

**MARYLAND STATE LOTTERY COMMISSION
MARCH MINUTES**

DATE: March 26, 2003
TIME: 10:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Jerry L. Lewis
Commissioner Osborne Payne
Commissioner Bruce Reeder
Commissioner Carl Hein, III

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
Tracey Cohen, Director, Product Development
Joseph Jason, Deputy Director, Sales
Jimmy White, Director, Communications
Deborah Sharpless, Controller
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

**OTHERS
PRESENT:** Ray Shaffer, IGT OnLine Entertainment Systems

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 February and asked if there were any questions, concerns or corrections to the Minutes as submitted. Hearing none, Chairman Lewis accepted the Minutes as submitted and requested a vote. The Minutes were accepted by unanimous vote of the Commission.

DATE AND TIME OF NEXT MEETING

Chairman Lewis stated, the Commission meetings would tentatively be scheduled on the fourth Wednesday of each month. The next meeting would be Wednesday, April 23, 2003 at 10:00 a.m. at Lottery Headquarters.

Commissioner Reeder stated he submitted a letter to the Maryland State Ethics Commission concerning his position as a Frederick County Commissioner as well as a Maryland State Lottery Commissioner. He talked to Mr. Robert Hahn at the State Ethics Commission recently and was told that they do not think there is any problem. Chairman Lewis asked if the State Ethics Commission would be sending Commissioner Reeder an official letter. Commissioner Reeder responded a letter would be sent.

BERT SMITH AND COMPANY FINANCIAL REPORT

Ms. Deborah Sharpless, Controller distributed to the Commission the unaudited financial statement for February 2003 and the audited financial statement for December 2002. Ms. Sharpless stated revenue for February 2003 was \$33.1 million.

Chairman Lewis asked if there were any questions or concerns regarding the December statement. Commissioner Reeder asked if there was anything unusual in either statement. Ms. Sharpless responded there were no irregularities that the Commission should be aware of in either statement.

Chairman Lewis stated the Commission would receive the report as information and advised the Commissioners to review the unaudited February 2003 report. If there are any questions, they can be raised at the next meeting.

IGT ONLINE ENTERTAINMENT SYSTEMS

Mr. Ray Shaffer, Account Executive, stated last month he informed the Commission that Mr. Al Ringgold was made Marketing Director and some changes were being made in the focus of that group. The IGT field marketing staff has been working closely with the Lottery's Regional and Field staff. IGT is in the field calling on 25 to 35 retailers a week. They are getting back to a face-to-face relationship with the Lottery retailers to help them in terms of equipment operations, selling tickets or general information on how to improve their product. On the operations side, Jerry Woods and his IGT staff have been working with Sandy Johnson and her IT staff on ongoing projects related to the audit and to new software. IGT is working on the In Win Game and working on documents for some other ideas.

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

EISNER COMMUNICATIONS

No one was present from Eisner due to the television commercial shoot for the Pick 3 campaign that was taking place today.

REPORTS

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

Ms. Gina Smith distributed her report to the Commissioners. She stated last month the Lottery obtained a new mailing service for subscriptions. This was necessary because the old mailing service was holding onto mail up to 25 days and they are suppose to have a three-day turnaround. With the new mailing service in place, subscriptions are being mailed in a timely fashion.

Ms. Smith stated the Commission was presented with the audited financial statement for December 2002 as well as the unaudited financial statement for February 2003. She then distributed to the Commission the Report to Management for June 30, 2002. Under the contract, Bert Smith is required to give the Lottery two Management Letters per year and that covers the period January through June and then from July through December. The Lottery is expecting to receive the December Management Report by May. She stated that the AFO accounting area has made significant progress in clearing some longstanding issues. The report is broken down into two separate categories, new issues and a schedule that repeats the findings from the previous report. Accounting has cleared 10 of the 18 problems. The December report will show that some of the outstanding issues have been taken care of.

Ms. Smith stated that the Lottery is continuing to concentrate on the legislative audit issues. She has provided an update in the Director's Report that the Commission received prior to today's meeting.

