

**Board of Directors Planning Session Meeting  
New Mexico Lottery Authority  
October 7, 2020**

**MINUTES**

Note: PowerPoint presentations given during the planning session are incorporated into these minutes and are available upon request.

**Call to Order:** Board Chair Reta Jones called the meeting to order at 10:04 a.m. and asked for a roll call. Present and constituting a quorum were: Reta Jones, Sal Baragiola, Paul Guerin, Leo Romero, David Keylon, Nina Thayer (virtual), and Othiamba Umi (virtual).

Present from NMLA in-person and virtually were: David Barden, Carolyn Cabell, Wilma Atencio, Sylvia Jaramillo, Kevin Duda, Vince Torrez, Evelyn McKnight, Wendy Ahlm, Pam Poteat, Karla Wilkinson, Tyson Payton, and Julie Gilmore. Also, in attendance in-person and virtually were Matt Bone and Elizabeth Nunez with CliftonLarsonAllen; Mary Stanford and Steve Beck with INTRALOT; Ron Miguel, Howard Glaser, and Steven DiMasi with Scientific Games; and Pat Rogers.

R. Jones stated the purpose of the meeting is to provide the Board with an overview of each Lottery division to gain an understanding of Lottery operations so that members will be better prepared to address the future of the Lottery.

**Approve Proposed Agenda:** R. Jones entertained a motion to approve the proposed agenda. L. Romero made a motion to approve the proposed agenda as presented; second by D. Keylon. Vote: all ayes, no nays. Carried; 7-0.

**Approve Minutes of August 19, 2020 Board of Directors Meeting:** R. Jones entertained a motion. L. Romero made a motion to approve the August 19, 2020 meeting minutes; second by D. Keylon. Vote: all ayes, no nays. Carried; 7-0.

**Public Comment:** None.

**Financial Audit Exit Meeting - CliftonLarsonAllen:** R. Jones entertained a motion to go into executive closed session for the purpose of discussing the FY20 Financial Audit. P. Guerin made a motion for the NMLA Board of Directors to go into executive closed session pursuant to the Audit Act, NMSA 1978, Section 12-6-5(A), which declares that the annual audit report is not deemed to be a public record until five days after the report is released by the Office of the State Auditor to the New Mexico Lottery Authority; second by D. Keylon. Roll Call vote: L. Romero, aye; P. Guerin, aye; D. Keylon, aye; S. Baragiola, aye; N. Thayer, aye; O. Umi, aye; and R. Jones, aye. Carried; 7-0.

The closed executive session was attended by all Board members, D. Barden, C. Cabell, S. Jaramillo, K. Duda, and E. Nunez and M. Bone with CliftonLarsonAllen.

At 10:45 a.m., the planning session was brought back into a public session. R. Jones explained that no action was taken during the executive closed session. The motion to come out of executive closed session was made by L. Romero and the Board voted by roll call vote 7-0 to come back into the public session.

**REPORTS:**

**CEO Introduction:** D. Barden explained that the first part of the planning session will consist of presentations by the Lottery's division directors and the Lottery's two major gaming vendors.

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### **Vendor Presentations:**

**INTRALOT:** S. Beck, Regional Director, gave a PowerPoint presentation about INTRALOT's role as the Lottery's central gaming system vendor, including sales charts and discussion of new games types and technologies.

S. Baragiola asked whether the data shows how often players play Scratchers. S. Beck responded that instant sales are included in the numbers, and that Scientific Games would have more information about frequency of play.

P. Guerin asked about the impact timeframe of COVID-19 in the numbers shown. S. Beck responded that states started shutting down around the end of March and some states were partially reopening by May and June. P. Guerin stated that quarterly sales may provide a better picture. D. Barden asked about the draw game sales trend over a five-year period. S. Beck reported that the downward trend is the result of draw game jackpot fatigue. Powerball and Mega Millions sales have declined, while Roadrunner Cash sales increased and Pick 4 is a new game in New Mexico.

