

**Regular Meeting of Board of Directors  
New Mexico Lottery Authority  
October 30, 2018  
MINUTES**

**Call to Order:** Board Chair Dan Salzwedel called the meeting to order at 9:05 a.m. and asked for a roll call. Present and constituting a quorum were: Amy Bailey, Aubrey McGowen, Dan Salzwedel, John Kubiak, Paul Guerin and Sal Baragiola. Mark Koson absent.

Present from NMLA were; David Barden, Carolyn Cabell, Sylvia Jaramillo, Wendy Ahlm, Kevin Duda, Pam Poteat, Karla Wilkinson, Vince Torrez, Evelyn McKnight and Wilma Atencio.

Also present were; Thom Cole, SF New Mexican; Justine Fox-Young and Adam Baker - Attorneys; Jon Zajdel, Steve Beck, Mary Stanford, John Donahue USA CEO, Nick Papadoglou, VP Chief Commercial Officer and Antonios Kerastaris, Global CEO with Intralot; Othiamba Umi, Think New Mexico; Steven Gonzales and Colin Hunter with Barnett Law Firm; Flora B (cannot read last name or place representing) and Mrs. Kubiak.

**Approve Proposed Agenda:** D. Salzwedel requested a couple of changes to the agenda. D. Salzwedel recommended that item 5A, item #2 Sports Lottery be moved to item #1 and that Vendor Contract be moved to item #2 (switching #1 and #2) and for items #3 and #4, these items will be moved to the next regular board meeting. The State Auditor has not release the FY 2018 Financial Audit report for Board's discussion and approval.

D. Salzwedel entertained a motion to approve proposed agenda as amended. J. Kubiak made a motion to approve the revised amended proposed agenda; second by A. McGowen. Carried; 6-0.

**Approve Minutes of August 22, 2018 Board of Director's Meeting:** D. Salzwedel entertained a motion to approve the August 20<sup>th</sup> minutes. P. Guerin made a motion to approve the minutes; second by A. Bailey. Carried; 6-0.

**Approve Minutes of September 19, 2018 Special Board of Director's Meeting:** D. Salzwedel entertained a motion to approve the September 19<sup>th</sup> minutes. A. Bailey made a motion to approve the minutes; second by S. Baragiola. Carried; 6-0.

**Approve Minutes of August 22, 2018 Security and Operations Committee Meeting:** D. Salzwedel entertained a motion to approve the August 22<sup>th</sup> Security and Operations Committee meeting minutes. S. Baragiola made a motion to approve the minutes; second by P. Guerin. Carried; 6-0.

**Approve Minutes of October 10, 2018 Finance Audit Committee Meeting:** D. Salzwedel entertained a motion to approve the October 10<sup>th</sup> Finance Audit Committee meeting minutes. J. Kubiak made a motion to approve the minutes; second by A. McGowen. Carried; 6-0.

**Public Comment:** None.

**REPORTS:**

**David Barden, CEO:**

**Sports Lottery:** D. Barden reported that it is a very opportunistic time for the lottery. Sports Lottery has been discussed at length across the country and how lotteries may use these types of games. Professional & Amateur Sports Protection Act (PASPA) was repealed by the Supreme Court in May 2018. Only a few states like Nevada and Delaware were exempt from PASPA.

Lotteries and entities across the country are now able to do some sort of sports gaming. Sports lottery has been a hot topic of conversation and has the potential to bring additional monies for their beneficiaries and state. Across the world, lotteries oversee 70% of all gaming and there's a reason for that. #1 the state gets more revenue for their causes, #2 the integrity of the lottery – lotteries have built-in system, they follow rules and regulations and they get audited. Outside businesses are not audited and they're not held to the same standards as lotteries.

D. Barden reported every year the lottery meets with the Legislative Finance Committee (LFC) and advise what the lottery is doing, what the prize payouts were last year, staffing levels and the lottery is held accountable for how it operates. For the past several years, the lottery has been frugal, and we continue to be frugal. A report on where the dollar goes will be provided at the next regular meeting.

Sports lottery is a new offering inside the lottery industry – it gives the lottery the opportunity to reach out to people that are not playing the lottery, such as the millennials. Millennials find traditional lottery boring. 80% of millennials want an entertaining game; something they can go out, sit down, watch and play and takes a while to be played out. 25% of the population are millennials and they're the people who don't play lottery and they are the group lotteries and gaming enterprises are reaching out too. Millennials are 21% of our consumer base and they are 10½x more likely to adopt technology – they play games on their phones and they are the ones who download apps on their phones and use these apps for convenience. Mobile apps are a convenience and they are in and here to stay. Cell phones are what tie people to the world. The lottery has been working on a mobile app that is entertaining and provides resources the players want.