Ms. Smith stated that at last month's meeting there was a discussion regarding child support and restitution. She distributed a report to the Commission that contained data for Lottery Headquarters only. The Lanham office data will be included next month. She stated the first page contains a summary for the month of February and the preceding pages contain the activities for each week ending in February. For example, for the week ending February 7, 2003, players won \$3,000 and of that amount, \$330 was intercepted.

Commissioner Reeder asked what is the limit that an agent location can cash in Keno before the player has to come to the Lottery to file a claim. Mr. Jason stated any agent location can cash up to \$600 and an Agent Plus location can cash up to \$5,000. If it were over \$5,000, the player would come to the Lottery.

Chairman Lewis asked when did the Lottery clear 10 of the 18 items that were listed in the Management Report. Ms. Smith responded as of June 30, 2002, they were cleared. Chairman Lewis asked does June 30, 2002 represent the time they existed or the time that they were reported as outstanding. Ms. Smith responded the back part of the report represents items that have been carried over from previous years and were not addressed. Therefore, these 18 items could have existed for one year or several years, but 10 of them have been addressed. Chairman Lewis stated this report merits some review and the Commission reserves the opportunity to bring this back up at a later time if needed. Ms. Smith stated keep in mind that this report is as of June 30, 2002 and progress has been made since that time.

Chairman Lewis thanked Ms. Smith for both the child support report as well as the management document. He asked what reason is Bert Smith giving as to why they are so far behind. Ms. Smith responded with the June 30, 2002 report, they had to finish the GAAP and the GAAP was done in October 2002. A Request for Proposals for Accounting and Auditing Services was recently issued and in that RFP the Lottery has listed specific dates stating when the Management Report is due. The first contract lacked that specific statement.

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

Communications – Jimmy White, Director

Mr. Jimmy White stated a copy of his report is contained in the Commission's folders. He stated his Division has been busy with the Cash Encounters campaign. Preliminary drawings have been held since October 2002 to qualify 20 contestants for the game show that will be broadcast throughout the State. There are three preliminary drawings remaining. One drawing is this Friday evening in Prince George's County at Marlow

Liquors in the restaurant area. The next drawing will be April 11, 2003 and the final drawing will be April 25, 2003 at the Bay Bridge Boat Show. As of this morning, approximately 250,000 entries have been received. Mr. White stated at the Bay Bridge Boat Show the Lottery would also be conducting a live Pick 3 and Pick 4 drawing. The Bay Bridge Boat Show has become the Lottery's kick-off to the summer in the last couple years.

Mr. White stated the taping of the Cash Encounters show would be May 10, 2003. There are four games that will be played during the 30-minute show. The final game will award \$1 million to one of the 20 contestants that have been selected over the past six months.

Mr. White stated there has been a change in the format and the look of the Lottery drawings. There is a new set and the Pick 3 and Pick 4 drawings are not broken by a commercial. The drawings are separated momentarily by a product announcement or a winner awareness announcement.

Mr. White stated from January 26, 2003 through February 5, 2003, the clip service has submitted 13 clips to the Lottery. Eisner reviewed the clips and valued them at \$3,112. Copies of the clips are included in Mr. White's report.

Mr. White stated for the month of February, the Promotional Partners Program involved 26 stations doing promotions for the Lottery. Approximately \$5,400 in scratch-off tickets were distributed to the stations and the Lottery received an on-air value of approximately \$130,000 for that investment. The coverage was all over the State, including the Eastern Shore, Baltimore, Western Maryland, Southern Maryland and the Washington DC market.

Mr. White stated currently there are 18,500 members in the VIP Club. Of those 18,500 members, 15,000 have an e-mail address. During the month there were three contests held for a chance to win various prize packages.

Mr. White stated his report contains the Communications Division Schedule of Events. They are currently deciding where the Lottery will be going in the State throughout the summer. A number of the events are still under negotiations.

Mr. White stated his report also contains a copy of the Promotional Partners report for January.

