

**MARYLAND STATE LOTTERY COMMISSION
FEBRUARY MINUTES**

DATE: February 20, 2003
TIME: 10:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Jerry L. Lewis
Commissioner Osborne Payne
Commissioner Bruce Reeder

Buddy Roogow, Director
Andrea Johnson, Principal Counsel
Tchicaya Ellis, Ph.D., Director, Research and Planning
Gina Smith, Deputy Director and CFO, AFO
Sandra Johnson, Chief Information Officer, Information Technology
Jill Baer, Director, Creative Services
Tracey Cohen, Director, Product Development
Joseph Jason, Deputy Director, Sales
Brian Johnson, Assistant Director, Communications/Special Events
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

OTHERS

PRESENT: Ray Shaffer, IGT OnLine Entertainment Systems
David Blum, Eisner Communications

CALL TO ORDER

Chairman Lewis officially called the meeting of the Maryland Lottery Commission to order at 10:20 a.m.

APPROVAL OF MINUTES

Chairman Lewis stated the Commission received a copy of the Minutes for January and asked if there were any questions or concerns regarding the Minutes as submitted. Hearing none, Chairman Lewis called for a motion to approve the Minutes. Commissioner Payne made a motion to approve the Minutes and Commissioner Reeder seconded the motion. Motion was approved by unanimous vote of the Commission.

DATE AND TIME OF NEXT MEETING

Chairman Lewis stated due to adjustments that are necessary in terms of the Commissioners' schedules, the next Commission meeting is tentatively scheduled on the fourth Wednesday of March, March 26, 2003, at 10:00 a.m. at Lottery Headquarters. A decision will then be made as to whether or not to make a permanent decision in terms of the scheduled meeting dates.

BERT SMITH AND COMPANY FINANCIAL REPORT

Ms. Gina Smith distributed the unaudited financial statement for January 2003 and stated the audited statement for November 2003 would be mailed to the Commissioners early next week. Ms. Smith stated there were no irregularities that the Commission should be aware of in the statements. Commissioner Reeder asked Ms. Smith if she had reviewed the unaudited report. Ms. Smith responded she received the report this morning and briefly reviewed it.

Chairman Lewis stated the Commission would receive the report as information and advised the Commissioners to review the report. If there are any questions, they can be raised at the next meeting.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated the sales sheet is not available for distribution to the Commission due to the inclement weather. However, it will be mailed to the Commission as soon as it is received. He stated that sales and revenues were doing extremely well over the last few weeks. Revenues have been picking up. Revenues are below the target, but are well ahead of last year, approximately \$15 million ahead compared to last year at this time. Sales are approximately \$25 million ahead of last year.

Mr. Roogow stated that yesterday the Mega Millions group made a presentation to the State of Texas inviting them to join the Mega Millions game. Powerball has also made a presentation to Texas inviting them to join. Chairman Lewis asked whether Texas would select either Powerball or Mega Millions to join. Mr. Roogow responded yes, but he does not know which way they will go. Chairman Lewis asked if the matrix for the Mega Millions was much different than Powerball. Mr. Roogow responded the way to look at it is that Powerball has a population of approximately 76 million people and Mega Millions has a population of approximately 93 million people. The Mega Millions matrix is about 135 million to one and Powerball's matrix is 120 million to one. When it is compared per capita, Powerball has less people and the matrix is a bit shorter. Mega Millions has more people and the matrix is actually a little longer. In his opinion, there is not a substantial difference in the matrix.

Mr. Roogow stated that there was a very unusual situation that occurred when the \$125 million Mega Millions jackpot was won last Tuesday in New York. Maryland had one individual who purchased \$10 worth of Mega Millions tickets at Super Liquors in Coral Springs in Prince George's County. The individual matched the first five numbers correctly and won on each ticket. The prize for matching the first five numbers correctly is \$175,000. So this individual won ten times \$175,000, or \$1,750,000. The individual bought the same six numbers for all ten lines. He did not want any publicity so the Lottery could not advertise his name, but did list where the tickets were purchased and that the winner worked at a military institution.

Mr. Roogow stated the Lottery budget hearing before the House is Wednesday, February 26, 2003 at 2:00 p.m. in the House Building, Room 431. The budget hearing before the Senate is on Thursday, February 27, 2003 at 1:00 p.m. in the Miller Senate Building, 3 West.

