

**Regular Meeting of Board of Directors
New Mexico Lottery Authority
June 8, 2022**

MINUTES

Call to Order: Board Chair Reta Jones called the meeting to order at 12:01 p.m. and asked for a roll call. Present and constituting a quorum were: David Keylon, Othiamba Umi, Reta Jones, Leo Romero, and Sal Baragiola. Both Paul Guerin and Nina Thayer attended virtually.

Present from NMLA were David Barden, Carolyn Cabell, Sylvia Jaramillo, and Wilma Atencio. Also attending in person and virtually were Mary Stanford with INTRALOT and Ron Miguel with Scientific Games.

Approve Proposed Agenda: R. Jones entertained a motion. D. Keylon moved to approve the proposed agenda; second by L. Romero. All ayes, no nays. Carried; 7-0.

Approve Minutes of May 18, 2022, Board of Directors Meeting: No changes or corrections were made. R. Jones entertained a motion. S. Baragiola moved to approve the May 18, 2022, meeting minutes; second by O. Umi. All ayes, no nays. Carried; 7-0.

Public Comment: None.

REPORTS:

Finance and Audit Committee: P. Guerin reported that the Finance and Audit Committee met earlier and reviewed the items listed on the Board agenda. P. Guerin deferred to O. Umi to provide an overview of the Committee meeting.

May 12, 2022, Committee Meeting Minutes: O. Umi reported that the Finance and Audit Committee meeting minutes from May 12 accurately reflect what occurred at that meeting. Minutes are accepted as information only.

Claims Engagement Audit Report – Management Update: O. Umi reported that this item is an information item only and the Committee reviewed and discussed management’s responses and resolutions to the recommendations made by Internal Audit on the Claims Center operations, processes, and procedures. O. Umi reported that there were no findings, and the recommendations were all minor in nature and did not necessitate a higher level of concern or oversight by the Board. O. Umi reported that the Committee members all agreed that the resolutions provided by Lottery management were sufficient.

Operational Reserve Overview: O. Umi stated this item will be moved to the next meeting with additional information provided by management for further discussion by the Committee and full Board.

Financial Statements: S. Jaramillo provided a memorandum with highlights for the April 2022 financial statements. S. Jaramillo reported that the Lottery transferred \$3.43 million to the Lottery Tuition Fund for April and has transferred \$34.3 million for FY 2022. The Lottery has transferred a nearly \$941 million since FY 1996.

R. Jones asked how the financial reporting compares to the previous fiscal year. S. Jaramillo reported that that last year we were still in the pandemic era, and we would need to go back to the prior fiscal year. R. Jones reported that when she looks at financial statements it is easier to have a year-to-year analysis to provide a better view of the financial position, especially during this time of the pandemic. S. Jaramillo

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reported that she will provide a year-to-year comparison at the next meeting. R. Jones stated that an analysis of the end of the fiscal year would be best.

S. Baragiola asked if the 30% return mandate is calculated monthly. S. Jaramillo responded that the 30% is calculated monthly and it is mandated that we transfer that amount at the end of each month. D. Keylon asked how this has affected the reserve fund. S. Jaramillo reported that we have not drawn on the reserve fund since February 2020. The Lottery continues to transfer small amounts to the reserve fund, for example when there have been jackpot runups.

D. Barden reported that there was conversation at the Committee regarding the contingency reserve fund. We currently have \$5.1 million net position and of that \$2.1 million is cash that is readily available to use if necessary. Regarding the 30% mandate, currently the Act states that transfers to the tuition fund are made each month. There have been times when we cannot meet the 30% without the use of the contingency reserve fund.

R. Jones reported that the contingency reserve fund merits a conversation amongst the Board members, including the lack of transparency of the reserve fund in the financial statements. The resolution for the contingency reserve fund was approved in 2014. S. Jaramillo reported that the reserve fund is in the financial statements listed in net position and in the financial audit report.

D. Keylon asked if the cost of gas and inflation affected sales. D. Barden reported that the Lottery anticipated that instant sales would decrease post pandemic, and we are in line with other lotteries nationally. D. Barden reported that the \$20 ticket accounted for 13% of instant ticket sales last month. R. Jones stated that is huge. D. Barden reported that the rise of inflation will continue to impact sales as it impacts the country as a whole.

FY 2023 Consolidated Original Annual Budget: S. Jaramillo reported that the annual 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 summary sheet and a copy of the draft FY 2023 Consolidated Original Annual Budget.

Salaries, wages, and benefits was increased by \$317 thousand. This includes adding two positions and an increase of 4% to try to assist employees with inflation.

S. Jaramillo reported that additional items included in the budget are building upgrades including adding office space, claim center and employee restroom upgrades, security system upgrades, a new server for the IT department, upgrading our random number generator including third-party recertification, insurance for benefits, and depreciation due to the 35 Walmart machines going into stores soon.