Chairman Lewis asked what is the location of the boat show in Kent Island. Mr. White responded as you drive across the Bay Bridge just before getting off the bridge, on the right there is a marina and Hemingway's Restaurant. It is the biggest boat show in the State, possibly in the region. Roslyn Nelson and Brian Johnson will be the hosts for the day. There also is a radio partner and throughout the week leading up to the boat show, the radio station will be qualifying people to come to the boat show and be on stage to play games with the Lottery. Chairman Lewis asked what are the times of the show. Mr. White responded it is a three-day event that begins on Friday afternoon and runs through Sunday evening. The Saturday festivities will include the live Pick 3 and Pick 4 drawings

broadcast by WJZ. On Saturday, starting at 9:00 a.m. the Lottery will begin their activities on the stage.

Commissioner Reeder asked where is the million dollars being awarded for Cash Encounters. Mr. White responded it would be taped at the Flight 3 studio at Cold Spring Lane and the Alameda on Saturday, May 10, 2003.

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 is involved with IGT on a number of things, one of which the In Win Game. She has coordinated a requirements review meeting this month and has signed off on the changes and given that to IGT. She is expecting work to start on that game. IT has also worked with the Lottery's Product Development Division concerning some Lottery promotions. One of the promotions is a 550:1 Pick 3 promotion. In addition, IT has been working with IGT on replacing the Lottery's internal control system. The Lottery purchased the system from IGT approximately five or six years ago and it is IGT's desire to no longer remain in the business of maintaining that system. IGT is going to subcontract with another company to provide that internal control system. The company IGT is going to contract with is ELSYM, which is an industry-recognized company that provides internal control systems. She has met with the representative from ELSYM and has gone over the ICS. There were a few changes or enhancements that were requested and that project should be moving forward shortly.

Ms. Johnson stated the Lottery's Outlook Exchange Server was upgraded recently and some changes were made to the firewalls to address performance problems. The Lottery will complete the migration from Novell, which has been the Lottery's operating system for the last six years, to Microsoft. Representatives from Microsoft visited with IT this month and have offered to assist the Lottery with this migration.

Ms. Johnson stated IT is working with the Department of Budget and Management and Verizon to develop and review the paperwork required to initiate the second year of renewal options on the Lottery's contract. This contract will run from June 18, 2003 through June 17, 2004, at a cost of approximately \$4,500,000. This contract is a Department of Budget and Management contract that they have taken on for the Lottery since the Office of Information Technology at the Department of Budget and Management is responsible for telecommunications. This item is expected to be on the Board of Public Works' agenda on April 30, 2003.

Ms. Johnson stated a planned power outage occurred at the Lottery. Montgomery Park was doing testing and this is the first time that the Lottery was able to use its backup generator and there were no problems. She stated they were down from 10 a.m. to 2 p.m.

Unfortunately, the telephone system, which the Lottery shares with the Department of the Environment, was not back up until midnight due to some problems. She stated IT was able to communicate with IGT and others via cell phone. This gives her some background information to start planning for disasters, which is part of what has to be done for the Disaster Recovery Plan.

Ms. Johnson stated IT is working with UNISYS to upgrade the primary and backup computers. The upgrade will allow the Lottery to do some new things and use more server based and mainframe technologies. Currently, IT is in the process of upgrading the W-2 and check writer applications for AFO and also the bond and annuity system.

Ms. Johnson stated she has also been working on her audit actions. One of the audit items is to review the Keno Source Code, which they started working on this month. It required a trip to IGT in Clifton, New Jersey to obtain the Source Code and bring it back to Maryland for installation on a test system. She will be working with IGT to accomplish this. They are doing a full testing of the software as well as setting up some scenarios where they can actually make the software fail the way that they expect it to fail and make it work the way that they want it to work. Additionally, she is having the operators go back and review all the winning numbers for the last two years for the full time period of the audit to make sure all of the numbers that were entered into the system were correct. She found no problems or issues. She stated she has also changed the procedures so that the Lottery's operators are much more involved in making sure that the correct winning numbers are entered into the system and working closely with the IGT operators. Ms. Johnson stated a letter was developed explaining how the Lottery calculates penalties and it was sent to the Board of Public Works. The major project that she is working on is updating the Lottery's Disaster Recovery Plan. She and two of her staff have been to Disaster Recovery training that was conducted by the Department of Budget and Management.