Mr. Roogow stated there are also bill hearings regarding Video Lottery on February 26, 2003 at 12:30 p.m. in the Budget and Taxation Committee hearing room in the Miller Senate Building. The Commission will be provided with a copy of the bill hearing schedule. Mr. Roogow stated he is not sure what his role is at the video lottery hearing. He has been attending numerous meetings, but does not know what his role is at this point. As of yesterday, an independent consultant has been hired by the Department of Budget and Management to analyze the proposals by the Administration and the racing industry and to develop suggestions as to how to bring them together which will be acceptable to both the State and the racing industry.

Chairman Lewis stated the Racing Commission seems to be very much on the record relative to the development of the Governor's proposal. Chairman Lewis asked whether it is inappropriate for the Lottery Commission to be equally on the record as it relates to the progression of this bill. His concern as he reads the bill, is that it is heavily loaded on the Racing Commission side. Mr. Roogow asked if he meant the split of the membership. Chairman Lewis responded yes. Mr. Roogow stated he does not know if they will even look at that. He thinks the consultant is looking primarily at the financial aspects of the split of revenue. He does not think they are going to look at the makeup of the

Commission. Chairman Lewis asked would it be appropriate or inappropriate for the Commission to be on the record stating what their concerns are. Mr. Roogow responded he does not think it would be inappropriate for the Lottery Commission but he is not sure that the Racing Commission has made a formal statement.

Mr. Roogow stated he will also be presenting testimony for a hearing tomorrow that relates to the voluntary assignment of prizes. This bill would permit annuities to be assigned. The Lottery has opposed this bill. A similar bill was defeated several years ago.

Mr. Roogow stated the Unclaimed Prize Fund has been an extremely valuable tool to the Lottery. There is a budget proposal that states that the Lottery needs to raise \$441 million for the General Fund. For every dollar up to \$10 million that the Lottery contributes over the \$441 million, \$1 less will be taken from the Unclaimed Prized Fund, up to \$10 million. Essentially, they want \$10 million from the Lottery's Unclaimed Prize Fund next year. The Lottery expects the Unclaimed Prize Fund to generate \$10 million to \$12 million next year. The Lottery cannot contest this because it is the Administration's budget proposal. Chairman Lewis asked how does the \$441 million compare to what the Lottery had to raise last year. Mr. Roogow responded last year the Lottery had to raise \$416 million. The Lottery raised \$416 million for the General Fund and an additional \$27 million for the Stadium Authority, a total of \$443 million. This year it is \$441 million for the General Fund, \$25 million more than last year. Chairman Lewis stated in essence the Lottery has to raise \$451 million in order not to lose any money from the Unclaimed Prize Fund. Commissioner Reeder asked how was this justified. Mr. Roogow responded they see the Unclaimed Prize Fund as a way to get money. This is cosmetic because the Lottery turns the Unclaimed Prize Fund money back into revenue and gives it back to the General Fund. You cannot count it twice, and therefore, revenues would have to be reduced by the amount taken out of the Unclaimed Prize Fund.

Chairman Lewis asked what is the average amount the Unclaimed Prize Fund collects. Mr. Roogow responded approximately \$900,000 per month. Chairman Lewis asked what does the Lottery use the unclaimed funds for. Mr. Roogow responded an example of the use is the Keno Doubler promotion. When the Lottery runs Keno Doubler, it raises the payout from 60 percent to 64 or 65 percent. What that does for the Lottery is it raises our sales substantially. Dr. Ellis stated sales increased seven to eight percent over the prior month. The Unclaimed Prize Fund is used to pay that payout difference which can be approximately \$300,000 to \$400,000 a week and reverts back to revenue. The other part is that sales have increased in that area. The Lottery is getting a double benefit. The Lottery does the same thing with Pick 3 and any other Doubler that is run. Commissioner Reeder asked if the \$10 million is taken from the Unclaimed Prize Fund, does that mean the Lottery would have to do away with the Keno Doubler. Mr. Roogow responded the Lottery would not do away with it, but it would run out of Lottery sales, and so the Lottery loses the ability to reimburse the revenue that it would have generated. Commissioner Reeder asked would the revenue go down. Mr. Roogow responded if the Lottery ran it, it would be run out of current sales and the Lottery would only get the benefit of an extra seven percent or eight percent in sales. The Lottery would lose the doubler benefit that it gets which is reimbursing the General Fund for the cost of the promotion.

