

Regular Meeting of Board of Directors
New Mexico Lottery Authority
October 20, 2010
MINUTES

Call to Order: Board Chair Marcus Rael called the meeting to order at 11:05 a.m. M. Rael asked for roll call. Present and constituting a quorum were Greg Solano, Herman Tabet, Marcus Rael, Nino Trujillo, Reta Jones and Ken Hoeksema.

Introductions: The following employees were present from NMLA: Tom Romero, Adriana Binns, Evelyn McKnight, Pam Poteat, Dave Ramirez, Vince Torrez, Linda Hamlin, Michael Boland, Karla Wilkinson, Wilma Atencio, Gale Johnson and Randy Bertram. Also present were Gary Smith of GTECH Printing and Christa Hazlett of Conklin Law Firm.

Approve Proposed Agenda: M. Rael entertained a motion to approve the proposed agenda. G. Solano moved that the agenda be accepted as presented. Second by N. Trujillo. All in favor, 6-0. There was no further discussion.

Approve Minutes of August 12, 2010 Board of Directors Meeting: M. Rael entertained a motion to approve the minutes from the August 12, 2010 Board meeting. R. Jones stated she had two corrections, regarding Internal Audit reports and Board Elections. R. Jones suggested that M. Boland's comments be moved before the call for a motion to accept. R. Jones said she didn't make a motion for board elections. H. Tabet stated he made the motion. M. Rael stated the corrections would be made. M. Rael asked for motion to approve amended minutes. K. Hoeksema moved to approve the amended minutes. Second by R. Jones. All in favor, 6-0.

Executive Session: M. Rael called for motion to proceed with executive session. R. Jones moved to proceed with executive session to discuss pending litigation. Second by H. Tabet. M. Rael requested a roll call. All in favor, 6-0

M. Rael requested motion to return from executive session during which pending litigation was discussed and no action was taken. R. Jones moved to return from executive session. Second by G. Solano. M. Rael requested a roll call. All in favor, 6-0.

Executive Reports:

CEO:

General Update: T. Romero reported that sales to date were relatively slow, draw games are behind last year, due to any significant jackpot run ups. Powerball is approximately \$6.3 million and Hot Lotto is \$1.2 million behind last year at this time. Roadrunner Cash is about \$1.1 million ahead of last year and Mega Millions is at \$2.3 million ahead of last year. Instant products are behind \$600,000 compared to last year at this time. Overall sales are approximately \$39 million so far year-to-date, which is about \$4.5 million behind last year.

T. Romero reported that the lottery has taken a big hit with Powerball, by not having any significant jackpot run ups. It starts to grow, then gets hit. Over the past several years, jackpots need to grow bigger and bigger to see an increase in sales. Executive staff looking at promotions and marketing strategies to get players interested in Powerball and other draw games to increase sales.

K. Hoeksema asked why Mega Millions was \$900,000 under forecast. T. Romero explained that the forecast was based on industry research conducted by MUSL at the beginning of Mega Millions and asking states to be a part of the "cross sell." The lottery did take a look at it, from the standpoint of factoring in some cannibalization in NM, and that's where the number came from. This created some difficulty with our budgets, by underestimating. A revised budget based on actual sales might be in order in the next few months.

M. Rael asked what other than lack of jackpot run ups might be hurting sales. T. Romero reported that primarily it is due to the lottery's marketing strategies and the mandated return to the state and will defer to the product group. A. Binns explained that advertising budgets were reduced to return higher percentage of revenues.

K. Hoeksema asked for a status on VIP Club. T. Romero reported that internal testing had just been completed and the next step involved beta test with 100 players; pending the outcome of the beta test, the VIP Club would then be open to all players.

H. Tabet asked if the lottery was offering too many things. T. Romero reported that overload was always a potential consideration and that the staff was watching the matter closely.

T. Romero reported that he would be in Chicago next week attending a MUSL meeting to review industry research and the feasibility of raising the price point of Powerball from \$1 to \$2. The research will also include Mega Millions.