Ms. Johnson stated yesterday she attended a one-day meeting in Chicago as part of the NASPL Steering Committee. This is a Steering Committee on Standards. There are two working groups, Best Practices and Technical Standards. The meeting was held to review the recommendations from those two groups. There were 17 items that are potential candidates for developing standards and she expects it will take approximately two years to get the standards in place, certified, and tested. She stated that Maryland is driving two of the initiatives and they received the highest ratings at the meeting. One item has to do with sweeping the retailer accounts and the other is providing open systems, which is mixing and matching games and hardware and not being tied into priority systems. The vendors are involved in this also--IGT, GTECH, Scientific Games, and OGT. They also want those open standards.

Ms. Johnson stated IT has also been involved in completing work on an Agency training database and continues to monitor radio transmissions at the Riverboat Lottery agent. She stated several new reports were developed this month and she is expecting six new printers to be delivered shortly from UNISYS to help the Lottery modify the check writing system for the Agency.

Commissioner Reeder asked if there were any problems with the wireless communication at the Riverboat retailer location. Ms. Johnson responded there have been no problems. Commissioner Reeder asked if the Lottery has considered looking into broadband communications. Ms. Johnson responded it was discussed but she does not think it is necessary because the Lottery transactions are not transactions that need that.

Chairman Lewis asked what is the promotion that was mentioned in Ms. Johnson's report. Ms. Johnson responded she has been working with Tracey Cohen on the 550:1 payout for Pick 3. If a player wins, instead of winning \$500, they would win \$550. Chairman Lewis asked how does that tie into IT. Ms. Johnson responded IT has to change the payout tables for the Pick 3 game because ordinarily it pays \$500 so they will have to go into the system and make whatever changes are necessary to make it pay \$550. They are working with IGT to get that done.

Ms. Cohen stated the Lottery is running a 550:1 promotion to raise awareness of the Pick 3 game. They want to bring back past players and entice the regular players. Payouts are being increased by 10 percent for a month from April 21, 2003 to May 18, 2003. The tag line is play your numbers before they play you. Over the course of the next year, additional fun promotions will be developed that can be tied into this campaign.

Commissioner Reeder stated Ms. Johnson mentioned that she is going before the Board of Public Works on April 30, 2003 for the Verizon contract. Ms. Johnson responded it is a Department of Budget and Management contract and she has attended the meeting in the last few years in case there are questions about the Lottery. Ms. Johnson said the Lottery is the only user on this contract.

Chairman Lewis asked if there were any further questions. Hearing none, Chairman Lewis accepted Information Technology's 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 instant sales for March are doing very well. For the week ending March 9, the Lottery hit its first \$7 million week in instant sales. He expects March of this year to do very well in instant sales. He stated their goal is to have another \$7 million in April. He stated there is a Sales meeting tomorrow and they are going to charge everyone up starting with the first of April to see if they can do better than one \$7 million week.

Mr. Jason stated his report contains information on the instant games in the field and in the warehouse, the final activation dates of games that are closing out in March and the games that are launching in March.

Chairman Lewis asked if \$7 million in instant weekly sales is an unusually high number or has it been reached before. Ms. Jason responded this is the first time that the Lottery reached \$7 million in weekly instant sales.

Commissioner Reeder asked when you reached the \$7 million, could each retailer be identified as to what their sales were. Mr. Jason responded each week the IT Division prints a report for the Sales Division. At the beginning of the year, agents were assigned with a quota as to what was expected of them in each game. The field reps review the quotas with their agents and use that as a monitoring tool to monitor how well each location is doing and how well each one of the field reps are doing. Commissioner Reeder asked do you give bonuses to the people who exceed their goal. Mr. Jason responded we have in the past and found it to be very labor intensive for the IT system. Last year an instant incentive program was run where agents could earn more money by activating more books.

Commissioner Reeder asked if there is any particular area of the State selling more tickets than other areas. Mr. Jason responded there was just a \$100,000 Keno winner in Frederick. Commissioner Reeder asked which agent sold that winning ticket. Mr. Roogow responded that information would be obtained for him. Mr. Jason stated the information would also be on the Keno monitors starting tomorrow.