Chairman Lewis stated regarding the voluntary assignment bill, weren't there some legal issues related to this. Ms. Johnson responded in October of 1998 the federal act passed and the IRS said that the adoption of constructive receipt would not be applicable. In those states that have passed voluntary assignment legislation, the legislation has always stated that in the event that the IRS were to retract or have some subsequent adverse ruling, then generally the legislation or the law would become null and void because it has a devastating effect on Lotteries at that point.

Chairman Lewis asked if there were any other questions. Hearing none, he received the Director's report as information.

IGT ONLINE ENTERTAINMENT SYSTEMS

Mr. Ray Shaffer, Account Executive, stated IGT also suffered some impact from the snow but the systems were up and running for the entire time. The system side continues to operate as planned. In fact, there was a training switch scheduled for Sunday to move from the primary site to the back up site and it was successfully completed. He is very pleased with the efforts that his staff put in. IGT will get the hot line running and service personnel out in the field to catch up on the things they have not been able to do because of the inclement weather.

Mr. Shaffer stated Al Ringgold has officially been named as the new Director of Marketing and he began his functions on February 10, 2003. He continues at the moment to do both jobs until IGT has an opportunity to fill the position. Al has had a great deal of experience in the Lottery business on the marketing side and he will be working very closely with Creative Services and Sales at the Lottery as well as the retail network and the field people to help generate additional sales.

Mr. Shaffer stated on the systems side, Jerry Woods and his staff are working with the Lottery IT Department closely on a number of issues, some of which are related to the recent audit.

Chairman Lewis stated on behalf of the Commission, he would like to congratulate Mr. Ringgold. The Commission has had a chance to work with him for a number of years.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis accepted IGT's report as information.

EISNER COMMUNICATIONS

Mr. David Blum, Senior Vice President, stated Product Development and Creative Services requested Eisner to put together some radio this quarter supporting some individual scratch tickets. These are being run in short media buys to support some seasonal tickets. Mr. Blum played the tape of the radio commercial supporting the Hearts Are Wild instant

ticket. Another radio commercial is being developed to support the Luck of the Irish instant ticket for St. Patrick's Day.

Mr. Blum stated Eisner is developing a campaign to advertise to people around the State about some of the great contributions the Lottery has made. He showed the Commission the advertising that highlighted that 96% of every dollar spent by one of the players goes back to the citizens in some way. Pie charts were created with icons of Maryland. Chairman Lewis asked how does that represent what he just stated. Mr. Blum responded the petals on the flower represent 96% and the one missing petal represents 4% or the part that does not go back. The message to the people is that virtually all of the money that they are spending on the Lottery goes back to the citizens in some way. He then read the ad to the Commission. Commissioner Reeder said what would make me stop and look at that flower. Ms. Baer responded visually it is different from other ads you may see. It is very difficult for us because of our constraints to come forward with a campaign that talks about where the money goes without specifically saying where it goes. This ad is designed to be very subtle and it is running in publications that are a little bit more unusual for the Lottery to be in.

Mr. Blum stated Eisner is also pulling together the materials to begin working on the Cash Encounters marketing effort. Cash Encounters is the \$10 scratch ticket that has the second chance component where players can send in their entries for a chance to be on the television game show which will occur in May. They have begun to promote the second chance game show and will be doing that up to the airdate of May 31, 2003. He showed the Commission some of the commercials to promote this with Lottery Director Buddy Roogow and Steve Rouse from WQSR. Mr. Rouse will be one of the co-hosts of the telecasts. More commercials were shot yesterday but they are not yet edited. He played the videotape of the commercials for the Commission.

Mr. Roogow asked if there was videotape available of the drawing show that they are doing every two weeks. Mr. Johnson responded he has the most recent one. Mr. Roogow stated it could be shown to the Commission after the meeting if they have time. We are doing ten drawings and hosting five contestants from each drawing of which two will be selected to be on the million dollar game show. The Cash Encounters game is selling \$600,000 to \$700,000 a week, but more importantly, the Lottery is getting 30 to 40 percent of all non-winning tickets are coming back to it as entries.