P. Guerin stated that New Mexico's performance relative to other states could be a result of other factors, like the 30% mandate. D. Barden concurred; sales trends continually show New Mexico near the bottom. P. Guerin observed that the Lottery does not control draw games like Powerball and Mega Millions, and sales have decreased. What the Lottery has some control of, in-state draw games and instant games, have had sales increases, despite the imposed limitations.

D. Keylon asked whether Pick 3 sales decreasing and Pick 4 sales increasing was indicative of players preferring Pick 4. S. Beck responded that Pick 4 is a new game that launched in February 2019 and players like both two games. D. Keylon asked whether it would be beneficial to discontinue Pick 3 and keep Pick 4. D. Barden stated when Pick 4 was added to our portfolio, the Lottery saw a 25% increase in sales for both games combined, so having both available is a net gain for the Lottery.

D. Keylon asked whether iLottery is permitted in New Mexico. D. Barden responded that there is a legal opinion from the Attorney General's office from several years ago stating the Lottery can offer iLottery. D. Keylon stated that such new technology is the way to go, as long as it is permissible. O. Umi asked about states currently offering iLottery. S. Beck responded that approximately nine states offer this feature.

D. Barden reported that the prior Board authorized a program where a player can purchase a voucher at a retailer, load that voucher to an app, and make Powerball or Mega Millions ticket selections from home at their convenience.

S. Baragiola asked if the purchase of draw games can be set up automatically every week and deducted from a debit card. S. Beck responded that would be referred to as a subscription service. INTRALOT offers this feature in other states. S. Baragiola asked whether this feature is popular. S. Beck responded that generally it is not.

**Scientific Games:** H. Glaser, Global Head of Government Affairs and Special Initiatives, and R. Miguel, Vice President of Sales, gave a PowerPoint presentation on Scientific Games' role as the Lottery's vendor for instant ticket printing and related services. The presentation also covered nationwide sales trends, the impacts from COVID-19, and how New Mexico compares to other states.

D. Keylon asked about sales trends for Scratchers versus draw games. H. Glaser stated there has been an increase year-over-year in the industry for total sales. When the game types are separated, there is a flatness on the draw side and significant growth for instant games. Draw games are driven by jackpots. D. Barden stated that while nationally Scratcher sales have gone up over the past ten years, New Mexico has had a

decline. H. Glaser concurred that there has been an erosion in New Mexico which is different from the national numbers.

D. Barden stated that the Lottery increased prize payouts during 2015/2016, and the SG presentation shows that sales went up. Unclaimed prizes were used to accomplish the increased prize payout, and when unclaimed prizes were depleted, the presentation shows that sales went back down. R. Miguel stated that the 2015/2016 pilot program was an excellent test in the market to demonstrate that players react to the opportunity for a better playing experience than they do with lower payouts.

R. Jones asked if there is a study showing the impact of each percentage change in prize payout on sales. R. Miguel stated the general payout levels for the industry are at approximately 61% for \$1 games, 65% for \$2 games, and progressively going up. SG has models that estimate the effect of increasing payout on expenses and revenue. The goal is not to increase payout for the sake of paying more prizes; it is increasing the payout in order to increase the revenue and ultimately return more profits to the State. R. Miguel stated modeling is a challenge in New Mexico currently because all payouts are so low that it is difficult to model the impact of going from 54% to 55%, for example.

R. Jones stated Scratcher players are sophisticated and can tell differences in payouts. H. Glaser reiterated that there is empirical evidence from the pilot in 2015/2016. When the pilot ended, sales immediately declined to where they had been. O. Umi observed that increased sales coincided with high draw game jackpots. D. Barden reported that in 2016, the Lottery had the highest-ever return to the State and the difference between that year and other high-jackpot years was Scratchers. R. Jones commented that the Lottery cannot control draw games but can control Scratchers. P. Guerin observed that as prizes increase, returns increase.

S. Baragiola stated there is a high potential to increase revenue based on what other states have done that New Mexico has not. H. Glaser stated the national growth rate has been a large percentage. There is flexibility in ticket price points that New Mexico does not have the flexibility to do.

#### **NMLA Division Presentations:**

**Gaming Products:** K. Wilkinson, Director of Gaming Products, gave a PowerPoint presentation with the responsibilities and budget of the Gaming Products Division.

