

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
March 20, 2018
MINUTES**

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 12:10 p.m. and asked for a roll call. Present and constituting a quorum were: Amy Bailey, Aubrey McGowen, Dan Salzwedel, Paul Guerin and Sal Baragiola. Mark Koson and John Kubiak - Absent.

Present from NMLA were; David Barden; Sylvia Jaramillo; Karla Wilkinson, Michael Boland, Wendy Ahlm and Wilma Atencio. Also present were; John Donahue, Steve Beck and Jon Zajadel with Intralot; Thom Cole with Santa Fe New Mexican.

Claude Austin Tribute/Recognition Award: D. Salzwedel reported that the NMLA Board of Directors and the NM Lottery Authority created a resolution in remembrance of Board Member Claude C. "Pal" Austin for his distinguished service to his state, county, hometown and as a member of the NMLA Board of Directors for his years of leadership, good work and thoughtfulness to the community. This resolution and award will be presented to Mrs. Jane Austin.

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 A. McGowen. Carried; 5-0.

Approve Minutes of November 15, 2017 Board of Director's Meeting: D. Salzwedel entertained a motion to approve the November 15th minutes. A. Bailey moved to approve the minutes; second by P. Guerin. Carried; 5-0.

Approve Minutes of February 21, 2018 Special Board of Director's Meeting: D. Salzwedel entertained a motion to approve the February 21st minutes. P. Guerin moved to approve the minutes; second by A. Bailey. Carried; 5-0.

Public Comment: None.

REPORTS:

Personnel – A. Bailey, Committee Chair:

CEO – Evaluation/Contract: A. Bailey reported that the Personnel committee met earlier to review and discuss the CEO's Annual Review. The committee is prepared to make a recommendation to the Board of Director's for the retention of the CEO. D. Salzwedel reported that the Personnel Committee reviewed all of the Board of Director's input on the CEO's annual review and all criteria in the evaluation were addressed and assessed. The CEO is very well thought of by the board and is doing an incredible job. The advertising incentive was one of the Board's goals to have it run more efficient and having the CEO more responsible in this area. The CEO has done a great job with this goal that it is no longer necessary to have the advertising as an incentive. The CEO streamlined this process to the bare bones.

A. Bailey stated to D. Barden to continue doing a great job and he received glowing reviews from the board. The Board is very proud of the work the CEO does and the representation the CEO puts forth on behalf of the lottery. D. Salzwedel reported that strategically, this isn't the type of roll that anyone can easily walk into off the street. D. Barden has demonstrated a high level of proficiency in terms of how he manages and administers operations itself but his ability to strategically take care of the gaming system requires an extensive background in the lottery industry and he has proven himself to the Board.

D. Salzwedel entertained a motion to approve the CEO's Contract. A. Bailey made a motion to approve the recommendation of the Personnel Committee for the retention of the CEO and extend the contract for one year with a modification to the bonus incentive by reducing the incentives from three to two incentives, and to authorize the Chair to effectuate such agreement on such terms and conditions as the Chair deems appropriate; second by D. Salzwedel.

The CEO's salary was adjusted, balancing for the elimination of one of the contract incentives without increasing the CEO's total compensation package. P. Guerin clarified that the CEO's total compensation package with the modification would be comparable to or the same as the prior agreement in total dollars.

Vote: Carried; 5-0.

Other: None.

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

Lockdown Alternative Review: D. Salzwedel reported that this item was presented to the Finance Audit committee for review and vetting by M. Boland. M. Boland reported that the Lockdown Alternative Review report is in regard to procedures that are in place for Online drawings and when imbalances occur. In 2017, MUSL issued a revision to the MUSL Rule 2 which allow for lotteries to implement an alternative lockdown procedure for all MUSL games. These procedures allow files to be sent to a secured server that can only be accessed by security in case of an imbalance between the Internal Control System (ICS) and the Computer Gaming System (CGS) data. When the two data/transactions don't match exactly in terms of dollars, an imbalance occurs. In the past, Security would be called out and initiate a lockdown process until the imbalance was resolved. With this alternative lockdown, a secured file with the data is sent to a secured server for security to access should an imbalance occur and not impede the drawing. Internal Audit conducted its testing and can attest that this new process is efficient, secure and controls are in place.