Chairman Lewis asked while we are so inundated by reality shows on television has the Lottery given some thought to do a 30 second piece that looks like a reality show but the Lottery ticket is the real undercover spot. Ms. Baer responded that market is covered somewhat with the Chip Franklin commercials that are done with Scratch Cam. The Lottery shot a new round of those commercials before Christmas and has plans in the budget to do more. They try to air the Scratch Cam commercials as much as they can. Mr. Blum stated Eisner specifically looks at its media schedule and places those spots on reality program shows.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis received Eisner Communications report as information.

REPORTS

Creative Services – Jill Baer, Director

Ms. Jill Baer distributed a copy of her report to the Commission. She stated the Chinese Restaurant campaign has been running. Scratch Cam goes back on the air next week for three weeks. They are highlighting some specific scratch games. Mega Millions jackpot ads were on the air also. Regarding Cash Encounters, they are working with the public relations unit to promote that project from the actual ticket itself to the second chance drawing and then the game show promotion. She stated they are trying to advertise during as many Terps games as they can. There are a number of different carriers of Terps games, cable systems and radio. She stated they also purchased an ACC package to air commercials during the ACC tournament games.

Ms. Baer stated they are meeting with the Director about Oriole packages for television and radio. The Lottery has been a long time partner with Comcast Sports Net, but the Orioles themselves have a television package and they are being evaluated. She is also looking at a Merriweather package. They are looking into doing something jointly with Nissan and the Virginia Lottery but that is in the early stages. Other projects she is working on is the game show. The taping date for the game show in Baltimore is May 10, 2003, with airdate statewide of May 31, 2003 at 7:30 p.m. They are moving forward with the new sports TV campaign and will have it available for the Commission to review at next month's meeting. She stated they are trying to get them ready to air for the ACC tournament in mid-March. She stated they are also kicking off a Pick 3 awareness campaign in conjunction with a promotion that will be running and the target date is the end of April.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis received Creative Services' report as information.

Sales – Joseph Jason, Deputy Director

Mr. Joseph Jason stated a copy of his report is contained in the Commission's folders. He stated his report contains a breakdown by region, territory within region and geographic description of what each of those territories cover. With the reorganization, there are now 28 independent territories and 11 corporate account territories. His report also contains a breakdown of instant games by price point of the number of games that are in the field versus those games that are in the warehouse as backup, as well as the instant ticket launch schedule for February.

Chairman Lewis asked regarding the instant tickets in the warehouse, are those new games that are about to be put on the streets. Mr. Jason responded what he shows in his report is,

for instance, for \$1 tickets, 19 are in the field currently and of those 19, they only have backup for six in the warehouse.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis received the Sales Division's report as information.

Communications – Brian Johnson, Assistant Director, Special Events

In Mr. Jimmy White's absence, Mr. Brian Johnson presented the Communications Division's report. Mr. Johnson stated that the written report was not available but would be mailed to the Commission by the end of the week. Mr. Johnson stated that the Communications Division continues to promote the Cash Encounters ticket and also the second chance contest on radio stations and television throughout the State. There have been a total of six second chance drawings thus far. The next second chance drawing is scheduled for Friday, February 28, 2003 from 5:30 p.m. to 7:30 p.m. at Francis Scott Key Mall in Frederick with WFRE as the radio partner.

Mr. Johnson stated with regards to Mega Millions, Communications continues to inform radio, television and newspapers of any winners. There was a recent winner in Bowie on Valentine's Day and the media was informed. Communications issues press releases on all the winners that come in, if they want publicity.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis received Communications' report as information.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson distributed her report to the Commission. Ms. Johnson stated IT has had a number of problems with its local area network since moving to Montgomery Park. They have not been very successful in keeping the Internet and e-mail up and that is a primary concern for her today. Ms. Johnson stated IT is currently working with AFO to redesign and improve the Lottery's bond and annuity system. They are proposing to create a more modern database with secured access by the people who work on the bonds versus the people who work on the annuities. They will be working on that over the next six months.

Ms. Johnson stated IT has also worked with Verizon and MCI during the month on remote access for the Lottery staff so they can dial in when they are at home. She stated they were experiencing a problem with the 800 line, but they got it resolved this month and it is back up and running.

