

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
March 23, 2022**

MINUTES

Call to Order: Board Vice Chair Sal Baragiola called the meeting to order at 12:05 p.m. and asked for a roll call. Present and constituting a quorum were: David Keylon, Othiamba Umi, Leo Romero, Paul Guerin, Sal Baragiola, and Nina Thayer (virtual). Reta Jones absent.

Present from NMLA were David Barden, Carolyn Cabell, Sylvia Jaramillo, Michael Boland (virtual), and Wilma Atencio. Also attending in person and virtually were Mary Stanford and Steve Beck with INTRALOT, and Ron Miguel and Emily Marsh with Scientific Games.

Approve Proposed Agenda: S. Baragiola entertained a motion. O. Umi moved to approve the proposed agenda; second by D. Keylon. All ayes, no nays. Carried; 6-0.

Approve Minutes of December 15, 2021, Board of Directors Meeting: No changes or corrections were made. S. Baragiola entertained a motion. N. Thayer moved to approve the December 15, 2021, meeting minutes; second by L. Romero. All ayes, no nays. Carried; 6-0.

Public Comment: None.

REPORTS:

Finance and Audit Committee Update: P. Guerin reported that M. Boland provided a report on items one through three of the Board agenda. O. Umi reported that M. Boland provided a report on all three audit items as information only. There were no findings, but there were recommendations. Lottery management will review and discuss the recommendations and report back to the Committee and Board on its course of action. D. Keylon asked if there are any major concerns that the Board should be aware of. P. Guerin responded that there are not.

P. Guerin reported on the three Internal Audit items. First, the Claims Engagement contained recommendations related to the Claims Center's processes. Second, the first phase of the GP Accounting Software Access Engagement was completed and provided a broad overview of the software access. A second phase will be a more in-depth review, with a report that will be presented to the Finance and Audit Committee. Third, a Financial Audit Services RFP will be issued at the end of the month and the Internal Auditor asked whether two Board members would volunteer their time to be part of the RFP evaluation committee. P. Guerin reported that he volunteered. D. Keylon also volunteered for the evaluation committee.

S. Baragiola stated his understanding that the three Internal Audit items were information only. O. Umi made a motion to accept items 1, 2, and 3 as presented to the Finance and Audit Committee as information, and further information will come back to the Finance and Audit Committee and Board; second by P. Guerin. All ayes, no nays. Carried; 6-0.

L. Romero asked if the current external auditor is eligible for the RFP process and asked about the contract term. M. Boland responded that the current external auditor would be eligible, but only for up to two years. M. Boland reported that the term for the RFP will be for one year with up to two one-year extensions.

Staff Adjustments: D. Barden reported after discussion with the Board Chair who had no issues or concerns, as the CEO, he authorized a cost-of-living increase for staff. D. Barden reported that thirty

employees received a cost-of-living adjustment and three employees received other adjustments. The adjustments resulted in a 3.84% increase to the salary and wages line item. The dollar amount of the cost-of-living adjustment was higher for employees with salaries under \$60,000 than for employees with higher salaries.

D. Barden reported that an outside HR consultant was contacted and advised that the Lottery was not competitive with the market regarding salaries. Salary grade ranges were increased and the minimum for any range was adjusted to be no lower than the equivalent of \$15 per hour.

D. Barden reported that there have not been across the board salary increases in the past couple years. The cost-of-living adjustments were the result a strong year for the Lottery, employees working hard and diligently, and inflation factors. Funding for the increases had been included in the FY22 original budget.

D. Barden reported that he has a contract and did not receive an increase.

S. Baragiola asked when the increases occur, and D. Barden responded that the increases have taken effect.

D. Keylon stated the adjustments sound reasonable.

Financial Statements: S. Jaramillo provided a memorandum with highlights from the February 2022 financial statements. \$2.9 million will be transferred to the Lottery Tuition Fund, making the 2022 fiscal year-to-date transfers \$27.480 million. The Lottery has transferred nearly \$934 million to the lottery tuition fund since 1996.

L. Romero asked whether inflation affects sales and whether there have been any studies. D. Barden responded that there is no national modeling to date regarding the inflation factor. D. Barden did report that when gas prices go up, Lottery sales tend to decrease. L. Romero asked if the Lottery has seen a reduction in sales in the last month or so. D. Barden responded that casinos, theaters, and other entertainment venues returning has had a bigger impact on the Lottery. D Barden reported last year was an unusual year for the Lottery with higher sales. The Lottery is working on some exciting new projects to help meet our year-end goals. S. Beck with INTRALOT reported that other states he works with have also planned on sales decreases. The past two years with COVID-19 was something that no one anticipated.

R. Jones joined meeting virtually at 12:34 p.m.

N. Thayer asked for clarification on the difference in FY21 and FY22 for the operational reserve fund and why it appears as an expense. S. Jaramillo responded that the reserve fund expense was established a number of years ago to be able to reserve as equity any extra monies that we have over the 30%. The difference between the fiscal years is that some months we had higher jackpots that provided additional revenue. The statute allows the Lottery to set up the reserve fund as an expense so that we can transfer funds into the account. S. Jaramillo reported by having equity, we are able to stabilize our cash on hand.