D. Keylon asked about the new features for the upcoming Pick 3 Plus and Pick 4 Plus games. K. Wilkinson responded that the Lottery is refreshing these two games, including the prize payout. K. Wilkinson reported that the Lottery is introducing a pari-mutuel aspect for prizes in these games. At some level, prizes would be divided equally among the winning tickets. This will help protect the Lottery from extremely large payout amounts.

O. Umi asked about the INTRALOT contract rate. K. Wilkinson reported that the current contract rate is 2.9988% and will be lowered to 2.89% beginning in November. O. Umi asked what the prior contract rate was. D. Barden reported the previous contract with INTRALOT started in 2007 for an eight-year term. At that time, INTRALOT came in with an unprecedented rate of 1.5%. When the Lottery went out to bid again in 2015, INTRALOT was the only bidder due to other vendors not thinking they could make a profit on a contract in New Mexico. P. Guerin stated that INTRALOT had a lower rate in the previous contract because they hoped sales would increase and at the time, they wanted to enter the U.S. market. With the latest contract, they realized that sales were declining so they presented a more realistic rate. R. Jones stated that INTRALOT saw an opportunity to come in and expand their business and it made sense for them to give us an exceptional rate because they thought it would result in more money for them. The Lottery was aware it was getting a great rate at the time.

**Sales:** P. Poteat, Director of Sales, gave a PowerPoint presentation on the responsibilities and budget of the Sales Division.

L. Romero asked about costs for the Walmart vending machines shown in the presentation. P. Poteat reported that she budgeted \$277,500 for 15 machines; however, Walmart has requested additional machines. D. Barden reported that the Walmart vending machines cost approximately \$20,000 per unit.

R. Jones asked if the retailer commission amount changes based on retailer sales or whether the rate was the same across the board. P. Poteat responded that sales volume does not factor into the commission percentage.

R. Jones recalled that field staff were part of the Lottery's Sales Division previously and asked when the transition to being INTRALOT employees occurred. P. Poteat responded that the transition took place in November 2015 and resulted in a decrease in Sales Division staff from 17 to now 4 employees.

D. Keylon asked whether we pay less in commission to the retailers that have vending machines versus on-counter dispensers. P. Poteat responded that most retailers receive the same 6% selling commission rate. D. Keylon asked whether the Lottery pays for vending machines and dispensers. P. Poteat responded that the current vending machines are part of the INTRALOT contract and counter dispensers are purchased by the Lottery. D. Barden stated that Walmart will receive a 5% commission rate when they come on board, 1% less than most others. This negotiated reduced rate is the result of Walmart not selling at the counter. D. Barden reported that New Mexico has one of the higher commission rates in the country.

O. Umi asked whether the vending machines being discussed are considered Video Lottery Terminals (VLTs). P. Poteat responded that the new vending machines for Walmart are very similar to the Lottery's current vending machines, but shorter. They have the same functions of selling instant and draw games. D. Barden concurred that the new machines have the same functions as the existing machines – like a ticket dispenser.

**Advertising & Marketing:** W. Ahlm, Director of Advertising and Marketing, gave a PowerPoint presentation on the responsibilities and budget of the Advertising and Marketing Division.

D. Barden advised that other states have come to New Mexico to see how our marketing and advertising team does things in order to implement similar cost savings and efficiencies. Board members complimented the advertising staff on their creativity and hard work in TV, radio, and digital ads.

**Security:** V. Torrez, Executive Vice President for Security, gave a PowerPoint presentation on the responsibilities and budget of the Security Division.

V. Torrez stated there are materials for some Board members to complete as part of the Lottery's backgrounding process.

**IT & Procurement:** C. Cabell, Chief Operating Officer, gave a PowerPoint presentation on the responsibilities and budgets of the Executive Division, Information Technology area, and Central Purchasing Office.

P. Guerin asked whether staff working remotely were provided computers. C. Cabell responded that the Lottery provided laptops to remote employees, which were available prior to the pandemic. Staff are

logging in through a secure VPN. P. Guerin asked whether the computers are encrypted. C. Cabell responded that an IT audit is completed each year and this year's audit recently concluded with no findings for remote operations.