D. Salzwedel made a motion to accept and approve the Lockdown Alternative Review report as presented; second by A. McGowen. Carried; 5-0.

Retailer Compensation Plan Policy: D. Salzwedel reported that the Retailer Compensation report was presented, reviewed and vetted by the Finance Audit Committee. The committee recommends that the policy be accepted and submitted to the Board for acceptance and approval.

S. Jaramillo reported that the primary change to the Plan is to delete "Hot Lotto" game which ended on October 28th and replace it with the new game "Lotto America" which started on November 12th. There are additional minor changes that are editorial only. S. Jaramillo reported that there was no change to the compensation. There are currently 14 jurisdictions participating in Lotto America.

D. Salzwedel made a motion to approve as submitted; second by S. Baragiola. Carried, 5-0.

Financial Statements: S. Jaramillo reported on the February 2018 financials. The New Mexico Lottery has returned nearly \$3.1 million for the month to the Legislative Lottery Scholarship program. With this transfer, the lottery will have transferred nearly \$27.2 million to the scholarship fund this fiscal year. The lottery has met the statutorily required 30% return; we have used nearly \$1.5 million in unclaimed prize funds to meet the 30% return in 6 of the 8 months of the year. During the last 10 years, eight months, we have used unclaimed prizes over 84% of the time to meet the 30% return – in 108 out of the 128 months during this time. Without the unclaimed prize fund to supplement prizes, we would not have been able to meet the 30% return each month.

The net revenue for the fiscal year is \$2.7 million more than the FY 18 YTD budget or 11% more, but only about \$1.8 million more than for the same period last year – a 7% increase over last fiscal year.

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With last month's transfer, we will have returned more than \$765.9 million to the State of New Mexico for education since the inception of the Lottery.

Net instant ticket sales through February 2018 were approximately \$47.9 million, whereas YTD Net Instant Sales through last February were approximately \$47.92 million – a decrease of nearly \$24,000 this year or a decrease of .05% from last year. Net Instant sales for the first eight months surpassed the FY 18 YTD budget by \$2.2 million or 4.81%.

D. Salzwedel commented that we're under operating last year. S. Jaramillo concurred.

Net drawing game sales for the first eight months were approximately \$42.7 million. Net drawing sales ended February approximately \$6.3 million more than the YTD Budget or 17.4% more than budget. Net drawing sales were nearly \$6 million more than net drawing sales for the first eight months in fiscal year 2017 or 16.3% more than the \$36.7 million drawing game sales in fiscal year 2017. Part of this increase this year were due to Powerball sales – they were \$3.6 million more than last year and Mega Millions sales were \$1.6 million more than last year.

This fiscal year's run-ups have been larger than last year's contributing to more Powerball sales this year, but we are also experiencing some jackpot fatigue. Jackpot fatigue is playing a role in the amount of sales that these jackpot roll-ups produce.

Roadrunner Cash sales were \$259,000 less than last year and the new game, Lotto America has sold over \$1,500,000 in tickets. Hot Lotto Sales ended in October 2017 and we're \$687,000 less than last year.

Altogether, Total Operating Revenues for February 2018 were \$90.6 million, which were \$8.5 million more than the YTD Budget or 10.41% more, but only \$5.9 million more than last February or 7.02% more.

Total Game Expenses ended February at 110.88% of the YTD Budget—while total operating revenues ended at 110.41% of budget—tracking close to each other. Actual game expenses were 67.39% of Gross Revenues; the Budget was 67.12% of gross revenues – again close to the budget percentage.

Total Operating expenses ended February at 2.59% of Gross Revenues. Operating expenses for this fiscal year are being held as much as possible and are less than budgeted amounts.

D. Salzwedel commented that we're essentially holding where we were, just slightly down from last year. S. Jaramillo stated yes. Scratchers sales have gone down and we're continuing on a downward trend. Drawing games have done a little better due to Jackpots.

P. Guerin asked if operating expenses are down? S. Baragiola asked if you take out salaries, where are we at with operating expenses. S. Jaramillo reported that Operating Expenses are down compared to the budget and last year at this time. D. Salzwedel reported that the salaries are inclusive in operating expense. S. Jaramillo stated yes. P. Guerin stated that the point he was making is that the Operating Expenses are down \$600 thousand, and salaries are up by \$40 thousand, so the bulk of expenses are being controlled. Salaries don't even constitute a large portion of the total. S. Jaramillo reported yes, we are controlling everything.