D. Barden reported that Sports Lottery is an entertaining game. The game plays like a Quick Pick or a numbers game like Powerball. You have a play card (slip), you fill out your numbers, runs through the gaming system and produces a ticket based on your picked numbers or team. This game doesn't compete with casino type of game (sports). This game is based on a percentage of odds, so that it is random. For this game, there will be an established 58% payout and that's what the game will payout. Just like with Powerball, the game has been established to payout 50%. The lottery will know what is coming back to the house (end results). D. Barden reported this is a good way to help us maximize our sales, one of our statutory provisions of the lottery act. D. Barden reported that the lottery has the infrastructure to do this type of game and it was part of the original RFP process and the lottery is fortunate to have the insight to include it in the RFP when the previous online vendor contract was up. The lottery had no idea that PASPA would be repealed. The lottery is in a good situation if the Board decides to go forward with sports lottery.

D. Barden reported that Nick Papadoglou with Intralot will provide a short presentation on Sports Lottery and the attorneys will discuss rules and regulations afterwards.

Nick Papadoglou, Vice President, Chief Commercial Officer with Intralot provided a presentation on Sports Lottery. Highlights were:

- What is Sports Lottery – Sports lottery is the prediction of sporting event outcomes. Global lotteries regulate 70% of all legal sports wagering. US lotteries with Intralot as its online vendor has the existing infrastructure available for sports lottery. A convenience to players who want to play a sports product without having to travel to casinos and provide additional revenue stream for the lottery and its beneficiaries. The basic play type is a “parlay” where the player selects two or more teams, all of which must win their game by the pre-determined points spread for the wager to win. Parlay cards list available games for a single sport or a combination of sports or events. This is all determined and tailored to the lottery.
- Overview of sports in Europe – UK, Germany, Italy and France. Sports Lottery has been around outside the US for 15-20 years and is geared towards retail environment with over 75,000 retail shops. Entertainment value for the players.

- US Lotteries must capitalize on their – Integrity, trustworthiness, experience, responsible gaming, beneficiaries and retail network by attracting players away from illegal markets and engaging those that are uncomfortable with online/medial platforms, deliver sports product that will be socially acceptable, transparent, reliable, tailored to the lottery and ensure to the public and its players that this sports product is secure and safe and to continue to maximize returns for its beneficiaries – scholarship fund.
- Intralot’s global experience with sports products has reached 4 continents with over 29 projects in the last 15 years with over \$6 Billion US dollars/wagers going through their system. Intralot offers a full sports lottery gaming platform. The lottery already has the gaming platform and not the sports lottery platform. Intralot already supplies the retail terminals and network.
- Overview of Delaware’s Sports offering – 103 lottery retailers are licensed to sell Parlay bets on college and professional football games plus 3 casinos run a sportsbook with full scale sports offering (no bets are taken on Delaware based teams). Since the repeal, the casinos have added products beyond the parlay game.
- Sample Parlay tickets – The Playslip and game will play similarly like our current PICK3 or new game PICK4.

D. Salzwedel asked do you mix sports. N. Papadoglou stated yes. D. Salzwedel then stated that it is conceivable that one card could have more than one sport/sporting event. N. Papadoglou stated yes. This game will play like PICK3 and PICK4 and settle at the end of the event. The list would consist of Division 1 and Pro Sports, excluding state teams. All game details of how to play, how to win, odd, etc. will be determined by the lottery in its rules.

S. Baragiola stated that the supreme court ruling made sports betting permissible. N. Papdoglou stated correct. S. Baragiola stated is that just for casinos or for this game because if this game is a game of chance and it has been in Delaware for 3 years, did the supreme court ruling have any impact on introducing that in NM or is that strictly for casinos. S. Baragiola doesn’t want to create the impression that the supreme court ruling allows this game where it was allowable all along and we are just visiting it. N. Papdoglou stated the ruling basically made sports wagering in any form legal in the US. Delaware, Oregon and Montana and Nevada were all exempt from PASPA, meaning they were grandfathered in because they had some activity of that type prior to the law being passed.

D. Salzwedel asked if other lotteries are doing sports lottery? D. Barden reported that Georgia, Illinois, Kentucky, Michigan, North Carolina, North Dakota, Pennsylvania and Virginia are all about to entertain it. Massachusetts, New Hampshire and Oregon are looking to do it. The lottery industry itself is looking into how to bring in millennials in and the industry think this is the game. It’s an entertaining game, you sit there and watch, have fun with your friends. A different type of offering. By the time you pick 3, 4, 5 teams, the randomization and the chance come in, it’s not like a casino game. You won’t be allowed to pick a team straight up. This will be a game of chance the way we randomize the outcomes. It’s a 58% game, if we go over 58, Intralot guarantees any dollar amount over 58% on an annual basis. If we come in at 59% and were set at 58%, at the end of the year, Intralot will write the lottery a check or give us credit for that 1%. This is a guaranteed game for the lottery, which you don’t find anywhere else.