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

Creative Services – Jill Baer, Director

Chairman Lewis stated contained in the Commissioners' folders is the report from Ms. Jill Baer report. He suggested that they review the information and it would be received in the Minutes later. If there are any questions, he will come back to them.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated the Senate passed the VLT Bill on Saturday, substantially amended from the Governor's version. Under the Senate Bill, the Commission will be increased from five to nine members. The requirements of the members are similar to what exist now with some additional requirements such as no Commissioner can have an official relationship with anyone who holds a video lottery license and no more than six members can be of the same political party. A member cannot hold financial interests in the VLT licensees in any way. The membership shall reflect the following: one member with experience in law enforcement, one with experience related to finance and investments, one who is a CPA, and one who has experience in the IT area. Each term is for four years. There would remain two separate Commissions with each Commission identifying a liaison to the other and the Governor would determine that appointment. This is the only direct relationship between the State Racing Commission and the Lottery Commission that exists in the Bill. The functions are similar to what existed in the Governor's Bill with the Commission having authority to oversee the licensing and background investigations. There have been no changes to the compensation at this point in time. If the House passes

the Bill and they may make further changes, those changes would be primarily in the revenues and not in the language of the law itself.

Mr. Roogow stated the revenue splits in the bill are as follows: 46 percent goes to the State Education Fund and 39 percent goes to the racing industry but the license fees have been reduced to \$5 million. They are talking about three tracks for the time being with the fourth track in Western Maryland slated to start in three years. Each track location will have authority for up to 3,500 VLTs. The Lottery Commission will receive in the first year 5 percent and years two and thereafter, receive 4.3 percent. The remainder goes to the purse enhancements and to the local development grants. Mr. Roogow stated that the Senate paid close attention to his advice on how to set up the terminals and the central system. The West Virginia model is a good one for the central system in which the Lottery would purchase the central system and run it itself. That technology would fall under Ms. Sandy Johnson's purview. It is a simpler system than the Lottery system because there are only four locations. Setting it up this way allows the Lottery in the first year to operate at 5 percent and once the system is purchased, reduce that percentage to 4.3 percent with only .3 percent of gross revenue being dedicated to the central system. The 4 percent of gross revenue would be dedicated to the machines. He has reviewed whether the machines should be purchased or leased. The Delaware or Rhode Island models are more effective and result in higher sales, and in this case, the Lottery would be purchasing or leasing the terminals from a vendor who would be contracted to operate, maintain and repair the terminals. The Bill requires that the Lottery have staff available 18 hours a day, so it would need 12 staff members for the three tracks, plus IT staff to operate the system and AFO staff to manage the accounting, for a total of approximately 37 to 38 employees.

Commissioner Reeder asked when would the slots Bill be effective. Mr. Roogow responded the Bill states it would go into effect on June 1, 2003. The key here is not going to be the State, but the tracks because of the potential zoning and permit issues that exist. The Lottery will do the Requests for Proposals for a central system and for machines. The best-case scenario is next spring. If the permits are on the fast track and move quickly, by next April or May it could be up and running with at least a limited operation. A likely case is the permits are going to take longer than that and then it would be into the next fiscal year.

Chairman Lewis asked if anything was said about distribution of the Lottery proceeds in the geographic areas. Mr. Roogow responded 4.75 percent would go to local development grants and the Bill identifies what those are. Mr. Roogow stated a copy of the Senate Bill can be obtained on the website. Commissioner Reeder asked what is the Senate Bill number. Mr. Roogow responded it is Senate Bill 322. This is the Senate Bill that was passed with many amendments, not the Governor's original Bill. For instance, \$390 per video lottery terminal each year must be delegated to compulsive gambling funds to treat and address compulsive gambling in full operation. Commissioner Reeder asked is this the Bill that passed 25 to 21. Mr. Roogow responded yes. He stated with regards to the distribution of 4.75 percent for local development grants, 1.78 percent goes to Baltimore City, 1.78 percent goes to Prince George's County, 0.7 percent goes to Anne Arundel County; 0.33 percent goes to Howard County; and 0.16 percent goes to the City of Laurel.

