

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
November 16, 2016
MINUTES**

Call to Order: Board Chair Dan Salzwedel called the meeting to order at 11:35 a.m. and asked for a roll call. Present and constituting a quorum were: Mark Koson; Amy Bailey, Dan Salzwedel, John Kubiak and Paul Guerin. Absent - Claude Austin and Sal Baragiola.

Present from NMLA were; David Barden; Sylvia Jaramillo; Karla Wilkinson, Evelyn McKnight, Wendy Ahlm, Kevin Duda and Wilma Atencio. Also present were; Jon Zajdel with Intralot; Matt Bone and Jane Tinker with CliftonLarsonAllen, Seth Barony and Michael Filibeck.

Approve Proposed Agenda: D. Salzwedel entertained a motion to approve the proposed agenda. J. Kubiak made a motion to approve the proposed agenda; second by A. Bailey. Carried; 5-0.

Approve Minutes of August 17, 2016 Board of Director's Meeting: D. Salzwedel entertained a motion to approve the August 17th minutes. J. Kubiak moved to approve the minutes; second by M. Koson. Carried; 5-0.

Public Comment: None.

REPORTS:

Finance/Audit – M. Koson, Committee Chair:

Approve Minutes of August 17, Finance Audit Committee Meeting: P. Guerin made a motion to approve the August 17th committee meeting minutes as presented; second by A. Bailey. Carried; 5-0.

Approve Minutes of October 19, Finance Audit Committee Meeting: D. Salzwedel made a motion to approve the October 19th committee meeting minutes as presented; second by J. Kubiak. Carried; 5-0.

FY 2016 Financial Audit: S. Jaramillo reported that the Finance Audit Committee and lottery staff met with CliftonLarsonAllen to review and vet the FY 2016 Financial Audit prepared by CliftonLarsonAllen. The Finance Audit committee met with CliftonLarsonAllen on August 17th for an entrance meeting and again on October 19th for an exit meeting. The auditors were on sight for three weeks. The audit was sent to the Attorney General's Office and released last week on the official approval on November 14, 2016 and the lottery is waiving the 5-day period to present to the full board today.

Matt Bone and Jane Tinker presented a brief overview of the FY 2016 Financial Audit. Audit focus areas included Internal Controls, IT Controls, Cash/Investments, Capital Assets, Prize Sales/Expenses, Transfer to the State and the Lottery Act Compliance. Audit Results of the GASB Statement No. 72 – Fair Value measurement and Application was followed in all areas of the FY 2016 Financial Audit. There were no corrected or uncorrected misstatements. CliftonLarsonAllen issued a clean opinion (unmodified opinion) on the Financial Statements. The audit was completed in accordance with government auditing standards.

There were two non-financial IT compliance findings resulting from a new back office implementation process.

2016-001 Network Access - The lottery was unable to provide evidence for three BOS user account requests. Management responded that the IT Department is currently configuring a help desk solution

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and associated procedures that will assist with this area. This will be implemented by the second quarter of FY 2017.

2016-002 Disaster Recovery and Business Continuity Plans – The lottery developed a disaster recovery plan; however, since the creation, the lottery migrated mid-year to a new IT system and the lottery has not been in a position to test a new plan. Management responded that the organization will continue to implement a fully functional disaster recovery plan and test the plan annually. (During the last fiscal year, the lottery migrated to a new vendor back office system. The changeover process is virtually complete and now provides the opportunity to review and update and test all related procedures. The Disaster Recovery and Business Continuity Plan will be updated and tested by the fourth quarter of FY 2017.)

D. Salzwedel reported that the Finance Audit Committee vetted this report thoroughly and complimented the staff for its extraordinary measures while increasing revenue for the State.

D. Barden reported that Mr. Kevin Duda has been promoted to the position of Deputy Director of Administration to assist the Chief of Staff and Director of Administrator to oversee lottery operations. Mr. Duda will heading up the team to test the Disaster Recovery System. The lottery has received a clean audit with minor issues that have been addressed with new procedures implemented with testing taking place in fiscal year 2017. D. Barden reported that the lottery has three new policies and procedures with checklists in place for the BOS System to address the audit findings.