Ms. Johnson stated they are going to be replacing the Claims Unit old check writing and W-2G system with more modern financial printers and new software. IT has work closely with Ms. Gina Smith and Montgomery Park's building management to get some things

done. There were various odors in the computer room and one turned out to be paint fumes coming from the second floor through a hole in the ceiling. There was concern for the safety of the staff and that has been taken care of. There was also a clogged drain in the computer room that was preventing the air conditioner and humidifier from performing properly and locks are now in place in the unit.

Ms. Johnson stated IT has been working closely with AFO with the issuing of 1099's and preparing the tape for the IRS. Final processing will be completed this month.

Ms. Johnson stated IT also updated its operating system software on both the mainframe computers that will allow them to do some things with the newer software. IT has been working with IGT to develop a plan to implement one of the recommendations that was in the audit regarding review of the source code for the Keno games to ensure that it is doing what it is suppose to do and that it is performing properly internally in terms of the code. They will be going to Clifton, New Jersey to gain access to the code then review it and prepare a report.

Ms. Johnson stated IT is working on updating the disaster recovery plan. IT is also working on an agency training database to look at all the training that people are getting and to produce reports on any training activity that personnel are involved in.

Ms. Johnson stated IT is continuing to monitor the radio transmission at the Riverboat. They are almost ready to place at least one terminal onto radio communications and make sure that it works. They will need assistance from IGT and are working to get a software patch so that it can actually be done. Hopefully, that will reduce the cost of telecommunications there.

Ms. Johnson stated Pricewaterhouse Coopers is finishing up their annual audit of the technology area.

Ms. Johnson stated a revised agency emergency evacuation plan was distributed so that in the event of an emergency, staff will know where they are supposed to go. They have done that in cooperation with Montgomery Park to make them aware of what the Lottery is doing. The Lottery's emergency evacuation plan is more detailed than what Montgomery Park had available.

Ms. Johnson stated she mentioned last month the problem with an outage in December where IGT systems went out. She had tried for some time to get a statement from BGE on what actually happened. She contacted BGE's corporate office and they said that the outage was caused by an outside contractor doing construction in the area and striking an underground cable. She stated that she received feedback from IGT on the loss that the Lottery suffered.

Ms. Johnson stated she had mentioned that there is a NASPL Standards Committee that is looking at developing Best Practices and Standards for the Industry. There are two work groups under the Steering Committee. She is on the Steering Committee and two Lottery

staff members are on the Best Practices Group and the Standards Group. There will be a face-to-face meeting of the Steering Committee, which represents 20 different Lotteries, in Chicago next month and she will keep the Commission updated.

Commissioner Reeder asked what is the next phase for the radio transmission on the Riverboat. Ms. Johnson responded the next phase is to get a software patch from IGT so that they can actually accept the communications from the radio. Once that patch is installed, they will hook up one of the terminals to the radio and start selling tickets. Chairman Lewis asked would this be the first time this has been done. Ms. Johnson responded the Lottery tried this several years ago but there were some problems and the project was abandoned. The Lottery still has the equipment and she is looking to see if the Lottery could make any use of it.

Commissioner Reeder stated in all of the video lottery bills, Timonium has not been mentioned. Mr. Roogow responded it has been mentioned that it will not happen. From everything he can see, the State Fair does not want them and they run Timonium. Commissioner Reeder stated in other words we will continue to have Lottery sales at Timonium State Fair. Mr. Roogow stated the Administration's bill gives them a small subsidy and also gives Oceans Downs a small subsidy that will also not have slots.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis received Information Technology's report as information.

Administration, Finance and Operation – Gina Smith, Deputy Director, CFO

Ms. Gina Smith distributed her report to the Commissioners. She apologized for not having the sales sheets available. The snow has greatly affected her unit with several people being absent. When the audited financial statements are mailed it will include the updated sales sheet. Ms. Smith stated the first page of her report contains statistics concerning the Customer Resource Center. She stated the Lottery has had some difficulties with the mailing house used for sending the subscriptions. The mailing house was not mailing the subscriptions out. Lottery players have been calling stating they never received their subscriptions and then Customer Resource would issue a duplicate subscription. The Lottery will be getting a new mailing house and should not have these problems in the future.

Ms. Smith stated the second page of her report talks about statistics for the Agent Administration Unit. She is working with the Sales Division to reorganize the Unit to move the applications through the process more efficiently. She stated AFO is still working on issues resulting from the move. Most of the major issues have been taken care of.

