by P. Guerin. Carried; 5-0.

Financial Statements: S. Jaramillo reported on the June 2019 financial statements. S. Jaramillo reported that the Lottery has returned \$43.1 million to the scholarship fund, which is the fourth highest fiscal year return since inception. The Lottery has met the statutorily required 30% return each month. This return is nearly \$2.1 million or 5.05% more than the revised FY 19 Budget and nearly \$2.9 million or 7.2% more than the FY 18 return of \$40.2 million.

To meet the 30% return, unclaimed prizes were used 11 out of the 12 months for FY 19. Without the unclaimed prizes, our return would have been approximately 26.42% in FY 19. The Lottery used \$5.137 million of the unclaimed prizes or 3.58% of gross revenue to meet the 30% return. Without the unclaimed prizes, the Lottery's return to the Legislative Lottery Scholarship fund would have been approximately \$38 million. In the last 12 years, the Lottery has used the unclaimed prizes 84% of the time or 121 out of the 144 months since the passage of the required mandate of 27% and then 30% return. During the 12 years, the Lottery has returned \$43.7 million of unclaimed prizes to the lottery scholarship fund. At the end of FY 19, the Lottery earmarked \$1.5 million of the unclaimed prizes to planned games and game design that are in the early planning stages, printing stage, in the field or warehouse for distribution.

D. Barden commented that if the Lottery did not have the ability to use unclaimed prizes, the Lottery would probably have to pull all of its \$10 Scratchers tickets. The dollar-value of the return to the state would be far less and would be in the range of \$24-\$28 million because of the loss of players due to removal of games and prize payout reduction. History has shown this will occur. In 2016, the Lottery reduced prize payouts on its Scratchers, resulting in sales decline and less dollars returned to the state for the lottery scholarship fund.

S. Jaramillo reported that through FY 19, the Lottery has returned \$822 million to the State of New Mexico for education since the inception of the Lottery.

For FY 19, Instant Sales were approximately \$74.9 million, whereas last year instant sales were \$72.3 million. Instant sales grew by \$2.65 million or 3.67%. We surpassed the revised budget by more than \$2.4 million or 3.36%. Instant sales performed well the final quarter of the fiscal year.

Draw Game sales were approximately \$68.7 million – \$4.4 million more than the revised budget and \$7 million more than the Draw Game sales for FY 2018. This increase can be attributed to Mega Millions, which had the \$1.5 billion jackpot and garnered the Lottery \$9.4 million more in sales than last year. Powerball sales were \$2.7 million less than last year. Jackpot fatigue continues to play a role in the amount of sales that these jackpot roll-ups produce. The Lottery launched a new game, Pick 4, which added a million dollars in sales.

D. Salzwedel commented that this is a high point for Mega Million sales in his tenure at the Lottery. D. Barden reported that Mega Millions is now a \$2 game, which combined with the jackpots has contributed to the sales increases.

Total Game Expenses ended the year at 103.73% of the revised budget and Operating Revenues ended at 105%. Although game expenses track with sales, expenses were low because there were some line items that were held without as much expense this year. Operating Expenses ended the year at 3.67% of total gross revenues.

D. Salzwedel clarified that Instant Sales increased, Mega Millions sales had a significant increase, and Powerball sales declined.

S. Jaramillo reiterated that our net return to the lottery tuition fund without the unclaimed prizes would have been approximately \$38 million, translating into a 26.42% return, which would not meet the 30% mandate. The Lottery returned \$43.1 million, which is the fourth highest return in our 24-year history. D. Barden reported that without unclaimed prizes, the return would be closer to \$35 million because the Lottery would probably pull the \$10 games, which account for a high percentage of Scratcher sales.

S. Jaramillo provided a schedule of annual net sales by game type and return to the lottery tuition fund. This report shows the effects of instant sales, draw game sales, prize payout increases/decreases, and jackpots on gross revenues and the return to the State. The four highest returns can be attributed to the prize payout being increased, leading to higher instant sales, or large jackpots which increased draw game sales. Instant sales are the foundation of the Lottery. The pilot program the Lottery conducted covering FY 14 to FY 16 increased prize payout. S. Jaramillo reported that instant sales increased by \$2.65 million when the prize payout was increase by 1.36% to 61.37% during this time period.

S. Jaramillo reported on the July 2019 financial statements. The Lottery returned a little over \$3 million for the month to the Legislative Lottery Scholarship program. We have met the statutorily required 30% return. The Lottery used over \$495,000 in unclaimed prize funds to meet the 30% return.

The net income for the fiscal year to date is nearly \$185,000 (5.81%) less than the FY 20 YTD original budget or \$165,000 (5.21%) less than July 2018.

With the transfer, we will have returned \$825 million to the State of New Mexico for education since the inception of the Lottery.

Net instant ticket sales through July were approximately \$6.2 million and just over 100% of the budget, which is an increase of \$470,000 (8.24%) from last July. Net drawing game sales were approximately \$3.8 million and ended July \$1.1 million less than the budget. Powerball sales are 64% of the budget and Mega Million sales are at 93% of the budget.