D. Barden also reported that the lottery has approximately \$2.5 million in unclaimed prizes and each month the lottery uses approximately \$400 thousand of that fund to meet the 30% return to the state and more often the unclaimed prize fund is being used as Operating Capital. If the unclaimed prize fund is taken away, the lottery will return less to the state.

M. Koson made a motion to approve the FY 16 Financial Audit as presented; second by J. Kubiak. Carried; 5-0.

Financial Statements: S. Jaramillo provided an update on the September 2016 Financial Statements. For the first three months of fiscal year 2017, the New Mexico Lottery returned \$9,825,354 to the Legislative Lottery Scholarship program. The lottery has met the statutorily required 30% return each and every month during the first quarter. This net revenue is \$242,360 dollars less than the FY 17 YTD budget or 2.41% less, but only \$29,000 less than fiscal year 2016 – a .29% decrease to fiscal year 2016. With the transfer that was made at the end of October, we have now returned over \$710.7 million to the State of New Mexico for education since the inception of the Lottery.

Net instant sales for the first three months were approximately \$17.6 million, whereas last year net instant sales were nearly \$19.3 million. Instant ticket sales have decreased nearly \$1.7 million from last year – an 8.6% drop.

The average instant ticket prize payout expense was 61.56% for the first three months of FY 17, in comparison to 63.37% for the first three months of FY 16 – a 1.81% drop from last year. For your reference, in our record setting instant sales Fiscal Year of 2007, the average prize payout expense was 63.13% - this year's average instant ticket prize payout expense is 1.57% less. Again, we are being strapped by the 30% return and we are again seeing instant sales dropping in FY 17, translating to a half-million-dollar loss to the scholarship fund for the first three months of the fiscal year or a loss of \$2,000,000 annualized.

Net drawing game sales for the first quarter of FY 2017 were approximately \$15.1 million. Net drawing sales were \$22,754 less than the FY 17 YTD Budget, but were more than \$1.5 million ahead of the first quarter in FY 16.

Powerball sales were \$1.1 million more than last fiscal year, but you can also see that they were still \$1.4 million behind the YTD Budget at 83.6 %. Mega Millions sales were nearly \$1.4 million more than last fiscal year, but Roadrunner Cash sales were \$900,000 less than last year and Hot Lotto sales were \$100,000 less than last year. Our Pick 3 game keeps chugging along with its core player base and with the new Sunday sales and its sales were \$130,000 ahead of last fiscal year.

Total Operating Revenues for the Fiscal Year were just over \$32.7 million, which were nearly \$1.7 million less than the FY 17 YTD Budget or 4.87% less and \$95,000 less than last fiscal year (29% less).

Total Game Expenses for the first quarter of the fiscal year were 94.95% of its YTD budget—while net sales were 95.11% of its YTD Budget—tracking very closely to each other. Actual game expenses were 67.41% of Gross Revenues; the Budget was 67.54% of gross revenues, again tracking closely. Game Expenses were \$162,000 more than last fiscal year; this was mainly due to higher on-line vendor fees this fiscal year.

Operating expenses are staying below 3% at 2.56% of total Gross Revenues; with the total operating expenses at 76.43% of the YTD Budget. Every budgeted line item in Operating expenses ended the quarter lower than the FY 17 YTD Budget—costs are being held as much as possible and were more than \$250,000 less than the YTD budget and more than \$225,000 less than last fiscal year.

J. Kubiak asked if the decline in instant ticket sales was directly related to the reduction in prize payout. D. Barden reported yes and reported that the lottery currently doesn't have a \$20 scratcher ticket out as we did last year. Due to the uncertainty of the political outcome in 2017, the lottery took action by reducing the prize payout on all scratchers. For every point and a half of prize payout reduction, the lottery estimates a 3% sales loss. The lottery is maxed out in increasing revenue until we get a definitive answer from the legislators. Scratchers sales are down 9.5%. The Lottery only has control over the scratchers. The prize payout is a major factor. Neighboring states take 5-10 million dollars of our scratcher sales because they average 67%-70% for prize payout and they have incurred record returns for their state. Our current prize payout is 61.5%.