Ms. Smith stated in yesterday's newspaper there was an article stating that the Legislative Auditors were concerned that State Agencies were not monitoring the usage of cell phones and did not have the most efficient plans. She recently reviewed the Lottery's cell phone plan and worked with Nextel regarding new plans. She estimates that it is going to save the

Lottery approximately \$1,500 a month. The Lottery has a procedure in place where it requests reimbursement from employees for personal phone calls made on the cell phone.

Ms. Smith stated that the FY2003 budget had approximately \$515,000 withheld pending relocation to the new facility. In order to obtain that funding, the Lottery submitted a request to the Department of Budget and Management and the Legislature. The Department of Budget and Management and Legislature approved the request to release the funds.

Ms. Smith stated AFO is preparing for the fiscal year closeout even though it is only February. They are meeting with all the Divisions to discuss their spending plans for the remainder of the fiscal year.

Ms. Smith stated in the Director's Report starting on page five, there is an updated status of the Legislative Audit Recommendations that she has been working on. She stated one of the things that they stopped doing was the requirement for agents to established separate bank accounts. There is a Senate Bill proposed that allows agents to mix their business funds with their lottery funds. Agents had until January 31, 2003 to set up these separate accounts, but because this bill is still pending, the Lottery will not do any further follow up until the outcome of the bill. Additionally, the Legislature auditors cited the Lottery for not following up on improper Federal ID numbers that were submitted by agents and improper Social Security numbers that were submitted by claimants. They have received responses from all the active agents, except for 15. They are following up on those remaining 15 agents and the Lottery should then be in compliance. Regarding the Social Security numbers, for calendar year 2000, there were approximately 700 plus hits where the Lottery had a different Social Security number than what the IRS had on file. Letters were sent to these claimants and the Lottery is finding that some of the errors are a just matter of keypunch errors.

Ms. Smith stated she has been working on fiscal impact statements for various bills. The Lottery has responded to 15 to date. She is also working on the RFP for Accounting and Auditing Services. The current contract expires June 2003.

Chairman Lewis asked in regards to the errors that the audit cited the Lottery, was it the Lottery's error in terms of data input versus the claimant completing the forms incorrectly. Ms. Smith responded it looks like a lot of it was the Lottery's error. Chairman Lewis asked did your investigation precede the cite by the audit. In other words, is there a way of knowing if the claimant incorrectly wrote the number down and it was placed in the system that way? Ms. Smith responded there is no way of knowing that. Unfortunately, the IRS is two years behind, so these 700 that were investigated were people that claimed their winnings in calendar year 2000 and the Lottery was informed in October or November 2002.

Chairman Lewis asked what is anticipated attitude of the enforcement of child support interception with regards to video lottery winnings. Chairman Lewis asked since Lottery winnings are currently intercepted, would it require a change in the law for enforcement.

Ms. Andrea Johnson responded that it is not addressed in the statutes. It depends on the outcome of the bill. Interception statute is a separate and distinct statute and there is also one for criminal restitution. Ms. Smith stated there was a bill introduced to allow child support interception for VLTs. The Lottery supported it and it would have no impact on the Agency since the Lottery already has a system in place. Ms. Johnson asked if the bill addressed criminal restitution as well. Ms. Smith responded it did not address criminal institution.

Commissioner Reeder asked what is the average amount collected for child support interceptions. Ms. Smith responded it is approximately \$20,000 a month, but she does not know the average amount from each person. An analysis can be done and she will inform the Commission at the next meeting. Chairman Lewis asked do you know how many families are impacted by receiving this child support and could that be mentioned as a contribution the Lottery has made. Mr. Roogow stated he thinks the Lottery could mention that because it is an actual fact. It is not directly out of our revenue, but it is a collection of revenues. Chairman Lewis stated the Lottery should capitalize on all those societal benefits that the Lottery does. Mr. Roogow stated the Lottery will look into that.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis received Administration, Finance and Operations' report as information.

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson distributed her report to the Commission. She stated there was one revocation to present to the Commission. Powder Mill Beer and Wine is located at 3424 Powder Mill Road, Beltsville, Maryland 20705. The business was shut down on August 11, 2002 as a result of insufficient fund transfer in the amount of \$1,356.51. The agent did not satisfy the insufficient fund transfer and as a result, a lien was filed in the Prince George's County Courthouse in the amount of \$1,356.51. Their terminal was turned down and has not been turned back up. A revocation letter was sent on January 6, 2003 and received by the agent on January 10, 2003. They have not appealed the revocation by requesting a hearing. The Director is seeking the Commission's concurrence in this recommendation to revoke the license of Powder Mill Beer and Wine.

