

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
June 06, 2018
MINUTES**

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 12:02 p.m. and asked for a roll call. Present and constituting a quorum were: Mark Koson, Amy Bailey, Aubrey McGowen, Dan Salzwedel, John Kubiak, Paul Guerin and Sal Baragiola.

Present from NMLA were; David Barden, Sylvia Jaramillo, Karla Wilkinson, Vince Torrez, Michael Boland, Wendy Ahlm and Wilma Atencio. Also present were; Jon Zajdel, Intralot; EmmaLia Mariner, college student and Intern with Think New Mexico and Othiamba Umi with Think New Mexico.

Approve Proposed Agenda: D. Salzwedel entertained a motion to approve the proposed agenda. J. Kubiak made a motion to approve the proposed agenda as presented; second by A. Bailey. Carried; 7-0.

Approve Minutes of March 20, 2018 Board of Director's Meeting: D. Salzwedel entertained a motion to approve the March 20th minutes. J. Kubiak moved to approve the minutes; second by P. Guerin. Carried; 7-0.

Public Comment: None.

REPORTS:

Personnel – A. Bailey, Committee Chair:

Approve Minutes of March 20, 2018 Personnel Committee Meeting: A. Bailey made a motion to approve the March 20th committee meeting minutes as presented; second by D. Salzwedel. Carried; 7-0.

Other: None.

Finance/Audit – D. Salzwedel, Acting Committee Chair:

Approve Minutes of March 14, 2018 Finance Audit Committee Meeting: M. Koson made a motion to approve the March 14th committee meeting minutes as presented; second by D. Salzwedel. Carried; 7-0.

M. Koson reported that M. Boland provided a presentation to the Finance Audit committee on items a, b, c and d (FY 2018 Financial Audit Contract Extension, Warehouse Process Review Report, Lotto America Extravaganza Promotion Review Report and FY 2019 Audit Plan) for review and vetting by the committee. The committee recommended approval on all four items. M. Boland will provide an overview on all four reports.

FY2018 Financial Audit Contract Extension: M. Koson made a motion to approve the FY 2018 Financial Audit Contract Extension; second by J. Kubiak. Carried; 7-0.

D. Salzwedel reported that this item was reviewed at the committee. No questions or discussion by Board members.

M. Boland reported in the Finance Audit Committee meeting that Internal Audit is requesting approval from the Board to enter into the second and final contract extension with CliftonLarsonAllen LLP to perform the 2018 fiscal year-end Financial Audit Services. CliftonLarsonAllen LLP is the firm the lottery selected through an RFP process to perform the 2016 Financial Audit Services. The RFP allows for a one-

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year contract with two one-year extensions for a total contract term of three years. The cost of the contract each year is \$42,000 (excluding gross receipts tax). A new RFP for Financial Audit Services will be issued in 2019.

Warehouse Processes Review Report: M. Koson reported that this item was vetted at the Finance Audit committee meeting with M. Boland. M. Boland reported that Internal Audit was requested by the CEO to perform an assessment of warehouse processes/procedures to determine whether staffing levels are appropriate and Internal Audit reported that the lottery is properly staffed based on the processes and the workload in the warehouse with four employees. M. Boland reported that 58% of their time is spent on ticket related processes and 42% to non-ticket related processes. The report does include recommendations to enhance processes improvements in the warehouse area/department and other recommendations with less staffing.

D. Salzwedel stated that the warehouse staff are versatile in multiple areas and are not subject to warehouse duties only which makes them valuable employees.

M. Koson made a motion to approve the Warehouse Process Review Report as presented; second by J. Kubiak. Carried; 7-0.

Lotto America Extravaganza Promotion Review Report: M. Koson reported that this item was presented to the Finance Audit committee for review and vetting by M. Boland. P. Guerin requested an overview of the report. M. Boland reported that the Internal Audit hadn't reviewed a drawing for quite some time since we have outsourced most of our drawings – the last drawing probably took place in 2015. Internal Audit wanted to ensure controls are in place and the integrity of the drawing was solid. This drawing was lengthy with twelve (12) weekly drawings. M. Boland reported that based on the procedures performed by Internal Audit, and except for the two observations noted, the Lotto America Extravaganza promotion was conducted in accordance with the NMLA Rules and Procedures and the Lottery Act which promote the security, fairness and integrity of the drawing process. The two observations noted were corrected and remediated and will not be any issues going further. There will be more drawings in the future.