Business Meal and Travel Policy: D. Barden presented the Business Meal and Travel Policy and reported that this is a simple change. The change is on page 10, Section 7. Expense Reimbursement Procedure is amended with a new section that states email or text messages may be used to approve travel and/or other related reimbursement expenses for Board members and/or employees in lieu of an authorizing signature on a required form, if the email or text message is attached to the requisite form when filing for reimbursement.

M. Koson entertained a motion to approve the Business Meal and Travel Policy. J. Kubiak made a motion to accept the changes as presented for the Business Meal and Travel Policy; second by D. Salzwedel. Carried, 5-0.

Other: None.

Operations – S. Baragiola, Committee Chair:

Approve Minutes of August 17, Security Operations Committee Meeting: D. Salzwedel made a motion to approve the August 17th committee meeting minutes as presented; second by P. Guerin. Carried; 5-0.

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NMLA Rules for Online Games and NMLA Rules for Quicksters Game: P. Guerin reported that during the Operations Committee meeting two external policies were reviewed and vetted during the committee. The two external policies were updated for technical and general updates. The changes are:

New Mexico Lottery Authority Rules for Online Games

- Renamed the product game groups (Powerball Product Group, MUSL Mega Millions Product Group, etc.) throughout the entire policy to include all game groups under one name “Multi-State Product Group(s)”.
- Cleaned up a few miscellaneous items in the policy.
 - Deleted Section 10. Purchase and Prize Restrictions, page 11. This section is covered in the new “Code of Conduct” Policy.
 - Section 11. Taxes and Debt Setoffs, page 11. Clean up terminology.

New Mexico Lottery Authority Rules for Quicksters Games

- Rebranding the Quicksters product in early 2017. The new product name will be “Fast Play”. “Fast Play” replaced “Quicksters” throughout the entire policy.
- Cleaned up a few miscellaneous items in the policy.
 - Deleted Section J. Purchase and Prize Restrictions, page 12. This section is covered in the new “Code of Conduct” Policy.
 - Section K. Taxes and Debt Set-offs, page 12. Clean up terminology.

It should be noted that the committee was provided a red-lined and clean copy drafts and the final copies are available on the NMLA web site.

P Guerin made a motion for items 5, B2-A and B – NMLA Rules for Online Games and NMLA Rules for Quicksters Game to approve the editorial changes as submitted by staff including “Suite of” on page 5 of 13 and editorial changes to the heading included on every page of all external policies; second by D. Salzwedel (substitute member for the Operations Committee in the absence of C. Austin and S. Baragiola). Carried; 5-0.

Business and Operational Policy: P. Guerin reported that the Business and Operational Policy was presented, reviewed and discussed with the Operations committee. D. Barden reported that this policy combines two external policies into one. The lottery had one policy for inclement weather and an operational policy. The policy will allow the lottery to set hours of operations during inclement weather and a minor change to the leave policy that will enable the director/supervisor to approve leave beyond the number of leave hours per calendar year. This approval was only at the CEO’s approval. By approving and instituting this change, this gives the director/supervisor more discretion and flexibility.

P. Guerin made a motion to approve as amended the Business and Operational Policy; second by A. Bailey. Carried; 5-0.

The final policy is available on the NMLA website.

Multistate Game: P. Guerin reported that the Multistate Game was presented, reviewed and discussed with the Operations committee. D. Barden reported that this is a new game which the lottery has looked at

for the past 2 ½ years and would like to launch in April or June 2017. The lottery is requesting participation in this Multi State Jackpot Game called “Miss Match”. This will be a \$5 game.