D. Salzwedel reiterated that this game is similar to PICK3, instead of picking numbers, you may be picking team names, a state, a city or perhaps symbols. D. Salzwedel thanked Intralot for its presentation and stated that the lottery is always looking for ways to maximize its revenue based and accomplish what they need to accomplish for the scholarship program and the students. D. Salzwedel stated this isn’t sports betting and to mix those two together is not appropriate either, this is just a PICK3 game. N. Papadoglou stated yes, this is a PICK3 game – a lottery game and has been a lottery game. This game has nothing to do with casino type games – slots, craps, table games. You’re just selecting your favorite teams, get a ticket and watch the game play out.

Antonios Kerastaris with Intralot reported that with the PASPA repeal sports lottery in the US will generate an estimated \$20 Billion dollars a year, which is significantly higher than what the lotteries currently bring in annually. What Intralot is offering is a more engaging lottery game. If you play your traditional PICK 4 game, you pick 4 numbers and wait for the draw. A sports lottery PICK4 game, you PICK 4 games/teams and you watch the games, this is more interesting and more engaging for players as a content. It will bring in new groups/players to the lottery and a good way to enter into a new category with the lottery's existing offering. This is a lottery product and not a casino product. This is also a great opportunity for the state and other entities that may want to offer sports lottery or sports wagering because the lottery already has the platform and infrastructure set up with all the security and controls already in place.

D. Salzwedel asked if there are any projections. D. Barden stated that conservatively, the lottery would be looking at \$30 million annual for a full fiscal year of sales, it could be more if it weren't for the 30% mandate. This would translate into potentially \$7-\$10 million more for the scholarship fund. D. Barden stated if sports lottery is done correctly and regulated by the state, it will bring more dollars to the state and good causes. This is ground breaking and the lottery is in a unique situation to offer engaging games and the potential to offer sports lottery to other businesses.

J. Kubiak asked if the payout on traditional lottery games and the payout on sports lottery are similar. D. Barden reported that they are very comparable. Powerball payout is 50% and sports lottery payout is 58%, so 8% more than Powerball. What this game will provide is the opportunity for the lottery and its beneficiaries to bring in more monies; \$30 million is a significant number, it will also add to our existing player base and an engaging and entertaining game and this will allow the lottery to target a group that is resistant on playing traditional games – the millennials.

J. Fox-Young and A. Baker, attorneys for the lottery provided information to the board on sports lottery and in their opinion the lottery is on solid ground and strong legal footing to move forward with this game, should the Board approve this game. J. Fox-Young stated that the federal prohibition on sports lottery and other gaming has been struck down. Every state has a different framework, different rules and laws in place. There is no explicit prohibition in New Mexico to do sports lottery. J. Fox-Young stated that it is the Board and the Authority's duties to maximize revenue and proceeded to give an overview of the lottery Act and cited several citations that would allow the lottery to move forward with sports lottery and they are: 6-24-3; 6-24-4; 6-24-5; 6-24-6; 6-24-7; and 6-24-8. J. Fox-Young stated that section 6-24-7, subsection F states the Board determine types and forms of lottery games to be operated by the lottery and transact other necessary business. When the lottery considers the types of games such as PICK3, PICK4, the different types of parlay games it is in the Boards authority and discretion to decide. The Board has to consider what will maximize revenue and what fits within the confines of the law.

A. Baker discussed what the lottery would need to do, should sports lottery be approved by the Board. The NMLA Rules for online games would need to be updated to include all aspects of sports lottery and shall include at a minimum definition, game description, the name, play style, structure of the game, method of play and drawing procedures. Once the NMLA online rules and other rules, regulations and procedures that are updated, the lottery will bring the rules back to the board for approval.

D. Salzwedel asked that under section 6-24-4, subsection F, item 1 & 2, the operative word in both sections is "symbols" as opposed to numbers as stated by J. Fox-Young and that gives the lottery legal authority to substitute virtually anything for symbols, such as assign numbers for teams. A. Baker stated yes. It could be argued; the term symbols are quite broad and he's understanding is that this game would play like a PICK3 and numbers would be assigned to teams.

D. Salzwedel stated that this game is not anything different than introducing a new game for the lottery and that the lottery authority and board have reasonable assurance from the attorneys that we're on safe ground

and withstand any challenges. A. Baker stated yes and reiterated that both attorneys feel that the statutory scheme is broad enough that they have strong arguments that this game is allowed.