M. Koson made a motion to approve the Lotto America Extravaganza Promotion report as presented; second by J. Kubiak. Carried; 7-0.

FY 2019 Audit Plan: M. Koson reported that this item was presented to the Finance Audit committee by M. Boland who put in an extensive amount of work into this plan and was very thorough. The committee and M. Boland had a good discussion on the Audit Plan. D. Salzwedel requested an overview of the plan. M. Boland reported that the Audit Plan is listed on page four of the Internal Audit Plan for FY 2019. Pages one through three explains the process that Internal Audit follows: it involves the inquiry of the executive, staff members, review of past audits, activities we've done in the past and suggestions by executive staff of things they want to be looked at, areas that hadn't been looked at for a long time or not at all – all these items come together creating this audit plan. M. Boland reported that this is moving document, dynamic and can change based on the needs of the lottery, based on suggestions by management of things they want. The audit plan changes from year to year.

M. Koson made a motion to approve the FY 2019 Audit Plan; second by J. Kubiak. Carried; 7-0.

FY 2019 Consolidated Original Annual Budget: M. Koson made the motion to adopt the FY 2019 Original Annual Budget as presented, noting a change to page 25 (last bullet item) and that the CEO's two 2019 contract performance incentives are added to his base pay to eliminate incentives; second by J. Kubiak. Carried; 7-0.

S. Jaramillo reported that the board have been provided copies of the original annual budget along with a recap sheet of the Consolidated budget showing the changes. The major changes the lottery is making are highlighted.

Instant ticket sales	Increased by \$2,500,000 or 3.45%
Powerball sales	Decreased by \$500,000 or 1.72%
Mega Millions sales	Decreased by \$500,000 or 4.55%
Hot Lotto sales	Ended last October 2017
Lotto America sales	Increased by \$1,000,000 or 33.33%
Pick 3 sales	Decreased by \$900,000 or 16.67%
Pick 4 sales	New Game-Projecting \$1,800,000 in sales
Net ticket sales	Overall increase of \$1,600,000 or 1.25%

Game expense line items were increased due to the changes in sales. but remained close percentage wise as you can see, prize expense actually is a little bit less than 53.76% of the revised budget, now its 53.08% and that's a combined payout that we get when we have Powerball and Mega Millions which are about 50% games, Lotto America is 50% games and our scratcher sales are much higher payout percentages. Our retailer commission averages out to 6.64% for fiscal year 19, it was at 6.65% for the revised budget. Online vendor fees are 3.65% in FY 19 and 3.66% in FY 18. Ticket Vendor fees are 0.97% of gross revenue for FY 19 and 0.99% of the revised budget.

One of the items that isn't direct percentage of sales line item is Advertising. Advertising was increased by \$324,000 or 15.99% and is only \$150 thousand more than the FY 2018 Original Budget. All in all, the game expenses are 66.81% for FY 19 and 67.26% for the revised FY 18 budget.

Operating Expenses are 3.18% of Gross Revenues compared to 3.00% in the FY 18 Original Budget. The biggest change to Operating Expenses is in Salaries, wages and benefits, which were increased by \$381,000 or 14.88%.

The FY 2019 Consolidated Original Annual Budget will return an additional \$474,000 or 1.24% more than the revised budget. These numbers are stagnant due to the decrease in sales. We are projecting based on realistic sales and the projected 30% return to the state.

D. Salzwedel asked for a brief overview of what the \$474,000 consists of S. Jaramillo reported that this consists of sales going up \$1.6 million for net ticket sales, increasing instants by \$2.5 million. D. Salzwedel reported that we change games out and in certain games we experience jackpot fatigue but a change in games, essentially is making a difference or part of, correct. S. Jaramillo stated some of it is change of games, some of it historically knowing what are sales have done. We can't project how many jackpots we're going to have next year, so we're projecting what we've seen in the past taking that there is Jackpot fatigue. Now when the jackpot is between \$300-\$500 million nobody gets excited anymore, until it gets even bigger. We're not seeing the sales like we used to see in the past. So, we look at our historical data. The lottery isn't seeing sales trends like before.