Commissioner Reeder asked if the Laurel racetrack was in Anne Arundel County or Howard County. Mr. Roogow responded it is in the City of Laurel, Prince George's and Anne Arundel Counties.

Mr. Roogow stated the Lottery's budget was approved in the Senate and the House but it still has to be initialized based on the full budget hearings. They cut about \$413,000 in the House and \$75,000 less in the Senate and that will be dealt with in the Conference Committee. There was an attempt to cut \$2.5 million on the budget floor, which failed.

Mr. Roogow stated he was going to make a general statement for the record about the Lottery's situation with its vendors. On the instant side, OGT is working very well with the Lottery and for the fourth year in a row, the Lottery is going to set a record. On the on-line side, he has had discussions with Ray Shaffer and his boss in Clifton and will continue to have discussions. He is not satisfied with the pace of development of the In Win game or any of the other priorities that have been identified. He believes that there has to be improvement and that the Lottery needs to get the promotions and new game features in place in a more rapid timeframe. He stated he does not believe IGT's process of moving these things along has been at the level that he thinks they all thought it would be. The Lottery is caught in a situation where it waits for one thing, and therefore, has trouble getting anything else. Anything else the Lottery puts on its schedule to get approved ends up possibly costing the Lottery time in getting Instant Win approved. We have to improve that level of performance.

Chairman Lewis asked who is the House promoter of the VLT Bill. Mr. Roogow stated Chairman Pete Rawlings has promoted the Bill. The Bill is scheduled to be heard at some point in the House Ways and Means Committee, which is chaired by Sheila Hixson. Both of them have been known to be proponents of the program. However, the newspaper this morning stated that Speaker Busch has taken the Bill off the agenda of the Ways and Means Committee. Chairman Lewis stated it is interesting to note that as much as this Bill has been handled and as much as the specific requirements have changed, that they have not looked at compensation. Mr. Roogow responded he has mentioned it to them. Chairman Lewis stated since these are not two separate Commissions, are they using the same compensation scale for the Racing Commission. Mr. Roogow stated he does not believe there is any compensation for the Racing Commission except a per diem. Chairman Lewis stated they are all interested parties. Mr. Roogow responded yes, and the Racing Commission's responsibilities have not changed, only the Maryland Lottery Commission has substantial new responsibilities. Chairman Lewis stated he would envision in the future, regardless of who is involved in the Commission, that the frequency of meetings are going to be less predictable and even if it is a standard amount for compensation, that amount has to be considered in the context in frequency. Mr. Roogow stated in the beginning the Commission will be very busy and he would probably need to hire another attorney and someone to help put regulations together.

Commissioner Reeder asked what is the status of the legislation that wanted to take the Lottery's unclaimed prize fund. Mr. Roogow responded the Bill failed.

Ms. Meltzer will update the Commission on the Requests for Proposals that the Lottery is currently pursuing.

Mr. Roogow stated sales are \$26.5 million ahead of last year and revenues are \$9 million ahead of last year. Commissioner Reeder asked if more states get involved in the Mega Millions game, is there the possibility of bigger jackpots. Mr. Roogow responded they want to bring in Texas and the matrix might possibly be changed again and make the jackpot harder to hit. Maryland has not had a jackpot winner in almost two years. Commissioner Reeder asked do you think Texas will join Mega Millions. Mr. Roogow responded Texas has to pass the legislation that is in their General Assembly and then they have to decide whether they want to join Powerball or Mega Millions. Commissioner Reeder asked are there currently ten states covering 93 million people. Mr. Roogow responded yes and stated Texas would add another 20 million people.