J. Kubiak asked what the timeframe for the rulemaking process for this game is. A. Baker stated that it is up to the lottery, but he's understanding is bringing the rules back to the board in January.

S. Baragiola stated that under the spirit and intent of the NM Lottery Act and duties of the Board, make a motion for the CEO to further the process to initiate Sports Lottery throughout New Mexico as soon as practical to enable recipients of the lottery to have a better opportunity to take the potential of increased funding into their respective budgets and subject to Board approval to bring the process to include rules, policies, procedures outlined in the Act, second by J. Kubiak. Carried; 6-0.

D. Salzwedel stated that this is a great step forward for the lottery and its beneficiaries.

**Vendor Contract:** D. Barden stated that the vendor contract extension process has been ongoing for several months and have come to an agreement on pricing with Intralot resulting in a substantial savings over the last 5 years of the contact period. The current online vendor contract became effective November 22, 2015 and our current pricing rate is 2.9988%. Our prior contract, the lottery had one of the best rate at 1.5% across the country. The current contract has a price break as well - \$146.5 million. D. Barden reported that when the lottery issued its RFP, it included sports lottery not knowing the outcome of PASPA.

D. Barden reported that the legislature approved an amendment to the procurement code that now allows for 10-year contracts, instead of 8 years. With this recent approval, negotiations began with the online vendor. Intralot has agreed to drop their rate to 2.89% for the last 5 years of the contract for lottery sales. Sports Lottery will remain at 2.9988%. We are in our third year, so in two years, we will see the rate drop and the annual savings of \$145 thousand per year translating to \$726 thousand over the last 5 years of the contract. If the lottery sells more, we will have greater savings. In addition, the lottery will receive 3 machines valued at \$60-\$75 thousand. These specialized machines will be placed in Walmart stores. The lottery has worked tirelessly over the past 1.5 years to get into Walmart and we are close. D. Barden reported that the lottery is lucky to be in the position we are in today. This is good for the future and good cost savings for the lottery. D. Barden requested Board approval for the 2<sup>nd</sup> amendment contract extension for its online gaming contract with Intralot.

D. Barden stated with the sports lottery approval, we will hit 2.5% more quickly than we have in the past. We will get a better price break with sales.

J. Kubiak made a motion that the 2<sup>nd</sup> Amendment of the Intralot Contract be approved and adopted by the Board; second by A. Bailey. Carried; 6-0.

**Other:** D. Barden provide an update on the recent Jackpot figures for Powerball and Mega Millions. D. Barden stated that in 2016, the Powerball Jackpot hit 1.5 Billion in 20 draws and resulted in \$21.8 million in sales. In 2018, Mega Millions hit \$1.5 Billion in 26 draws and resulted in \$7.01 million in sales. Mega Millions took longer to reach a comparable jackpot and brought in only a third of the sales as the Powerball Jackpot of 2016. This shows that we have Jackpot Fatigue. D. Barden stated that the importance of our new game approved today is even more vital for the lottery. The popularity of these games is not what they used to be, it takes longer for jackpots.

P. Guerin asked if the recent Powerball Jackpot can be added to the chart to see if the Powerball Jackpot had an impact on Mega Million sales. D. Barden stated yes, he will add it and you will see that Powerball did impact the sales.


**Committee Appointments and Committee Chair Appointments:** D. Salzwedel reported that S. Baragiola was elected as Vice Chair and the committee appointments are:

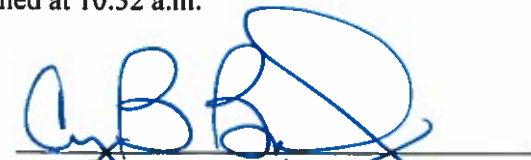
- Personnel Committee: Amy Bailey – Chair; Dan Salzwedel and Sal Baragiola.
- Finance Audit Committee: John Kubiak – Chair; Dan Salzwedel and Aubrey McGowan
- Security and Operations Committee: Sal Baragiola – Chair; Paul Guerin and Aubrey McGowan

**Announcements:** The November 2018 Board Meeting will not occur – the meeting has been moved to January 2019.

**Other Items:** None.

**Adjournment:** D. Salzwedel entertained a motion to adjourn. P. Guerin moved to adjourn the meeting; second by A. Bailey. Carried; 6-0. The meeting adjourned at 10:32 a.m.

  
 \_\_\_\_\_  
 Dan Salzwedel, Chairman  
 Date: 1-14-19

  
 \_\_\_\_\_  
 Amy Bailey, Secretary/Treasurer  
 Date: 01/14/2019