

**Finance Audit Committee Meeting
New Mexico Lottery Authority
October 10, 2018
MINUTES**

Call to Order: J. Kubiak called the meeting to order at 8:00 a.m. and asked for a roll call. Present and constituting a quorum were; Aubrey McGowen; Dan Salzwedel and John Kubiak.

Present from NMLA were; David Barden, Carolyn Cabell, Sylvia Jaramillo, Kevin Duda and Wilma Atencio. Also present were; Matthew Bone and Elizabeth Nunez with CliftonLarsonAllen.

Approve Proposed Agenda: J. Kubiak called for a motion to approve the proposed agenda. D. Salzwedel moved to accept the proposed agenda as presented; second by A. McGowen. Carried; 3-0.

Public Comment: None.

FINANCE AUDIT Committee Report – J. Kubiak, Committee Chair:

Executive Closed Session – FY 18 Financial Audit Exit Conference: At 8:05 a.m. D. Salzwedel made a motion for the Finance Audit Committee 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 A. McGowen. Carried; 3-0.

At 8:30 a.m. J. Kubiak called for a motion to come out of executive closed session. A. McGowen moved to bring the Finance Audit Committee back to a public session and affirmed in the motion that no votes or decisions were made during the executive closed session that were outside the topic of the FY 18 Financial Audit Exit Conference; second by D. Salzwedel. Carried; 3-0.

Other: J. Kubiak and D. Salzwedel asked the CEO to give an update on the unclaimed prize fund and how it is used to meet the 30% mandated percentage return to the State. D. Barden reported that unclaimed prizes are derived when a player/claimant does not claim their online or instant ticket prizes within the allotted time and the winnings are placed in the unclaimed prize fund. Since the 30% mandate went into effect in 2007, the Lottery has used the unclaimed prize fund 83.08% or 108 of the 130 months. The unclaimed prize fund is valuable to the Lottery in that it helps supplement the prize payout and to meet the 30% return to the State.

If the Lottery were to lose the unclaimed prize fund, the Lottery would need to reduce the prize payout on current and future games and pull games from the market because we would not be able to pay the prizes and return 30% to the tuition fund.

D. Barden reported that the Lottery had to pull the \$20 Scratcher price point two years ago. Not having a \$20 game remains one of the top retailer requests because as the Lottery sells more tickets, retailers make more in commissions. Neighboring states can afford to offer \$20 games. National sales growth rankings have put NM near the bottom and Oklahoma at the top after Oklahoma repealed their return percentage mandate.

The unclaimed prize fund is lower than a few years ago because the Lottery has used the fund to increase prize payouts in our Scratcher program. A pilot project a few years ago increased Scratcher payouts, leading to the Lottery returning \$46 million to the State in 2016. In addition, the unclaimed prize fund is lower because we are no longer selling as many tickets; therefore, there are not as many unclaimed prizes. This pilot project showed that increasing prize payout generates more dollars for students. Because the

Lottery has not been able to afford a higher prize payout due to the 30% mandate, prizes have been reduced and sales are down.

The times the Lottery did not use the unclaimed prize fund was due to jackpot runups. Powerball and Mega Millions both have a 50% payout and when we have jackpot runups, it brings down the prize expense thereby allowing the Lottery to meet its 30% return without using the unclaimed prize fund.

D. Barden reminded members of online jackpots and jackpot fatigue. Similar jackpot levels from one year to the next have not garnered the same sales, as players wait for higher and higher jackpots. Instant ticket sales are critical to the Lottery because online jackpots cannot be predicted.

D. Barden reported that some states have caps on operational costs instead of an arbitrary 30% return mandate that limits prize payout. The Lottery's operational costs are lean, so the only way to meet the return mandate is to lower prize payout. D. Salzwedel acknowledged the integrity and efficiency in the Lottery's staffing.

D. Barden reported that during the last legislative session there were discussions to take the unclaimed prize fund, which would impact the Lottery and the return to the lottery tuition fund.

ADJOURNMENT: J. Kubiak entertained a motion to adjourn the meeting. D. Salzwedel moved to adjourn the meeting; second by A. McGowen. Carried; 3-0. The meeting adjourned at 8:43 a.m.


John Kubiak, Committee Chair
Date 10-30-18