

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
June 26, 2019**

MINUTES

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 1:07 p.m. and asked for a roll call. Present and constituting a quorum were: Mark Koson, Aubrey McGowen, Dan Salzwedel, and Sal Baragiola. Amy Bailey and Paul Guerin absent.

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

Also present were: Mary Stanford and Steve Beck with INTRALOT; Othiamba Umi and Rouzi Guo with Think New Mexico.

Approve Proposed Agenda: D. Salzwedel entertained a motion to approve the proposed agenda. S. Baragiola made a motion to approve the proposed agenda as presented; second by A. McGowen. Carried; 4-0.

Approve Minutes of April 2, 2019 Board of Directors Meeting: D. Salzwedel entertained a motion to approve the April 2 minutes. A. McGowen made a motion to approve the minutes; second by M. Koson. Carried; 4-0.

Approve Minutes of April 26, 2019 Special Board of Directors Meeting: D. Salzwedel entertained a motion to approve the April 26 minutes. M. Koson made a motion to approve the minutes; second by S. Baragiola. Carried; 4-0.

Public Comment: None.

REPORTS:

Finance Audit Committee:

Approve Minutes of April 2, 2019 Finance Audit Committee Meeting: D. Salzwedel entertained a motion to approve the April 2 Finance Audit Committee meeting minutes. A. McGowen made a motion to approve the minutes; second by M. Koson. Carried; 4-0.

Internal Audit

FY 2020 Internal Audit Plan: D. Salzwedel reported that this item was reviewed and vetted by the Finance Audit Committee. M. Boland reported the FY 2020 Audit Plan was reviewed at the committee meeting, explaining the process the Lottery goes through to produce this plan. Internal Audit works in conjunction with management to create the plan, which may change as needed during the year.

A. McGowen made a motion to approve the FY 2020 Internal Audit Plan as presented; second by M. Koson. Carried; 4-0.

19-005 Audit Report – MUSL Minimum Game Security Standards Compliance Audit: M. Boland reported this is a compliance audit to ensure that the Lottery is following the required MUSL guidelines. There was one finding; INTRALOT Field Service Representatives (FSR) are not always returning ticket stock within the required 14-day timeframe. This is not a high-risk item. This item was corrected immediately by instituting new monitoring procedures.

S. Baragiola asked who is responsible for implementing these recommendations. M. Boland reported that the Security Division received the recommendations positively and have already implemented them

D. Salzwedel reported that this item is recommended for approval by the Finance Audit Committee. M. Koson made a motion to approve as recommended; second by A. McGowen. Carried; 4-0.

FY 2019 Financial Audit Services RFP Award: D. Salzwedel reported this item comes to the full Board as a recommendation by the Finance Audit Committee for approval. M. Boland reported that every three years, by State Audit Rule, the Lottery goes out to bid for Financial Audit Services. The Lottery issued an RFP on April 1, 2019 to the approved State Auditor vendor list that consisted of seventy firms. Eleven firms requested the RFP. The Lottery received four proposals. One proposal was disqualified for failure to submit a required document. The remaining three proposals were all from strong firms. The CEO appointed an evaluation team that selected CliftonLarsonAllen on May 15, 2019. CliftonLarsonAllen was awarded a three-year contract (one year plus two one-year extensions). The State Auditor approved the selection and contract on June 1, 2019, prior to Board approval due to the timing of the Board meeting being held today.

D. Salzwedel reported that this item was reviewed and vetted during the Finance Audit Committee meeting. D. Salzwedel asked whether Internal Audit results get married into the financial audit process. M. Boland responded that the external auditors follow State auditing guidelines which are separate and apart from what the Internal Auditor does. The external audit is a comprehensive review of the Lottery's financials and operations, security, and IT processes.

D. Salzwedel reported that this is the second term for this firm and will be their last term due to State Audit requirements. D. Salzwedel asked when the audit will take place. M. Boland and S. Jaramillo both reported August 2019.

M. Koson made a motion to approve the FY 2019 Financial Audit Services RFP Award to CliftonLarsonAllen; second by S. Baragiola. Carried; 4-0.

Financial Statements: S. Jaramillo reported on the May 2019 financial statements. The Lottery returned more than \$3.5 million for the month to the Legislative Lottery Scholarship program. With this transfer, we have transferred nearly \$40 million to the scholarship fund in fiscal year 2019 and we have met the statutorily required 30% return.

In FY 2019, the Lottery has used \$4.095 million in unclaimed prize funds to meet the 30% return in ten of the eleven months of the year. During the last eleven years, eleven months, the Lottery has used unclaimed prizes nearly 84% of the time to meet the initial 27% and then 30% return, translating into 120 out of the 143 months during that time.