Chairman Lewis asked is the Lottery doing anything special on the route to Ocean City for advertisement. Mr. Roogow responded on Monday he met with Tom Osborne, the head of the Maryland Transportation Authority whose Department takes care of the tolls all over the State. They want to conduct a Reach the Beach program over the summer in which one day a week, either Friday evening and Saturday morning or Saturday evening and Sunday morning, there would be no toll charge to cross the bridge and reach Ocean City. Their law does not permit them to give up the money because they have bonds and they are looking for advertising sponsors. The Lottery has talked with them and they have asked if the Lottery would be interested in being a sponsor and this may fall in perfectly with the Lottery's summer promotion. The Lottery is working on that and will keep the Commission updated.

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

REPORTS (continued)

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson distributed her report to the Commission. She stated there is one revocation to present to the Commission this morning on Bay Mart. The owners' names are Mr. And Mrs. Alviani and Dennis Alviani. The business is located at 69 Old Bottom Mill Road, Annapolis, Maryland. A few weeks ago, a summary of the facts pertaining to the revocation of Bay Mart was sent to the Commission. The agent was failing to submit timely and proper settlements for ticket revenues. As a result, the Lottery required the agent to post a bond. The agent refused to provide the bond and their terminal was turned down on June 20, 2002. They have since closed their location and they are applying for new ownership. The revocation letter was sent on January 27, 2003. The Lottery received the signed certified card back on January 30, 2003. The owner called and said they would not be appealing the revocation, they are no longer in business and that they would not sign the voluntary termination form. Ms. Johnson requested that the Commission uphold the

Director's recommendation to revoke the license of Bay Mart.

Chairman Lewis stated a recommendation is before the Commission to uphold the Director's revocation of the license of Bay Mart. Are there any questions or concerns. Commissioner Hein asked is Old Bottom Mill Road the correct name or is it Old Mill Bottom Road. Ms. Johnson responded she would check on the street name. Chairman Lewis asked if there was a motion to uphold the Director's decision to revoke the license of Bay Mart. Commissioner Payne made a motion to uphold the Director's decision to revoke the license of Bay Mart and it was seconded by Commissioner Reeder. Chairman Lewis requested a vote and the decision to uphold the revocation was unanimous.

Ms. Johnson stated a revocation hearing that was tentatively scheduled for today on Party Time Beer and Wine was postponed. She has had discussions with their attorney. They may cancel the request for the hearing, but for now it is tentatively scheduled for the April 23, 2003 meeting. As she has indicated before, if the hearing does go forward, it will last for about 1½ hours.

Ms. Johnson stated last month she had informed the Commission about a tort lawsuit that had been filed against the State. The Lottery has been able to settle that case with the person involved. In this situation, a Lottery employee had run into the back of another person's vehicle with a Lottery vehicle. The State Treasurer's Office also got involved and felt it was in the State's best interest to settle the case and it has, in fact, been settle.

Ms. Johnson stated last year Representative Leach had introduced the Leach Bill. This year Senator Jon Kyle is also introducing another bill called the Kyle bill. There have been several attempts at federal legislation to prohibit Internet gaming. This bill is also directed against credit card issuers that would be needed to facilitate on-line gambling. Chairman Lewis asked would on-line gaming allow a person to use his bankcard as opposed to a standard credit card. Ms. Johnson responded she does not know about that because on-line gambling is illegal in Maryland and she can only speak to that. She does not know if a person can go to the Internet site and do that. She does know that if a credit card company were to issue credit for a gambling transaction, that transaction would be prohibited. Chairman Lewis asked does this particular bill tend to prohibit credit card use, or does it prohibit ATM use. Ms. Johnson stated that would be a cash transaction. If that were the case and that facilitated a bank then she thinks that they would go after the banks for allowing that transaction to occur. ATMs are considered cash transactions and not credit transactions. Chairman Lewis stated he wondered whether anyone ever actually monitors ATM or direct bankcard transactions or do they just do a numerical deduction. Mr. Roogow stated in the Senate Bill on the VLTs it forbids the use of credit cards but does not prohibit the use of ATMs.

Ms. Johnson stated the Legal Division is also working on trademarks filings, processing contracts, liens, and procurement matters.