D. Salzwedel asked if this is consistent with other states. D. Barden replied yes. Jackpot drawings are bringing in less dollars each time it gets hit. One of the reasons the lottery is launching a new game – PICK4. The lottery is hoping to bring new players to this game. The lottery is constantly trying to tweak our portfolio of games, so players have different opportunities. Most players want instant wins – that's why they're driven to our scratcher program. Unfortunately, our scratcher program pays out less than most states. To increase sales lotteries continue to look at ways to make it easier for players to purchase lottery products.

D. Barden reported that PATP currently has 22 stores possibly bringing on 12-14 more stores. We had a 49% increase last year - \$4,900 in weekly sales. This is incremental money from people that never go into "C" stores and use their debit cards to make purchases. 82% of people don't go into "C" stores. This is just one example of making it easier for players to purchase lottery products. The trend is convenience! The lottery is here for the players and without the players there are no scholarship dollars.

S. Jaramillo reported that there is a slight change on the final page of the budget and would like that included with the approval process. D. Barden reported that the last bullet item on the last page (page 25) should state "The expenditure of funds for the SGI Player Rewards programs as authorized by the board."

S. Baragiola asked how many times a year does the lottery adjust the budget. S. Jaramillo reported once a year the lottery will complete a revised budget which is reviewed by the board. S. Baragiola asked if once a year is enough. D. Barden stated yes. D. Barden also reported that S. Jaramillo reviews the monthly financial statements with the board and if the lottery found something out of line, the lottery can bring it before the board. In addition, the CEO has authorization to move money around within certain dollar limits.

D. Salzwedel reported that eight of the last ten months, we have received support from the unclaimed prize fund to meet the 30% mandate. S. Jaramillo reported that is correct. Since 2007, the lottery has used the unclaimed prize fund 83.08% or 108 of the 130 months. The unclaimed prize fund is valuable to the lottery in that it helps supplement the prize payout and to meet the 30% return to the state.

D. Salzwedel also reported that earlier the lottery projected a return close to \$40 million to the state at the end of June. S. Jaramillo reported that is correct.

P. Guerin asked how does the lottery account for an increase to instant ticket sales for next year. D. Barden reported that we have a new vendor, were looking at different games and a different approach on our scratcher program and we anticipate that it will pick up slightly even with our prize payout remaining flat. The lottery is looking at making some changes in prize structure within the games that may increase sales.

J. Kubiak reported for the record that "the Business Model is driven to deliver a 30% of net percent of sales and not to maximize net income in dollars."

Financial Statements: M. Koson reported that this is in an information item only and that the Finance Audit committee vetted this item. S. Jaramillo reported on the April 2018 financials. For April 2018, the New Mexico Lottery returned more than \$3,027,000 for the month to the Legislative Lottery Scholarship program. With our transfer for April, we have transferred nearly \$34.2 million to the scholarship fund in fiscal year 2018. We have met the statutorily required 30% return. As stated earlier we had to use the unclaimed prize fund 8 of the 10 months to meet the 30% return.

The net income for the fiscal year is \$1.7 million more than the FY 18 YTD budget or 5.3% more, but \$2.5 million more than for the same period in fiscal year 2017 – a 7.98% increase over last fiscal year.

With last month's transfer, we will have returned nearly \$773 million to the State of New Mexico for education since the inception of the Lottery.

Net instant ticket sales through April 2018 were approximately \$61.1 million, whereas YTD Net Instant Sales through last April were approximately \$60.9 million – an increase of over \$232,000 this year or an increase of .38% from last year. Net Instant sales for the first ten months surpassed the FY 18 YTD Revised Budget by \$2.2 million or 3.79%.

Net drawing game sales for the first ten months were approximately \$52.8 million. Net drawing sales ended April approximately \$2.6 million more than the YTD Revised Budget or 5.12% more than the Revised Budget. Net drawing sales through April 18 were nearly \$8.2 million more than net drawing sales for the same ten months in fiscal year 2017 or 18.33% more than the \$44.6 million drawing game sales in fiscal year 2017.

Powerball sales were nearly \$4.3 million more than last year and Mega Millions sales were \$3.0 million more than last year.

Roadrunner Cash sales were nearly \$38,000 less than last year and the new game, Lotto America has sold over \$2,200,000 in tickets. Hot Lotto Sales ended in October 2017 and were therefore, \$1.5 million less than last year.

