

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
December 16, 2020**

MINUTES

Call to Order: Board Chair Reta Jones called the meeting to order at 10:05 a.m. and asked for a roll call. Present on the virtual meeting and constituting a quorum were: Reta Jones, Sal Baragiola, Paul Guerin, Nina Thayer, and Othiamba Umi.

Present on the virtual meeting from NMLA were David Barden, Wilma Atencio, Carolyn Cabell, Sylvia Jaramillo, Kevin Duda, Michael Boland, and Tyson Payton. Also attending virtually were Elizabeth Nunez and Matthew Bone with CliftonLarsonAllen (CLA); Ron Miguel and Steven DiMasi with Scientific Games; and Mary Stanford and Steve Beck with INTRALOT.

Approve Proposed Agenda: R. Jones entertained a motion to approve the proposed agenda and a roll call vote. N. Thayer made a motion to approve the proposed agenda as presented; second by P. Guerin. Vote: O. Umi, aye; R. Jones, aye; S. Baragiola, aye; N. Thayer, aye; and P. Guerin, aye. Carried; 5-0.

Approve Minutes of October 7, 2020 Board of Directors Planning Session Meeting: No changes or corrections requested. R. Jones entertained a motion to accept the meeting minutes. S. Baragiola made a motion to approve the October 7, 2020 Planning Session meeting minutes; second by O. Umi. Roll Call Vote: N. Thayer, aye; S. Baragiola, aye; R. Jones, aye; P. Guerin, aye; and O. Umi, aye. No nays. Carried; 5-0.

Approve Minutes of October 28, 2020 Board of Directors Meeting: No changes or corrections requested. R. Jones entertained a motion to accept the meeting minutes. P. Guerin made a motion to approve the October 28, 2020 meeting minutes; second by S. Baragiola. Roll Call Vote: N. Thayer, aye; P. Guerin, aye; O. Umi, aye; R. Jones, aye; and S. Baragiola, aye. Carried; 5-0.

Public Comment: None.

Leo Romero joined the meeting at 10:10 a.m.

REPORTS:

Financial Audit Exit Meeting - CliftonLarsonAllen: S. Jaramillo introduced Matt Bone, Engagement Principal, and Elizabeth Nunez, Senior Associate, with CliftonLarsonAllen (CLA) to present the Financial Audit Report. Board members were provided an electronic copy of the audit report.

Elizabeth Nunez provided a brief summary of the FY 2020 Financial Audit. E. Nunez reported that the exit conference took place on October 7, 2020. The financial audit report was released by the State Auditor's office on November 30, 2020, with a clean unmodified opinion of the financial statements with no audit findings for FY 2020. E. Nunez stated there were no difficulties encountered during the performance of the audit. The audit was completed in accordance with auditing standards generally accepted in the USA and the standards applicable to financial audits contained in the Government Auditing Standards. E. Nunez provided financial highlights for fiscal year ending June 30, 2020.

S. Jaramillo thanked CLA, Lottery management, and staff for consistently following policies and procedures and having good internal controls in place. R. Jones thanked staff and the financial department for their efforts in providing credible financial reporting that have resulted in successful audits over the

were not allocated last month but will be paid out this month. D. Barden stated that this was the main reason that the Lottery cut prize payout on instant tickets to 54%, so that we can meet our 30% return mandate.

Internal Audit Reports – Multiple Instant Ticket Shipments Engagement: M. Boland reported that this report is for informational purposes and a copy will be sent to the State Auditor's office and the Legislative Finance Committee (LFC) as outlined in the Lottery Act. Internal Audit conducted this audit to determine if there could be cost savings by consolidating multiple instant ticket shipments to retailers. Multiple shipments are defined as more than one instant ticket shipment to a retailer in less than a 7-day period.

M. Boland stated that management's assertion that multiple shipments to retailers are occurring was confirmed by Internal Audit. 24 of the 25 top-ranked retailers were tested. The potential cost savings from eliminating the multiple shipments could not be quantified, due to reporting constraints of the gaming system. Internal Audit offered four (4) best practice recommendations that are outlined in the report which will enhance current controls and business practices.

R. Jones asked management's response to the recommendations. M. Boland reported that management immediately sent communication to the retailers that ordering more than one shipment in less than a 7-day period will be prohibited unless there are extenuating circumstances. The recommendations regarding the gaming system will take some time to implement, due to the nature of the system.

D. Barden reported that the Lottery is following and will implement recommendations made by Internal Audit. This audit was performed at the request of management and the Lottery will work with the vendor to implement these changes. The Lottery is always looking at streamlining processes and cost saving efforts. M. Boland reported that Internal Audit will follow up and ensure that recommendations are implemented and update his findings.

D. Keylon asked if instituting these changes will result in lost sales and whether the Lottery considered charging the retailer for the second shipments. D. Barden responded that the Lottery does not charge the retailer for any shipments. D. Barden added there is a report that allows the Lottery to monitor whether retailers have enough inventory on hand and is followed up with communication with retailers on a weekly basis. D. Keylon commented that he just wants to ensure we are not imposing restrictions that may cause loss of sales.

S. Baragiola asked if the Lottery has a contract with UPS and when it ends. D. Barden responded that we have a new contract with UPS that was signed recently, with locked rates. The rates are based on package weight, so the Lottery tries to ensure that packages are full and retailers have sufficient inventory on hand.