Chairman Lewis asked if the Commission was previously provided with a statement regarding this revocation. Ms. Johnson responded a statement was mailed to the Commission about two weeks ago listing the specifics and another copy could be provided to the Commission.

Chairman Lewis stated there is a recommendation before the Commission to uphold the Director's recommendation to revoke the license of Powder Mill Beer and Wine. Chairman Lewis requested a motion. Commission Payne made a motion that the Commission accept the recommendation and Commissioner Reeder seconded it. Chairman Lewis requested a vote. The vote was unanimous to uphold the recommendation of the Director to revoke the license of Powder Mill Beer and Wine.

Ms. Johnson stated there was a hearing scheduled for today for Parsonsburg Quick Stop. They called late last week and stated they do not want to go forward with the hearing. They have withdrawn their request for the hearing and it will not be rescheduled. Ms. Johnson stated another agent, Party Time Beer and Wine, is seeking a hearing on the proposed revocation of their license, which is scheduled for March. Mr. James Butler has been in communication with their attorney and they also may not go forward with an appeal and withdraw their request. She is waiting to hear from the attorney, but if that hearing proceeds, it would last from one to two hours. She asked the Commission if they were inclined to go forward with the hearing after next month's regular meeting. Commissioner Reeder asked why would the hearing take one to two hours. Ms. Johnson responded the agent has an attorney who would present witnesses and explain their position, and then Lottery would present its reasons as to why the license was revoked and why the Lottery wants to proceed with revocation. There is also cross-examination of both sides. Chairman Lewis asked if Ms. Johnson would provide a script that shows what provisions of COMAR they are dealing with. Ms. Johnson stated if in fact the hearing goes forward, she would mail the information to the Commission.

Ms. Johnson stated Senate Bill 322 does merge the State Racing Commission with the Lottery Agency and Commission, creating a new agency called the State Lottery and Horse Racing Agency and Commission. Essentially, it will have a nine-member board, which will constitute the Commission, and who would be appointed by the Governor. That Commission would be overseeing the VLT program in Maryland. It has been studied by the Attorney General's Office and she is available to meet with the Commission after the meeting to review the bill.

Ms. Johnson stated there was a lawsuit was filed against the Lottery and the State of Maryland. A Lottery employee, while driving a State vehicle, was involved in an accident with another vehicle. The person in the other vehicle filed a claim with the State Treasurer's Office, which is required under Maryland Law. The claim was denied by the State Treasurer's Office and therefore, a suit was filed against the Lottery Agency and the State of Maryland. Ms. Johnson stated her office is defending the case. There were actual damages of \$6,000, but the person is seeking \$17,000 from the Lottery Agency.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis received the Legal Division's report as information.

Research, Planning and Evaluation – Tchicaya Ellis Ph.D., Director

Dr. Tchicaya Ellis distributed her report to the Commission. Dr. Ellis stated there are several research studies currently going on. Data was being collected among the general population and players to just get a snapshot of ad placement and effectiveness. The last two pages of her report contain a summary of that information. Dr. Ellis stated scratch tickets and the lotto style jackpot games continue to have the largest participation levels. To follow up on reality television discussed earlier, Scratch Cam ranked third among all

television ads that were tracked since 2000. People tend to recall those ads much better than most.

Dr. Ellis stated the third page of her report contains a Minority Business Enterprise Participation Report for July 2002 through December 2002. The Lottery is currently at 11.39 percent overall as an Agency. That does not include corporate credit card purchases because there is still an issue in obtaining the credit card purchase reports. The Lottery is still being heavily affected by losing two major subcontractors.

Dr. Ellis stated the Procurement Review Group met to review the ITVM RFP and the Accounting and Auditing Services RFP. Overall they are trying to stay with a 25 percent goal as much as they can and only decrease the goal if there is no opportunity in the market. The MBE goals for both of those RFPs are included in her report.

Commission Reeder stated he had the opportunity to be at an establishment last week and observed 19 Keno games and only six out of those 19 were Keno Bonus games. Mr. Roogow responded on the average it is about one out of every 2.1 games, slightly less than half.