Altogether, Total Operating Revenues for April 2018 were \$113.9 million, which were \$4.8 million more than the FY 18 YTD Revised Budget or 4.41% more and \$8.4 million more than last April or 7.97% more.

Total Game Expenses ended April at 104.13% of the YTD Budget—while total operating revenues ended at 104.41% of budget—tracking close to each other.

Total Operating expenses ended April at 2.53% of Gross Revenues. Operating expenses for this fiscal year are being held as much as possible and are less than budgeted amounts.

Other: None.

Security & Operations – S. Baragiola, Committee Chair:

Approve Minutes of March 20, 2018 Security & Operations Committee Meeting: S. Baragiola made a motion to approve the March 20th committee meeting minutes as presented; second by J. Kubiak. Carried; 7-0.

NMLA Rules for Online Game: S. Baragiola asked Karla Wilkinson to provide a brief overview on the NMLA Rules for Online Game. K. Wilkinson reported that the lottery is adding a new game – PICK 4, which plays similar to PICK3. Instead of matching 3 numbers, players will need to match 4 numbers. Players will select four numbers from a set of ten numbers; 0 thru 9. This is a \$1.00 game, the payout on the game will be 55% with a top prize of \$5,500. Two drawings per day – noon and evening. 29 States out of 43 have PICK4. The game is scheduled to launch in the fall of 2018 and the lottery projects the sales for this game to be approximately \$1.8 Million for FY19.

P. Guerin asked to describe how PICK4 will affect PICK3. K. Wilkinson stated that PICK3 budget sales were \$5.4 million and were anticipating a loss of \$900 thousand; however, we anticipate that PICK4 will increase and pick up the \$900 thousand in sales. P. Guerin stated how this game is described is that it will be niche game for the lottery and that the same players playing PICK3 will begin to play PICK4 and perhaps play more frequently because it is a new game and its top prize of \$5,500 compared to \$500 for PICK3.

S. Baragiola made a motion to approve and adopt as submitted by adding PICK 4 to the inventory of games available to the lottery within the NMLA Rules for Online Game; second by A. McGowen. Carried; 7-0.

Code of Conduct Policy: S. Baragiola made a motion that the Board adopt the Code of Conduct Policy revised with the revisions that the security and operations committee made during their committee meeting and discussion which is different than what is in front of the board members. D. Salzwedel asked S. Baragiola to elaborate on the changes.

S. Baragiola reported when you look at the red-lined draft version of the Code of Conduct Policy two changes were made to page 5 item “g” which are identical in two sections one for employees and one for contractors. The discussion is that the language didn’t go far enough and that it may be subject to interpretation by employees specifically contractors that: it’s an invasion of privacy of who is living in your household, how often the inquiries will be made and what the information could be potentially used for. The committee made the recommendation that after the wording “as may be required” insert under the NM Lottery Act. This language is for compliance under the NMLA and the Act – the lottery act.

S. Baragiola reported that two additional changes were made – page 3 “General Use and Applicability” by deleting “former employees and board members” from the first line. The committee approved this change. D. Barden advised that this change wouldn’t affect the statute regarding former employee or former board member. It can be removed from this policy and it won’t impact the statute. S. Baragiola stated it’s not in the act. We are redacting language to the entire Code of Conduct Policy as it applies to us – Board members and employees but leaving in language under item 3 that is applicable to us – Board members and employees under the lottery act.

S. Baragiola made a motion to adopt as amended the Code of Conduct Policy with changes by deleting former employees and board members under the General Use & Applicability section and adding new language after the wording as may be required “under the NM lottery Act” for item “g” under Section 1 & 2; second by P. Guerin. Carried; 7-0.

D. Barden wanted a point of clarification in that the original purpose of the Policy was to clarify that we cannot play the Mega Millions game.

Other: None.

CEO

NMLA Board of Directors Bylaws: D. Barden reported as CEO he is charged with reviewing lottery policies including Board of Director’s Bylaws. These Bylaws were last updated in 2005. Section 5.1 of the Bylaws needed a revision by making this section more fluid and consistent with the current Board officers positions. The proposed changes are deleting the assistant treasurer position which is no longer necessary, combining the office of Secretary and Treasurer and going to two-year terms for officers eliminating the annual election of officers. D. Barden reported he has had numerous conversations with board members on updating this policy and there may be additional changes to this policy in the near future.