D. Salzwedel asked what would happen if we did not have the ability to use unclaimed prize funds. S. Jaramillo reported that the Lottery would not meet the 30% mandate without impacting the prizes in our instant games. Since 2008, instant game prizes have been impacted resulting in sales declines. The Lottery previously conducted a pilot by putting prizes back into instant games, resulting in a \$10 million sales increase and \$3 million return increase during that year.

D. Barden asked S. Jaramillo what it means to use unclaimed prizes. S. Jaramillo responded that when the Lottery ends the month after general expenses have been accounted for, which have been cut over the last few years as much as possible, we are unable to meet the 30% return mandate. We therefore apply unclaimed prize money against prize expense to reach the 30% requirement. Before using unclaimed prize money, the Lottery fluctuates between a 26% to 28% return depending on the month. D. Salzwedel commented that the 30% requirement means we continue to operate in a less-efficient manner.

D. Barden asked S. Jaramillo whether we would be in violation of the Lottery Act for not transferring 30% each month if we did not have the unclaimed prize money. S. Jaramillo responded yes. S. Jaramillo reported that the one year in which the Lottery did not meet the requirement every month, although it was reached cumulatively for the total year, resulted in an audit finding. The unclaimed prize fund is important to the Lottery for meeting the mandate and having cash flow. Without it, we lose \$2-\$3 million from our bank account which may result in the Lottery needing to borrow money to sustain itself. D. Barden stated that the Lottery would have an audit finding ten months out of twelve for not returning the 30% mandate to the tuition fund this year alone.

M. Koson stated for legislators and others asking for the unclaimed prize money to be transferred to the State, that this would not be a source of new money. The Lottery has been consistently, for years, transferring the unclaimed prize money each month to meet the 30% requirement. S. Jaramillo stated the unclaimed prize money is going into the scholarship fund already, but by the Lottery being able to retain it, we can use it effectively to grow our sales. So, if we lose the fund, sales will go down because our prizes for instant games will have to go down.

D. Barden asked about the return amount for this past year. S. Jaramillo reported we will return approximately \$43.2 million. D. Barden asked how much of that amount is unclaimed prize money. S. Jaramillo reported thus far, the Lottery has used almost \$4.1 million and we will use an additional amount in June. D. Barden asked what the transfer could have been had the Legislature removed the Lottery's ability to use unclaimed prize money. S. Jaramillo responded that 2-3% of the transfer is unclaimed prizes, so the return percentage would have been 27 to 27.5%. D. Barden asked whether the transfer dollar amount would be approximately \$39 million, which S. Jaramillo affirmed.

D. Barden stated that some conversations in Santa Fe included transferring a minimum of \$41 million without the use of unclaimed prizes. The State already gets the unclaimed prize funds; we cannot give it twice. S. Jaramillo stated that legislation was discussed last session to remove Lottery use of unclaimed prize money but retain the 30% mandate. It would be difficult to meet the mandate, if not impossible. D. Barden stated that the Lottery would pull all the \$10 tickets and our highest ticket would be \$5, which further reduces the income in. We would follow the Oklahoma model for which they suffered for years.

S. Jaramillo reported that the Lottery would return approximately \$43.2 million to the state at the end of the fiscal year and as of May, we have returned \$40 million. S. Jaramillo reported the game expenses are staying where they should be, and our operating expenses are all staying under budget and the Lottery has held back as much as we can. D. Salzwedel stated on behalf of New Mexico taxpayers, the Board thanks the Lottery for keeping expenses tight.

FY 2020 Consolidated Original Annual Budget: S. Jaramillo provided an overview of the FY 2020 Consolidated Original Budget, which was reviewed and discussed at the Finance Audit Committee meeting. Board members were given a copy of the proposed budget along with a summary sheet showing the changes from the FY 2019 Original Annual Budget.

The major changes in sales projections are:

- Instant ticket sales increased by \$4 million or 5.33%
- Powerball sales decreased by \$500,000 or 1.75%
- Mega Millions sales increased by \$1.5 million or 14.29%
- Roadrunner Cash sales increased by \$500,000 or 7.14%
- Lotto America sales decreased by \$100,000 or 2.50%
- Pick 3 sales increased by \$700,000 or 15.56%
- Pick 4 sales increased by \$500,000 or 27.78% (New Game 2019)
- Lucky Numbers Bingo ended in FY 2019

- Fast Play sales increased by \$60,000 or 8.11%
- Net ticket sales overall increased by \$7.27 million or 5.61%

D. Salzwedel asked about aggregate prize payout. S. Jaramillo reported that instant games are between 60-62% depending on a number of factors. Online games such as Powerball, Mega Millions, and Lotto America are near 50% and other online games fall between 55-59%. Altogether Draw Game expense falls between 53-54%. S. Jaramillo reported if drawing games have a jackpot like Mega Millions did last year, it pushes down the aggregate payout percent because those games have a lower payout. The Lottery has no control over draw game jackpots and there are no guarantees that we will have a major jackpot during the year. If we were able to have a higher prize payout, sales would increase, and the Lottery would return more funds to the state.