L. Romero asked whether there a target amount on what the reserve fund should be. D. Barden responded that there is no set target, but the Lottery would like approximately \$5 million to ensure it would have enough to cover payroll and any emergencies that may occur. L. Romero asked if the Lottery has considered a percentage of revenue going into the reserve fund. D. Barden responded that is a discussion for the Board. R. Jones suggested this item be discussed by the Finance and Audit Committee. It would be good to have a framework for management.

D. Keylon asked how long \$5 million would last if used for payroll. D. Barden responded it would depend on how it was used. D. Keylon asked about the monthly payroll. S. Jaramillo responded \$250,000 as a rough estimate. S. Jaramillo stated we would need an adequate amount to meet all of the Lottery's weekly and monthly obligations.

FY 2022 Consolidated Revised Annual Budget: S. Jaramillo reported that the revised budget revenue is determined by management consisting of the CEO, COO, Director of Gaming Products, Director of Sales, and the Director and Deputy Director of Finance. The Board was provided a copy of the draft FY2022 Consolidated Revised Annual Budget with a recap sheet of the budget showing the changes.

Both P. Guerin and L. Romero reported that the Finance and Audit Committee made a recommendation to approve the revised budget. S. Baragiola made a motion to accept the FY 2022 Consolidated Revised Annual Budget as presented; second by L. Romero. All ayes, no nays. Carried; 7-0.

L. Romero commented that in his personal opinion, as previously stated, completing a revised annual budget is unnecessary. S. Baragiola stated he agrees but believes Lottery staff uses the revised budget as a tool in preparing the next year's budget.

Security and Operations Committee Update: S. Baragiola reported that the Security and Operations Committee meeting minutes from December 15 accurately reflect what occurred at that meeting. Minutes are accepted as information only.

CEO

Open Meetings Resolution: D. Barden reported that the Open Meetings Resolution is an annual document that the Lottery follows when conducting Board and Committee meetings in accordance with the Open Meetings Act. This document needs to be adopted annually.

S. Baragiola entertained a motion to accept the Open Meetings Resolution. D. Keylon made a motion to accept the Open Meetings Resolution as presented; second by L. Romero. All ayes, no nays. Carried; 7-0.

CEO Update: D. Barden provided a presentation including the following topics:

- The HGTV's My Lottery Dream Home Scratcher launched and features a second-chance promotion for a chance to win up to \$1 million. The Lottery will be submitting this game to the North American Association of State and Provincial Lotteries for instant game of the year. The Lottery will feature this game at the Albuquerque Home & Garden Show.
- Other new instant games will include the first \$20 game in several years called Super Cash Spectacular and The Price Is Right. S. Baragiola asked if the \$20 game will impact other games. D. Barden responded that it will outsell any other game in our portfolio based on past experience.
- Lotto America is adding a Monday night drawing beginning July 18 and the Lottery anticipates a 2-6% increase in sales.
- The Multi-State Lottery Association (MUSL) voted to allow international sales of Powerball in Australia as a pilot program. If the pilot program is successful, MUSL may propose adding the United Kingdom. D. Barden reported that Powerball sales nationally increased to 25.5% from FY21 to FY22, while Mega Millions decreased by 32.7% in the same time frame. The Mega Millions group is considering increasing that game's price point from \$2 to \$5. O. Umi asked if players would be opposed to this strategy with other countries. D. Barden responded that players are already not happy when someone wins from another state. D. Barden reiterated that this is a pilot program for MUSL to see whether adding a bigger population would lead to more jackpots and increased sales.
- Walmart Supercenters are on track to start selling this calendar year with new DreamTouch Smart vending machines. O. Umi asked if the new machines will have any type of video and which vendor

produced this machine. D. Barden responded that there may be video for advertisements on the screen, but there will be no playable video games on the machines. The machines dispense lottery tickets. The Lottery purchased the machines from INTRALOT.

- Jackpocket is planning to start their courier services with Circle K in New Mexico soon. The Lottery is finalizing a memorandum of understanding with Jackpocket containing basic controls.
- The Lottery released an RFP for problem gaming rehabilitation services and received one proposal. Negotiations are underway for a four-year contract with the New Mexico Council on Problem Gambling.
- Automation efforts are ongoing to become more efficient and environmentally friendly. The Lottery is looking at several areas to improve the automation process and one of those areas is retailer licensing.

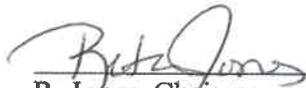
Board Chair

Board Initiatives: R. Jones asked the full Board to email her any requests for what they would like the Lottery to accomplish in the next year. R. Jones also asked members to provide feedback on the 30% mandate and legislative initiatives they would like to approach in the upcoming year.

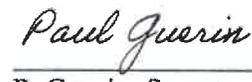
Other: S. Baragiola asked when the next meeting will take place. D. Barden responded that the next Board meeting has been tentatively scheduled for June 8 to discuss the 2023 budget.

Other Items: None.

Adjournment: S. Baragiola made a motion to adjourn the meeting; second by D. Keylon. All ayes, no nays. Carried; 7-0. The meeting adjourned at 1:27 p.m.



 R. Jones, Chairman
 Date: 5/23/22



 P. Guerin, Secretary/Treasurer
 Date: 05/20/2022