Administrative Leave: T. Romero asked for board approval to offer one day of administrative leave to staff in recognition of the lottery delivering a record return in FY 2010. The additional administrative leave day would be offered to staff for one of two holidays (Thanksgiving or Christmas). This was discussed in committee. R. Jones commented that this seemed an appropriate form of recognition in the absence of the ability to offer other compensation such as salary increase. M. Rael and G. Solano in support of this request. R. Jones makes a motion that the board authorizes an additional administrative day to be provided to the employees on the NM Lottery to be taken at either the Thanksgiving Holiday season or the Christmas Holiday season in recognition of their efforts. Second by G. Solano. All in favor, 6-0.

Financial Statements: T. Romero presented a detailed review of the fiscal year 2010 financial statements prepared by S. Jaramillo. The return percentage through September 30, 2010 was 30.27% or \$9.7 million compared to FY 10's first quarter of \$11.2 million or 30.60% return. This was \$1,433,361 less than the same time period last fiscal year or 12.76%. R. Jones commented that the lottery three years ago had advised the legislature that returning a higher percentage of revenue might result in returning a smaller number in actual hard dollars. R. Jones suggested that the lottery make sure it reiterates the advisory to the legislature. There was no further discussion.

AUDIT:

Internal Audit Reports: M. Boland presented two Internal Audit Reports. M. Boland reported that he will modify his approach to reporting his audit reports. M. Boland will provide a detail report for the committee meeting and for board meetings, highlights of the report(s) will be provided, unless additional information is requested.

M. Boland reported that there were no observations noted in the execution of the KISS 2nd Chance Drawing promotion. M. Rael asked for more information on the digital drawing system failure during the second chance drawing. M. Boland explained that it operated for the pre-test and then did not perform during the actual drawing. Following processes, the vendor was contacted and the staff switched to an alternate drawing system, without further problems. The vendor came out and repaired the system. There was no further discussion.

M. Boland reported on the LSR Time Management and Quality Assessment Review. This review is not specifically on the audit plan, but was requested by the CEO. This review is an overview of how the LSR's spend their time out in the field and quality of retailer visits. This is a positive report. Sales management team is doing a favorable job in maintaining and improving LSR's productivity and monitoring the quality visits to lottery retailers.

G. Solano cautioned the lottery to avoid appearing to micro-managing staff. N. Trujillo asked if there were regions not served by an LSR. M. Boland reported that there was one area not currently served, which is the Deming area. P. Poteat reported that the process was underway to fill the position, but that the existing sales force was rotating through the area to maintain contact with retailers. Sales have not dipped in that area.

R. Jones made a motion to accept the two Internal Audit reports, the KISS 2nd Chance Drawing Promotion and the LSR Time Management Quality Assessment Review report. Second by N. Trujillo. All in favor, 6-0. There was no further discussion.

HUMAN RESOURCES:

Education Policy: E. McKnight reported revisions were made to the Educational Assistance Employee Tuition Reimbursement Policy and presented to the operations committee. The revisions were made to clarify procedures. Any employee who receives their final reimbursement payment from the lottery must ensure that they remain at the lottery for at least two years, and if they don't, the employee will be required to pay back the reimbursement that the lottery paid to them. Also, make the employee aware that this policy is subject to budgetary constraints and may be cancelled by the Board of Directors or suspended at the discretion of the CEO or Board of Directors. E. McKnight request Board Approval on the Educational Policy.

R. Jones asked for background on the policy on the reimbursement, on why after two years only and why only if the employee leaves on his or her own accord as opposed to separation. R. Jones feels that this should be changed to when an employee leaves. E. McKnight responded that if an employee is terminated, the amount cannot be taken from their final check. G. Solano commented that it would be hard to enforce the employee to reimburse the lottery after they leave. M. Rael asked how many employees took advantage of this policy. E. McKnight stated only a handful. M. Rael entertained a motion to approve the Educational Policy with the amendments. G. Solano made the motion that the Educational Policy with the amendment that both terminated employees and employees leaving on their own accord be subject to pay back the lottery. Second by H. Tabet. All in favor, 6-0.

BOARD CHAIR:

Announcements: M. Rael announced that a Special Board Meeting will be scheduled once the state completed its audit of the Lottery's Fiscal Year 2010 Financial Audit report.

PUBLIC COMMENT: There was no public comment.

ADJOURNMENT: M. Rael entertained a motion to adjourn the meeting. R. Jones moved to adjourn the meeting. H. Tabet second. All in favor, 6-0. The meeting was adjourned at 12:21 pm.