S. Jaramillo reported Game Expense line items were increased due to the changes in sales but remained at 66.81%. This includes prize expense, retailer commissions, on-line vendor fees, and ticket vendor fees. Advertising was decreased by \$250,000 or 10.64%.

Operating Expenses are 3.18% of Gross Revenues in the Original Budgets for both fiscal years. The biggest change to Operating Expenses is in Salaries, Wages and Benefits, which increased from 2.27% of Gross Revenues to 2.29% of Gross Revenues from FY 2019 to FY 2020. This small increase is due to an increase to our insurance in July and possibly adding positions.

With this FY 2020 Annual Budget, the Lottery will return an additional \$1.845 million or 4.75% more to the Legislative Lottery Scholarship Fund compared to the FY 2019 Original Annual Budget. S. Jaramillo requested approval of the FY 2020 Consolidated Original Annual Budget.

D. Salzwedel stated we cannot generate more income and we cannot take it from another source. We are a state instrumentality and as a consequence we cannot spend money we don't have.

M. Koson asked why the Lottery did not compare the FY 2020 Original Budget to the FY 2019 Revised Budget in the summary sheet. By comparing to the revised budget, you may have a better view of where the budget should be. S. Jaramillo advised that the revised budget included jackpots that we may not reach again next year. Comparing to the revised budget would not give you an apples-to-apples point of view. The Lottery does its best to be conservative and provide realistic sales figures.

M. Koson observed based on the documents provided that the Powerball amount varies. D. Barden reported that Powerball is a strong game but has shown jackpot fatigue. It now takes a billion-dollar jackpot to move the needle. Everything is running five to seven draws behind. S. Jaramillo reported that she will include the revised budget numbers for comparison with the budget summary sheet next year.

S. Baragiola asked S. Jaramillo about operating expenses. S. Jaramillo stated there is a definition in the Lottery Act about operating expenses, which are everything but prize expenses. So, the 16.71% shown on the summary sheet are operating expenses per the Lottery Act. Part of proposed legislation this year was to reduce that amount over time to 15%, which were not close to today.

A. McGowen made a motion to approve the FY 2020 Consolidated Original Annual Budget; second by M. Koson. Carried; 4-0.

Disposal of Obsolete, Worn Out, or Unusable Tangible Personal Property: S. Jaramillo reported that the Lottery is requesting approval for the disposal of Obsolete, Worn-Out or Unusable Personal Property. The Board has been provided a memo and document listing 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 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. Usable items will be disposed of in accordance with the Lottery's Capital Asset Management Policy. Unusable or broken items will be properly disposed. In the event the Lottery is unable to dispose of personal property under the guidance of either state statute or the Lottery's Capital Asset Management Policy, or if the property contains hazardous materials that may not be used safely, the property will be destroyed and otherwise permanently disposed of in accordance with applicable laws.

D. Salzwedel reported this item was reviewed and vetted by the Finance Audit Committee.

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; 4-0.

Other: None.

REPORTS:

Security and Operations Committee:

Approve Minutes of April 2, 2019 Security and Operations Committee Meeting: S. Baragiola made a motion to approve the April 2 meeting minutes; second by M. Koson. Carried; 4-0.

S. Baragiola noted that he compared the Security and Operations Committee meeting minutes to those of the Board meeting minutes and they coincided.

External Policies:

Background Investigation Policy: D. Barden reported that the Lottery is requesting approval to make the external Background Investigation Policy an internal policy, which would allow the policy to be updated with CEO approval. This change is recommended by management and staff and would allow the Security Division to revise the policy as necessary. For example, some changes may come from the State Police or FBI as it relates to fingerprinting or information being requested. Both policies being discussed today are best suited for CEO review and approval.

S. Baragiola reported this request comports with the minutes of the April 2, 2019 meetings. There are numerous policies coming before the committees and Board that are purely operational and the Board wanted to get out of the business or micromanaging. These two policies fall into that category. D. Salzwedel concurred and reported that the Board has oversight in other areas.

S. Baragiola made a motion in conjunction with the April 2, 2019 Committee meeting and general Board meeting minutes to give the CEO operational authority over the Background Investigation Policy from this point forward; second by A. McGowen. Carried; 4-0.