- States participating in MISS MATCH:
 - ✓ District of Columbia
 - ✓ New Hampshire
 - ✓ New Mexico
 - ✓ Ohio
 - ✓ Vermont
- Plays like the Quicksters (Fast Play) game – Red Hot Jackpot Bingo. The only difference is it has a rolling jackpot linked to other states.
 - ✓ Linking to other states means the jackpot will increase at a much faster rate.
 - ✓ On an average, the jackpot will increase approximately \$600 an hour.
 - ✓ The jackpot starts at \$5,000 with an average jackpot of \$40,000.
 - ✓ All states are responsible for paying a portion of the jackpot win. This amount is based on each states’ percent of total sales.
- HOW TO PLAY:
 - ✓ The game is played by matching numbers between 1 and 20.
 - ✓ Each ticket shall have all twenty numbers printed in numerical order.
 - ✓ Ten out of the twenty numbers will be circled. The circled numbers are the players DRAW NUMBERS.
 - ✓ 10 YOUR NUMBERS will print below the 10 CIRCLED DRAW NUMBERS.
 - Match 10 numbers win the Jackpot
 - Match 9 numbers win \$500
 - Match 8 numbers win \$100
 - Match 7 numbers win \$25
 - Match 6 numbers win \$10
 - Match 5 numbers win \$5
 - Match 0 numbers win the Jackpot
- The overall odds are 1:3.08.
- Intralot will provide Pad spots, Logos, headline fonts, marketing tool box to support the game.

P. Guerin made a motion to approve and proceed with the Multistate Game with the understanding that there may be revisions to the participation agreement submitted by the lottery; second by A. Bailey. Carried; 5-0.

OTHER: None.

Personnel – A. Bailey, Committee Chair:

Approve Minutes of August 17, Personnel Committee Meeting: M. Koson made a motion to approve the August 17th committee meeting minutes as presented; second by D. Salzwedel. Carried; 5-0.

Other: None.

CEO Update: D. Barden provided a brief update on lottery operations. D. Barden reported that he attended an LFC meeting in Santa Fe and briefed the members on lottery affairs. A power point presentation was provided to the LFC members and the members were very supportive of our continued efforts to
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maximize revenue for the scholarship program. Senator Smith appears to be willing to sponsor a new bill to eliminate the 30% mandate. For informational purposes the lottery is prohibited from sponsoring any legislation, only members of the Senate or Representatives can carry legislation.

As discussed in previous meetings for the past several years, without the elimination of the 30% mandate, the lottery cannot sustain the scholarship program. Sales will continue to dwindle. The lottery will continue its efforts in maximizing revenue.

The lottery will be sending in its projected return to the state for the upcoming year of \$39.6 million. This projection is based on the reduction in prize payout for scratchers. Scratcher sales are down 9.5%; this is due in part of not having a \$20 ticket out. The \$20 scratcher ticket accounted for 11% of scratcher sales. The lottery has returned \$39.6 million to the legislative lottery scholarship program this year.

PATP continues its success. There are currently 18 stores and Brewer oil is pending at this time, which will bring on additional stores. We average \$2,700 weekly sales with 345 transactions per week. Our goal is to have 100 stores and have \$1 million in sales.

The lottery will be launching a new test scratcher ticket "Give Some, Play Some". The lottery partnered with a vendor who paid for the ticket printing on this test ticket.


D. Barden reported that NASPL recognized the lottery with two awards –Scratcher Ticket of the year and a Television award for best TV under \$10,000 for Dia De Los Muertos Scratcher.

Dia De Los Muertos Scratcher Update: W. Ahlm presented a video presentation on the Dia De Los Muertos Scratcher becoming a successful product for the lottery and garnering nationwide attention which led to the lottery winning two awards at the NASPL conference.


Other: D. Salzwedel reported that the lottery will continue with its legislative initiative next year and thanked the Board members and staff on its continued efforts with making the lottery a success.

Other Items: None.

Adjournment: D. Salzwedel entertained a motion to adjourn. A. Bailey moved to adjourn the meeting; second by J. Kubiak. Carried; 5-0. The meeting adjourned at 2:00 p.m.



 Dan Salzwedel, Chairman
 Date 3-16-17



 John Kubiak, Secretary/Treasurer
 Date 3-16-17