Chairman Lewis asked of those vendors who requested waivers for the inability to meet their MBE goals for reasons not under their control, is the Lottery monitoring them to see if efforts are being made to find other subcontractors. Dr. Ellis responded the waivers are only granted for one fiscal year and the vendors are held to their goals each year of the contract. The prime contractors would have to submit a new waiver that shows what they have done to locate other available companies and have they aggressively gone after them. Chairman Lewis asked wouldn't it be more due diligence if they were checked on a more regular basis as to what progress was being made as opposed to an after effect response. Dr. Ellis responded the Lottery keeps track to see what firms are in the marketplace. There are companies in other states and she talks to other Lotteries to see who they use to service the ITVMs in the way that Maryland was using its subcontractor. The Lottery does that on a consistent basis to see who is in the market.

Commissioner Reeder asked does the Lottery know how many Hispanic retailers it has. Mr. Roogow responded there are very few Hispanic retailers. There are many Korean and Asian retailers. Mr. Jason stated the Lottery has been contacted by someone and asked that the Lottery consider Hispanics and since then, several applications have been sent in and are being reviewed by the Lottery.

Chairman Lewis asked what happens if someone wins the Lottery and they are not a legal citizen. Mr. Roogow responded they do not have to be a citizen to win. Ms. Johnson responded they would have to legally purchase the ticket. Chairman Lewis asked would the exposure to claim their ticket prevent them from claiming if they were not a legal resident in the country. Ms. Johnson responded the Lottery would say that it was not lawfully purchased and then it raises the question, if you are not lawfully in the country, how can you lawfully purchase the ticket.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis accepted the Research, Planning and Evaluation Division's report as information.

Product Development – Tracey Cohen, Director

Chairman Lewis stated on behalf of the Commission, he wanted to welcome Ms. Cohen back.

Ms. Tracey Cohen distributed a copy of her report to the Commission. She stated on the scratch side, they are continuing to process working papers and are monitoring sales. She stated they met with the Virginia Lottery a few weeks ago and are discussing a joint instant ticket. On the on-line side, they are continuing to focus on the development of the Instant Win Game, and will get a final date from IGT as to when that will start. She stated they are working on two promotions for the remainder of the calendar year. One is a Pick 3 promotion where the top prize would be increased to \$550 or 550:1. The other promotion is for Keno where the top prize on the ten spot would be increased to \$250,000. Advertising will be coordinated with that as well. She stated they are continuing to work on a Fun Summer Promotion.

Commission Reeder stated Ms. Cohen's report states a meeting was held with the Virginia Lottery on the instant ticket, Price is Right. Commissioner Reeder asked if anything like this has ever been done before. Ms. Cohen responded no, this will be a first. OGT just acquired the rights to the Price is Right. Commissioner Reeder asked what would be the top prize. Mr. Roogow responded it depends if it is a \$5 ticket or \$10 ticket. Ms. Cohen stated it could possibly be \$50,000 to \$100,000. The Lottery could do local second chance shows here, possibly its own version of the Price is Right. Commissioner Reeder stated he is glad to see the Lottery working with another state on a lottery ticket. Ms. Cohen stated she would keep the Commission updated as it progresses.

Ms. Cohen stated there was one instant ticket to present.

Game #412 *Quick 7's* is a \$1.00 ticket with a top prize of \$777, a ticket quantity of 2.5 million. It has a playstyle of fifty-fifty, odds of 1:4.55 and a payout of 59.97%. It is a money theme and has a launch date of March 2003.

Chairman Lewis asked the Principal Counsel if the instant ticket has been reviewed for legal sufficiency. Ms. Johnson responded Game #412 *Quick 7's* been reviewed and approved for legal sufficiency.

Chairman Lewis stated Game #412 *Quick 7's* has been presented for approval and asked if there were any questions. Hearing none, Chairman Lewis requested a motion to approve the game. Commission Payne made a motion to approve Game #412 *Quick 7's* and Commissioner Reeder seconded the motion. Chairman Lewis stated it has been moved and seconded that Game #412 *Quick 7's* be approved and requested a vote. Game #412 *Quick 7's* was approved by unanimous vote of the Commission.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis received Product Development Division's report as information.

ADJOURNMENT

There being no further business, the meeting adjourned at 12:05 p.m.

Respectfully submitted,

Buddy Roogow