Fleet Management Policy and Procedures: D. Salzwedel stated this item is essentially the same as the previous policy item and is consistent with what has been requested by the Board. S. Baragiola stated that is correct.

S. Baragiola made a motion that the Fleet Management Policy and Procedures comport to the April 2, 2019 Committee meeting minutes and the general Board meeting minutes of the same that allows the CEO to make operational decisions as it pertains to the Fleet Management Policy and Procedures from this point going forward; second by A. McGowen. Carried; 4-0.

D. Salzwedel stated this is pursuant to the Board and Committee meeting minutes. S. Baragiola stated that since the Security and Operations Committee meeting minutes and the general Board meeting minutes gave the CEO that authority, these items do not need to be on the agenda moving forward if they fall under the discussed guidelines.

C. Cabell stated that at the last Board meeting, the direction was very specific on product-related policies. These two policies do not fall under that specific category, so that is why we brought the policies before the Board to change to internal policies. We would like to make these two policies internal policies, so they can be handled completely by staff and not come before the Board. In the future we may have other policies that fall under this category.

S. Baragiola asked whether moving forward the Lottery would bring external policies to the Board to move to internal policies, so they become under the CEO's jurisdiction to handle as an internal policy. D. Barden reported that could occur depending on the policy. S. Baragiola concurred with Lottery management.

D. Salzwedel reported that what is being accomplished by both the Board and Lottery is streamlining the approval process of external and internal policies that fall into the category of game product or operational policies.

Vote taken. Carried; 4-0.

Other: None

CEO, David Barden:

General Update: D. Barden reported that the General Drawing Rules for Second Chance Drawings policy was updated and referenced the motion passed at the last Board meeting for updating game related policies.

S. Baragiola left meeting at 2:01 p.m.

D. Barden reported that at the next Board meeting, the Lottery will go over year-end sales figures and potential trends are for the upcoming year. D. Barden reported that the Lottery will not be returning \$43 million to the State next year unless we have Powerball or Mega Millions jackpot run ups, which cannot be depended upon.

D. Barden reported he received a letter from Think New Mexico (TNM) in response to the Lottery thanking TNM at the last Board meeting. D. Barden remains positive in working with TNM and feels that it is important to work with people and businesses for the benefit of students.

D. Barden reported the Lottery is sending out a press release recognizing Senators John Arthur Smith and Jacob Candelaria as Legislators of the Year. Both were pleased with the Board's action at the last Board meeting. D. Barden reported he met with Senator Smith and he is ready for the next year and will also be meeting with Senator Candelaria soon to discuss the 2020 initiatives and how we can get a bill passed at the 2020 legislative session. The Lottery's goal is to get everyone on the same team, including the students, to deliver a great bill.

D. Barden reported the next Board Meeting is tentatively scheduled for August 21, 2019 barring any issues. The annual Board elections will take place and the Lottery will provide an updated organizational chart to the Board. The Lottery added a new security agent position that will be on board in August. The Lottery also had an unfilled research position that will be turned into a full-time IT position that will be more beneficial to the business needs of the Lottery. D. Barden also reported that existing staff will be covering

nightly drawings a few nights a week. This will cost approximately \$12,000 a year, which is less than the cost of hiring a new employee for these tasks.

D. Barden reported that sports lottery continues to be a hot topic at the national level. The Department of Justice (DOJ) under the Trump administration issued an opinion that may have prohibited lotteries from engaging in iLottery and sports gaming. The New Hampshire Lottery along with a few other lotteries sued the DOJ's decision. The New Hampshire Lottery won its case and the DOJ's opinion was overturned. The Lottery is waiting for guidance from Santa Fe on sport lottery and will continue working towards that goal.

D. Barden reported that both Scratcher and draw game sales have had a good year. A Powerball promotion is ongoing which will award ten trips to New York City for New Year's Eve, with the chance to win \$1 million.

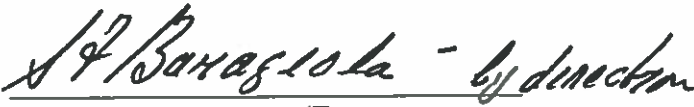
Updated Product Policy: D. Barden reported this item was discussed earlier in his general update.

D. Salzwedel thanked Board members, CEO, management, and staff for continuing doing a great job.

Other Items: None.

Adjournment: D. Salzwedel entertained a motion to adjourn. A. McGowen moved to adjourn the meeting; second by M. Koson. Carried; 3-0. The meeting adjourned at 2:08 p.m.


 Dan Salzwedel, Chairman
 Date: 8/23/19


 Amy Bailey, Secretary/Treasurer
 Date: 8-23-16