Game Expenses ended July 90.69% of the YTD Budget—while total operating revenues ended at 90.52% of budget—tracking close to each other. Total Operating Expenses ended at 2.95% of Gross Revenues. Operating expenses are being held as much as possible.

The committee will meet in October for the 2019 Financial Audit Exit Conference.

Other: None.

REPORTS:

Security and Operations Committee:

Other: None.

CEO, David Barden:

Marketing Update: W. Ahlm provided a presentation and highlighted areas such as the Legislative Lottery Scholarship, dollars returned to the students and players, the Lottery's My Rewards loyalty program, and advertising and marketing initiatives that have taken place and will be launched in the upcoming months.

W. Ahlm reported that in each fiscal year, the Lottery undertakes enormous responsibility and diligence to negotiate added-value no-cost spots and reduced rates with the advertising spend. In the past six years, the Lottery has spent \$12.22 million with an added media value and cost savings of \$11.25 million, effectively doubling advertising dollars. This year, the Lottery received \$2.27 million for our \$2.1 million advertising budget, equating to an over \$4 million media buy. This is a success for the Lottery and students of New Mexico.

Board members thanked the CEO, management, and staff for their continued efforts and success in producing quality and exciting marketing and advertising initiatives year after year and all the cost saving efforts across the board.

General Update: D. Barden reported that there are several reasons he loves working for the Lottery, and advertising and marketing initiatives is one of them. Developing a concept/idea to fruition helps players have positive/winning experiences, which ultimately helps the students of New Mexico. Providing great games, fun, and scholarships to students is what the Lottery is all about.

D. Barden provided a brief overview on the following items:

- The Lottery is up for 16 national awards at the upcoming NASPL Conference and the Lottery is hopeful that we can bring more awards back to the state soon.
- The Security Division still has an open position available for a security agent. The position had been filled prior to August, when the applicant called and declined the position.
- The Lottery is updating and changing the name of the policy related to second-chance drawings. The updates will include a disclaimer and providing flexibility with the drawings. Per the Board's instructions, staff have updated this policy and the change is presented to the Board today as information.

D. Barden provided a document of Lottery financial savings from 2015 to 2019. The total savings during this time period is approximately \$23 million and includes reorganization of the Lottery, purchasing the building located at 4511 Osuna Road NE, advertising reduction, reduction to utilities and maintenance, and reductions in other areas. D. Barden reported the Lottery has good contracts with our online and instant ticket vendors. D. Barden reported that this is all due to strong management and the direction the Board has taken the Lottery. D. Barden thanked Board for their efforts, support, and leadership.

Board members thanked the CEO, management, and staff for their efforts and success. The Lottery has taken on huge initiatives that have made a difference and continue to do so, despite the restrictions that are in place.

Other Items: None.

Board Chair:

Board Officer Elections: D. Salzwedel entertained discussion or decision from Board members on how to proceed with the annual elections, either individually or collectively.

S. Baragiola recommended that a motion be made that if anyone currently serving in their position wants to retain their position, that they be allowed to do so.

P. Guerin made a motion that Board members serving in their current position retain those positions, specifically Board Chair Dan Salzwedel and Board Vice Chair Sal Baragiola; second by M. Koson. Vote: all ayes, no nays, 5-0.

D. Salzwedel recommended that A. Bailey retain her current position as Secretary/Treasurer and A. McGowen be appointed to the Assistant Secretary/Treasurer position.

P. Guerin made a motion that Amy Bailey retain her current position as Secretary/Treasurer and Aubrey McGowen be appointed to the Assistant Secretary/Treasurer position; second by S. Baragiola. Vote: all ayes, no nays, 5-0.

D. Salzwedel thanked Board members for their continued service.

Committee Appointments and Committee Chair Appointments: D. Salzwedel reported that the committee appointments and assignments will remain unchanged until new appointments have been made.

The appointments were made at the behest of the Board Chairman as follows:

Security and Operations Committee:

- Sal Baragiola, Chair
- Paul Guerin, Member

Finance Audit Committee:

- Aubrey McGowen, Chair
- Dan Salzwedel, Member

Personnel Committee:

- Amy Bailey, Chair
- Dan Salzwedel, Member

S. Baragiola made a motion to approve by acclamation the committee appointments made by the Board Chairman; second by M. Koson. Vote: all ayes, no nays, 5-0.

Announcements: D. Barden reported that the next upcoming meeting will be for the Finance Audit Committee in October for the 2019 Financial Audit exit conference.

Other Items: None.

Adjournment: D. Salzwedel entertained a motion to adjourn. P. Guerin made a motion to adjourn the meeting; second by A. McGowen. Carried; 5-0. The meeting adjourned at 11:34 a.m.

Dan Salzwedel
 Dan Salzwedel, Chairman *with chair*
 Date: 11/20/19

Amy Bailey
 Amy Bailey, Secretary/Treasurer
 Date: 11/20/19