D. Salzwedel entertained a motion to approve the Bylaw changes. A. McGowen made a motion to approve as submitted; second by M. Koson. Carried; 7-0.

General Update: D. Barden provided an update on lottery activities. D. Barden passed out a graph showing weekly sales comparison by fiscal year to the board for their review. The data shows that instant ticket sales fall during summer months sales. Sales were worse this year than last year for instants and the lottery anticipates on returning between \$39-\$40 to the state. The graph also shows that the previous three fiscal years were better years than FY18. D. Barden reported that in 2017, the lottery had a \$430 million Powerball jackpot in week 47/48 and we just don’t have the sales coming in like the previous years. June will be a flat month. Last year, we had 4 Powerball Jackpots and 3 Mega Million Jackpots. Even if we have the same number of Jackpots were still going to have less dollars coming in due to Jackpot fatigue.

D. Barden also reported that the lottery is changing out its inventory of games with the new vendor. All indications are that sales will pick up in July with a new launch plan. A plan that will create buzz and hopefully bring in more sales. D. Barden reported we don’t have some of the games we normally have out, simply because we can’t afford them, so the lottery is continually looking at fine tuning where we’re at with our games.

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D. Barden reported that the lottery recently participated in the Mother's Day Event in Taos. This is a 3-day event and sales were approximately \$4,100. A great event. The lottery returned from this event with no POS. The lottery will continue to look for more events.

Other quick updates:

- New posters that were developed and going out
The new PICK4 game
The new rewards store for players club will begin in August
100% of net proceeds goes to scholarship.
- W. Ahlm will present an update on Advertising at the next board meeting.
- The lottery has contacted school districts regarding obsolete IT equipment. As of today, we have not received any positive responses.
- PATP is up 49% from last year with an average weekly sale of \$4,300. We currently have 22 retailers and possibly 10-14 more stores coming on board soon with Brewer oil.
- Power Cruise Promotion currently in place. Majority of the states are participating in this event. 18 players will be selected for a 5-night cruise to the Caribbean. The trip is valued at \$9,000 each. The majority of the ship is dedicated to Powerball and all events will be Powerball driven. Powerball concerts. Powerball excursion, etc. The lottery is only participating in this event due to receiving monies back from the National Game. If we didn't have these funds, the lottery wouldn't participate.
- D. Barden reported there's ongoing negotiations with online vendor regarding the additional 2yr contract extension. Nothing to report at this time.
- New staffing will be added in FY19. An organizational chart will be provided at the next meeting.

And lastly, D. Barden reported that the lottery will continue fine-tuning instants to bring in additional dollars; unfortunately, there's not much to do unless we eliminate the 30% mandate. You can't drive your sales and if you can't drive your sales the return is flat. The lottery has not peaked and individuals who think that are misinformed by people who don't understand our business model. We are not in a position to maximize sales like our statute mandates us to do because of the 30% restriction. This goes back to what J. Kubiak stated earlier "*the Business Model is driven to deliver a 30% of net percent of sales and not to maximize net income in dollars.*"

Other: None.


Board Chair

Announcements: D. Salzwedel stated that the Board is appreciative of the comprehensive information provided on a regular basis and the transparency exhibited. The Board is also appreciative of the CEO and staff. In addition, D. Salzwedel thanked all members of the board for doing a great job. D. Barden also thanked all the staff and said it was a total team effort from the accounting department to the advertising department.


A. Bailey thanked Wendy Ahlm for providing an insight into the world of graphic designer to her niece.

Other Items: S. Baragiola stated that it occurred to him during the meeting what happens to the action items that are made and recorded in the board and committee minutes and whether they have been implemented or not. S. Baragiola requested that the CEO provide information to the board members that items in the minutes have been accomplished or not accomplished at future meetings during the approval of minutes.

Adjournment: D. Salzwedel entertained a motion to adjourn. A. Bailey moved to adjourn the meeting; second by S. Baragiola. Carried; 7-0. The meeting adjourned at 1:19 p.m.



Dan Salzwedel, Chairman
Date: 8/22/18

for: 

John Kubiak, Secretary/Treasurer
Date: 8/22/18