R. Jones clarified the depreciation increase that S. Jaramillo mentioned is based on the five-year life depreciation set up by the Lottery for the Walmart machines. A fifth of the purchase is in the budget for depreciation and the full purchase amount was in the cash flow reflected as a capital purchase in the budget. S. Jaramillo reported that the depreciation is calculated based on what our capital asset purchases will be in the next year and different categories get amortized or depreciated over different time periods. R. Jones reported that in terms of the return back to the shareholders, the depreciation is part of the calculation, but the cash flow that impacts the reserve is the entire purchase of the capital asset.

D. Keylon asked whether equipment is supplied by the Lottery or purchased by the retailer. D. Barden responded that the Lottery has inventory for some equipment, but certain equipment is purchased by the lottery and some is purchased by the retailers. The Lottery purchased machines for use in Walmart stores and also adjusted the selling commission for Walmart from 6% to 5%. D. Keylon stated that was a good business decision.

S. Jaramillo reported that shipping and postage has also increased significantly. UPS is renegotiating the contract. R. Jones reported that shipping is a big portion of the budget. D. Barden reported that the Lottery is looking at options to bring the cost of shipping down.

L. Romero commented that it is important to invest in IT Security to protect the integrity and security of the Lottery. D. Barden agreed and stated that IT security is the cornerstone of our business.

R. Jones entertained a motion. L. Romero made a motion to approve the FY 2023 Consolidated Original Annual Budget as presented; second by S. Baragiola. All ayes, no nays. Carried; 7-0.

Moveable Chattels and Equipment Inventory: S. Jaramillo reported on a new item that was emphasized at the recent audit rule training. Per 12-6-10 NMSA, at the end of each fiscal year, the governing authority must certify the list of moveable chattels and equipment costing more than \$5,000 as to its correctness. S. Jaramillo reported that Lottery has always maintained a physical inventory list on an annual basis and updates it frequently. S. Jaramillo reported that the inventoried items on the list provided to the Board, including capital and non-capital items, have been accounted for.

R. Jones entertained a motion. L. Romero made a motion to approve the Certification of Moveable Chattels & Equipment Costing More than \$5,000 by acknowledging that the Lottery provided documentation showing that the Lottery completed a physical inventory of said listed items based on processes established by the Lottery; second by D. Keylon. All ayes, no nays. Carried; 7-0. R. Jones stated a notice of compliance by memo will be established for the next annual moveable chattel and equipment inventory.

Disposable of Obsolete Inventory: S. Jaramillo reported that the Disposal of Obsolete, Worn Out, or Unusable Tangible Inventory is an annual process, and a list of items was provided to the Board for review. If the Lottery is unable to dispose of property under the guidance of either state statute or the Lottery's Capital Asset Management Policy, then the property shall be destroyed and otherwise permanently disposed of in accordance with applicable laws.

R. Jones entertained a motion. L. Romero made a motion to approve the Disposal of Obsolete, Worn Out, or Unusable Tangible Personal Property; second by D. Keylon. All ayes, no nays. Carried; 7-0.

CEO Update: D. Barden provided an update on the following topics:

- The next scheduled Board of Directors meeting will be August 17.
- The Multi-State Lottery Association (MUSL) is looking into partnering with US Bank for naming rights to help reduce fees.
- The Powerball group is looking at partnering with the NFL for a potential new game.
- The Mega Millions group is looking at options to enhance the Mega Millions game and increasing the ticket price to \$5 in the near future.
- D. Barden reported that the \$20 instant ticket is doing well overall, but did advise that instant ticket sales were down 12-13%.
- D. Barden was elected as the new MUSL Board President. R. Jones and Board members congratulated D. Barden. R. Jones stated that this is amazing news and will provide world recognition for the New Mexico Lottery. R. Jones requested a news release.

Board Chair

Board Initiatives: R. Jones reported that she would like to discuss the reserve fund and legislative initiatives at the next Board meeting. R. Jones reported she did not receive any emails from members but


there is still time to forward any requests on what they would like the Lottery to accomplish and any feedback on the 30% mandate and legislative initiatives they would like to approach in the upcoming year.

R. Jones reported that the annual NASPL Conference will take in October in Vancouver, and if any members are interested in attending to please email her.


Other: None.

Other Items: None.

Adjournment: R. Jones entertained a motion. N. Thayer made a motion to adjourn the meeting; second by D. Keylon. All ayes, no nays. Carried; 7-0. The meeting adjourned at 1:08 p.m.



R. Jones, Chairman
Date: 8/17/22



P. Guerin, Secretary/Treasurer
Date: 8/17/22