P. Guerin stated based on financial statements that scratchers sales are currently flat and a slight increase to Powerball. D. Barden reported yes. D. Barden reported on Jackpot fatigue and referred to his PB Jackpot sign which details the number of jackpot drawings from one fiscal year to another fiscal year, same number of drawings, but the total amount of sales is significantly opposite, which tells a story in itself that players are only interested in high jackpots and only begin to play when the jackpots are high. Powerball sales have dwindled in the past few years and we are a state that is dependent on its Jackpots. Scratcher sales aren't doing any better. D. Barden asked S. Baragiola to recount his interaction this morning with his Uber

driver. S. Baragiola reported that he took an “Uber” to the lottery for his meeting and asked the driver if he plays the NM Lottery. The driver responded that “you can’t win in NM” and he only plays when he visits family in Texas. D. Barden stated that this is reminiscent of what our core players often state during focus groups. There are no winners in our games and players often go to neighboring states to purchase their scratcher tickets. Neighboring states offer a higher prize payout than NM. D. Barden reported that he had to pull the \$20 scratcher ticket two years ago and that accounted for 10% of our sales and if sales continue on this downward trend, the lottery may have to pull the \$10 scratcher in the near future. The most recent La Fleur’s instant ticket ranking puts NM near the bottom and Oklahoma at the top.

D. Salzwedel asked what would happen if we didn’t have the Unclaimed Prize Fund. S. Jaramillo reported that the lottery uses the unclaimed prize fund to boost prize payouts. If we lost the Unclaimed Prize Fund, the lottery would need to reduce the prize payout on all current and future games and pull games from the street because we won’t be able to pay the prizes and return 30% to the tuition fund. D. Barden reiterated that the lottery has used the unclaimed prize fund 82%-84% of the time since the mandate took effect in 2007. The unclaimed prize fund is not new money. The funds come from online drawing prizes and scratchers that aren’t claimed by players within a specified time frame of 90 days after a drawing or after a scratcher game ends.

FY 2018 Consolidated Revised Annual Budget: S. Jaramillo reported that the board have been provided copies of the revised budget along with a recap sheet of the Consolidated budget showing the changes. The major changes the lottery is making are highlighted in yellow like (Instant Ticket Sales, Drawing Game Sales, Tickets provided as prizes and net ticket sales). Highlighted in green, are some interesting accounts and percentages that have been affected directly by sales. Some of these accounts track with our sales. If our sales go up, the dollar amount may go up, but the percentage stays relatively close because they are based on percentage of sales.

S. Jaramillo reported that she met with both D. Barden and K. Wilkinson and looked at the sales performance for our games for the first eight months of the year. With this performance and the usual number of jackpots in the year, we projected what annualized sales for FY 18 would be. The group tries to come up with realistic numbers when determining the budget.

D. Salzwedel asked what is the difference in contribution for Powerball and Mega Millions? S. Jaramillo reported that both are 50% Jackpot game and they’re both essentially the same and realize the same amount. Sales for Powerball tend to be higher due to the popularity of the game in NM.

D. Salzwedel made a motion to accept and approve the FY 2018 Consolidated Revised Annual Budget as submitted; second by P. Guerin. Carried, 5-0.

Other: None.

Security & Operations – S. Baragiola, Committee Chair:

Approve Minutes of February 21, 2018 Special Security & Operations Committee Meeting:

S. Baragiola made a motion to approve the February 21st special committee meeting minutes as presented; second by P. Guerin. Carried; 5-0.

Security Update: S. Baragiola reported the Security & Operations Committee met earlier and discussed two items; the first was the Lockdown Alternative Review. Vince Torrez, EVP of Security provided a comprehensive briefing on the Lockdown Alternative Review that M. Boland presented earlier and if any board member wanted additional information V. Torrez would be available.