CEO Update: D. Barden provided an overview of Powerball nationally and state level. D. Barden stated that the Powerball jackpot is \$287 million and the Mega Millions jackpot is \$310 million for a combined total of almost \$600 million. Players are not as excited about jackpots at these levels as they once were.

D. Barden reported that Powerball has brought in roughly 40%-45% of revenue for the Lottery over the years. Powerball is important to smaller lotteries because of the revenue it brings. Powerball in New Mexico is 30%-35% of the budget. In bigger states like Pennsylvania, Powerball accounts for 7% of their budget.

When Powerball began, the price point for tickets was \$1 and several years ago it went up to \$2. The jackpots started at \$5 million, went to \$10 million, then \$20 million, then \$40 million, and now it is back to starting at \$20 million. This was a result of liquidity in the game. It would take 10-12 draws to fund the \$40 million jackpot. The jackpot is not worth what it once was for players.

D. Barden provided slides detailing national sales by fiscal year, NM sales by fiscal year, and the average advertised Powerball grand prize from FY 2016 through FY 2021. Last year, national sales were down 40% while NM was down 38%. Last year was a low year for Powerball. Low sales have contributed to jackpots not being able to climb. D. Barden reported that it is taking longer to reach the same or even lower jackpot levels from 2016 to 2020.

MUSL and the Powerball group are looking at ways to change the game. National initiatives include increasing the player base by evaluating options of licensing internationally; improving accessibility by evaluating options for making the game available by selling online or via a mobile device; and adding a third weekly draw beginning August 23. MUSL and the Powerball group estimate that adding a third draw day would bring a 15% growth to Powerball.

D. Barden reported as discussed at a previous meeting, the Lottery will be updating its Pick 3 and Pick 4 games to Pick 3 Plus and Pick 4 Plus. The Lottery has been evaluating all games to refine and optimize prize payouts where we can and bringing them in line comparatively to other states. The changes are a new play type, some adjusted prize amounts, and pari-mutuel payouts which will help protect the Lottery from having an extremely high payout in a draw. The game changes are being considered for January/February.

The Lottery plans on moving forward with the mobile app that was approved by the previous Board. As discussed at the previous meeting, the Lottery had put this on hold until the new Board was in place. This mobile app is in development with our gaming system vendor INTRALOT. This app will be relevant and a convenience for our players. This pandemic has shown that businesses can thrive with a virtual online presence. The features for the mobile app will include scanning to check tickets, creation and storing of players favorite number (electronic play slip), and a voucher system where players can purchase a voucher at a physical store and load that voucher amount to the app and select their ticket numbers from home. This will only apply to Powerball and Mega Millions at this time. The app will also include responsible play measures including deposit limits and the ability for players to self-exclude themselves. The specifics are still being determined. The Lottery will keep the Board posted on its development.

R. Jones asked if the Lottery is aware of any type of study that correlates the extent of advertising and jackpot draw games. D. Barden responded that most states including New Mexico advertise for Powerball. D. Barden stated there is no study on a national level, but the consensus is that advertising does not affect lower level jackpots. Once the jackpot is high, the TV and radio media/outlets take over until the jackpot gets hit. At the state level, we try to come up with creative ideas that will induce players to the starting jackpot level. However, players generally do not purchase tickets based on advertising, but purchase tickets when the jackpot is over \$500 million. The general advertising saying is that for every \$1 spent on advertising, you get \$5-\$10 in sales. That is why it is important that the Lottery purchases annual buys for its advertising; we receive added value for no additional costs for these annual buys.

L. Romero commented that the Lottery has stated meeting the 30% mandate every month is an issue and asked whether changing to a quarterly return would be helpful. D. Barden stated that any flexibility would be helpful. L. Romero asked whether this flexibility would help with the prize payout. D. Barden responded that it would help the Lottery avoid an audit finding from the monthly mandate. The concern for meeting the monthly 30% mandate was high when we had a zero balance in the unclaimed prize fund. D. Barden reported that we are the only state that has these issues. Smaller states tend to have more difficulties compared to larger states. If there were a change to quarterly, it could impact other agencies, such as the Higher Education Department who expect monthly transfers.

No further questions.

Other: None.

Board Chair

Announcements: R. Jones reminded the Board that the legislative session is coming up soon and they are still in the process of providing information to the members to formulate a plan on legislative initiatives for the Lottery. There are plans to get together again soon to discuss these initiatives and the number of meetings may become more frequent between now and the session.

D. Barden reported there are no Board meetings scheduled at this time, but the Lottery will contact Board members via email when a meeting has been scheduled.


R. Jones thanked board members and staff for another great meeting and wished everyone a safe and happy holiday.

Other: None.


Other Items: None.

S. Baragiola had technical difficulties and dropped from the virtual meeting.

Adjournment: R. Jones entertained a motion to adjourn. N. Thayer made a motion to adjourn the meeting; second by L. Romero. Roll Call vote: N. Thayer, aye; D. Keylon, aye; L. Romero, aye; R. Jones, aye; P. Guerin, aye; and O. Umi, aye. Carried; 6-0. The meeting adjourned at 11:21 a.m. S. Baragiola re-joined the meeting at 11:22 am and acknowledged that he heard the end and wanted his roll call vote added to the adjournment. Adjournment vote is seven ayes and no nays. Carried; 7-0.



 R. Jones, Chairman
 Date: 4/27/21



 P. Guerin, Secretary/Treasurer
 Date: 4/27/2021