**Human Resources:** E. McKnight, Director of Human Resources, gave a PowerPoint presentation on the responsibilities and budget of the Human Resources Division.

D. Keylon asked whether Lottery employees are considered State employees and whether they contribute to PERA. E. McKnight responded that Lottery employees are not State employees. As a local public body, the Lottery does benefit from the State health insurance.

**Administration:** S. Jaramillo, Director of Administration, gave a PowerPoint presentation on the responsibilities and budget of the Administration Division.

R. Jones commended the Administration staff for having clean financial audits and no adjustments.

### **Board Discussion**

**Legislative History Update:** D. Barden reported that he attended the Legislative Finance Committee (LFC) meeting last week and provided an update to the members. An LFC member asked what the Lottery is doing to provide more to the scholarship fund. D. Barden stated he is thankful the Board will be discussing the Lottery's legislative strategy so he will have direction when asked. D. Barden reported that he is not aware of anyone sponsoring a Lottery bill in the upcoming session.

**Strategic Direction:** R. Jones reported that the State will be facing challenges with the COVID-19 crisis and looking for revenue resources. This will be an important year and the Board needs to have a plan. R. Jones stated there is a policy in place about the Board members speaking publicly. Aside from personal opinions, positions representing the Board and Lottery are disseminated in official statements from Lottery staff.

S. Baragiola suggested Board members determine their individual positions on topics such as the 30% mandate so that collectively the Board can determine the direction to maximize revenue for scholarships. L. Romero suggested D. Barden prepare a proposal about the 30% mandate and suggested another meeting devoted solely to that topic. D. Barden stated any legislative direction is at the discretion of the Board. As CEO he has followed the prior Board's direction in previous years. D. Barden stated it may be helpful to ascertain the position of the Governor's office. D. Barden stated he will provide sample information from previous legislative attempts.

O. Umi stated the Board gets to consider the vision and direction of the Lottery, so looking at past legislative history is a starting point to finding common ground. O. Umi stated he is interested in ensuring students are protected. R. Jones stated that based on the presentations today, it is not to the benefit of the students to stay this course. D. Barden stated that the Lottery looks to best business practices across the country. Almost all states are doing something one way and New Mexico is doing something different. O. Umi stated he understands the Lottery needs to increase revenue. Other states that repealed their mandate such as Oklahoma and Texas significantly increased their revenue; however, the returns to the scholarship did not increase proportionally.

R. Jones stated that the Board will try to meet again in two to three weeks to resume discussions.

D. Keylon left the meeting at 4:05 p.m.

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**Other Items:** D. Barden reported he is requesting approval to purchase vending machines for Walmart locations. Walmart will not allow sales in Supercenter locations without these new machines. D. Barden stated this item is already available as an option in the contract with INTRALOT, but he is still bringing the item to the Board for their input.


D. Barden reported that the total amount being requested is \$700,000 for 35 machines. \$277,000 is already in the Sales Division budget for FY20. \$250,000 is required for an initial down payment. The remaining \$450,000 would be included in the FY21 budget and spread over nine monthly payments beginning when the machines are deployed. D. Barden reported that a Lottery analysis of this purchase estimates \$18 million in revenue over five years from the new Walmart locations. D. Barden also stated the Lottery will receive three machines at no cost as part of the contract with INTRALOT.

N. Thayer stated she is in support of purchasing the Walmart terminals and complimented the look of the machines from the earlier INTRALOT presentation.

R. Jones entertained a motion to approve the Walmart machine purchase. P. Guerin made a motion to approve the \$700,000 purchase of 35 Walmart machines with a \$250,000 down payment and nine \$50,000 monthly payments; second by S. Baragiola. Vote: all ayes, no nays. Carried; 6-0.

**Adjournment:** R. Jones entertained a motion to adjourn. L. Romero made a motion to adjourn the meeting; second by N. Thayer. Vote: all ayes, no nays. Carried; 6-0. The meeting adjourned at 4:16 p.m.

  
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R. Jones, Chairman  
Date: 2/24/21

  
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P. Guerin, Secretary/Treasurer  
Date: 2/23/2021