The other item discussed was the Records Retention Management Policy & Procedures. Adam Baker, general counsel for the lottery provided a comprehensive review of this policy and procedure. The last revision to this policy was in 2014. The definitional section has been clarified relating to the definition of

“non-records” and “record destruction”. Non-Records means that extra copies of records may be disposed of. Additional changes were made for clearer language for records and schedules for destruction and a definition for “Electronic Records” was added. An amendment by allowing permanent records to be maintained in electronic format was made. S. Baragiola stated that the strength of this policy is that it clearly identifies the records the lottery uses in routine business, clearly defines the custodian of the records and clearly defines the destruction schedule for each of those records and conforms to state law and clearly defines the responsibility of these records. The committee recommended two changes. The word “minimum” be added and internally designate who is the custodian. The CEO will ensure that division heads are the custodians of each department and will be added to their evaluation process. D. Barden also reported that any destruction of records and or instant tickets will now be completed by our Instant Ticket Printer – SGI. This was one of the cost savings efforts included in the new contract with SGI.

S. Baragiola made a motion that the Board accept and approve the Records Retention Management Policy & Procedures as presented; second by P. Guerin. Carried; 5-0.

Other: None.

CEO Update: D. Barden provided a brief update for board members. D. Barden reported that Thom Cole with the Santa Fe New Mexican had written a story on the lottery. Copies of the story were provided to the Board to read. D. Barden reiterated that the lottery continues to strive to return more monies to the lottery tuition fund. D. Barden reminded the Board that scratcher sales are seasonal and the lottery will continue to track sales over the next 3-4 months, but sales are generally lower due to players going on trips/vacations, graduations, weddings, etc. The sales trend across the nation is generally lower during the spring and summer months. Online Drawing sales are slightly higher due to the Jackpots, but Powerball just got hit and the Mega Millions Jackpot is currently at \$377 million. D. Barden reported that online sales are more robust in other states due to the population of those states and online sales are difficult to predict because they are Jackpot driven games.

D. Barden reported that the lottery will continue with its mandate efforts - it took Oklahoma 10 years to eliminate its mandate.

D. Barden reported that the PATP continues to bring in sales with our 22 retailer locations (10 independents and 12 Murphy stores). We are looking at adding 35 additional stores with Brewer oil. In FY 2017, PATP sales were \$2,900 a week and in FY 2018 those weekly sales have increased 46% to \$4,200 a week. Players are enjoying the convenience of paying for gas and purchasing online tickets.

D. Barden reported that HB 187 – Extend Certain Multi-Term Contract Terms was signed by the Governor on March 1, 2018. This bill amends Section 13-1-150 of the Procurement Code to extend from eight years to ten years the term of a multi-year contract of \$25 thousand or more for personal property, construction or services. Several years ago, the lottery introduced a similar legislation in its bill and didn’t do well. HB 187 passed with no dissenting vote from the House or Senate. Based on this recent signed legislation, the lottery is looking at extending all contracts beyond the 8-year term.

SGI Contract: D. Barden reported that based on HB 187 signed legislation of extending contracts from an 8-year term to 10-years and the recent award of the RFP for Instant Ticket Printing with Scientific Games International, the CEO thought it would be prudent and in the best interest of the lottery to negotiate with SGI by extending the contract for 2 additional years. D. Barden reached out to SGI and they have proposed for year nine and ten, that the instant ticket printing rate would be 1.55% plus \$230,000+ for additional added printing options. D. Barden requests from the Board of Director’s to allow the CEO to draft necessary documents to extend the SGI Contract for years nine and 10; two additional years for a total of 10 years.

D. Salzwedel entertained a motion to authorize the CEO to move forward with two additional years, extending the contract for the full ten-year term. A. McGowen made a motion for the CEO to execute a contract extension with Scientific Games, International (SGI) for two additional years at a reduced rate; second by A. Bailey. Carried, 5-0.

Other: As requested by S. Baragiola, D. Barden presented a document on cost savings efforts by the lottery from FY 2015 to FY 2017. The lottery estimates the cost savings of nearly \$18 million in a four-year period. In addition, the CEO advised that during the Personnel Committee the lottery has requested on bringing back 3-4 positions that were removed 3-4 years ago. These positions are necessary to ensure continued success for the lottery.

Other Items: D. Salzwedel thanked Board for job well done, as well as the CEO and lottery staff for a good job and its efforts to return more monies for its beneficiaries.

Adjournment: D. Salzwedel entertained a motion to adjourn. A. Bailey moved to adjourn the meeting; second by S. Baragiola. Carried; 5-0. The meeting adjourned at 1:14 p.m.

Dan Salzwedel, Chairman

Date _____

John Kubiak, Secretary/Treasurer

Date _____