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 all the activities her Division is involved in are detailed in the report. She stated the quarterly tracking study is in the field now. This study is to monitor participation in Lottery games and track the effectiveness of the Lottery's advertising. There are scratch focus groups planned for April. She is including Cumberland in this round of focus groups. She stated they reach out to one of the outlying areas a few times of year. She stated the results of the annual employee survey were completed and they indicate good results. Briefly, the overall job satisfaction among Lottery employees has increased. The Lottery is not quite near its goal for MFR, but it has increased.

Dr. Ellis stated the agent survey is currently in the field. She stated that there are numerous Korean retailers in the agent network and in order to include their responses and their ability to provide feedback on how the Lottery services them, a Korean translation of the survey was also done and she has received some of the responses back. She thanked Joe Jason and his Sales staff for helping her to identify the Korean agents. They had to be asked in English whether or not they would prefer to receive the Korean or English version. This is the first time they tried to tackle something like this, but they are trying to be responsive to everyone. Chairman Lewis asked is it one survey in both languages. Dr. Ellis responded there is an English version and a Korean version, two separate surveys.

Commissioner Reeder asked how many Korean agents are there in the State. Dr. Ellis responded there are approximately 400 Korean agents. Commissioner Reeder asked are they located in one geographic area. Mr. Jason stated a lot of Korean agents are in the DC area and in Baltimore area. Chairman Lewis stated you are talking about 10 to 15 percent of Lottery agents and that is a significant number. Mr. Roogow stated that is the largest minority. Dr. Ellis stated we received some responses back, and interestingly, about half of the Korean agents indicated that they want the survey in English and half wanted it in Korean. At least now we know we can take into account those options and also service them accordingly.

Dr. Ellis stated the Lottery has been officially notified that the auditors are going to be coming to the Agency to do the MFR audit. The entrance conference is on Monday, April 7, 2003. Gina Smith and the MFR team will be working in concert to handle those issues. Basically, the auditors are looking to make sure that the Lottery has formal definitions written of what the measures are and they only selected three of the Lottery's MFR measures and the Lottery has have about 10 to 15. They are looking for internal controls, if anyone else can gain access to the Lottery's data, and does the Lottery have proper safeguards on its data. They also are looking at any outside third party data that the Lottery collects. She will keep the Commission updated.

Dr. Ellis stated the Procurement and Minority Business Enterprise Team attended the Annual Procurement Fair on March 14, 2003. Sharon Pinder, the new Executive Officer of

the Governor's Office of Minority Affairs, the Governor and the Lt. Governor also attended this conference. Some highlights of the potential changes in the MBE program are looking at taking away the Maryland Department of Transportation's responsibility in the certification process and placing it in the Governor's Office of Minority Affairs. They are looking at eliminating the Maryland based certification and using the Federal 8A certification as the State's way of certifying minority business. This will be a huge change in the MBE program that she will keep watching.

Chairman Lewis asked are the federal procedures more restrictive than the State procedures. Dr. Ellis responded she has some familiarity with the 8A Program and she thinks it will be more difficult for a Maryland business to get certified as 8A.

Chairman Lewis stated it seems as if there are going to be significant levels of uncertainty relative to the status of some of the Commission members for a period of time beyond the next NASPL Conference. The Commissioner had some interest to make sure that there was some visibility and participation over what it has been in the past. We need to communicate with them and revisit the question of what their interests are and how the Commission might be able to help facilitate that participation. Mr. Roogow responded yes, and asked Dr. Ellis and Mr. White to talk to Chairman Lewis about this. Chairman Lewis stated we have to move on that because we do not know what will be the case between now and October. Mr. Roogow stated that was a very successful element of the NASPL Conference last year and he would like it to continue. Chairman Lewis stated he feels that the Commission stepped forward to take the initiative and it would be unfortunate if they let it fall through.

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

Product Development – Tracey Cohen, Director

Ms. Tracey Cohen distributed a copy of her report to the Commission. She stated she already spoke about the Pick 3 550:1 promotion. Also for the month of June, the Lottery is planning do a Keno promotion increasing the Keno top prize on the ten spot to \$250,000 to raise awareness of Keno going into the summer months. Chairman Lewis asked what is the current top prize on the ten spot. Ms. Cohen responded the top prize is \$100,000.

Ms. Cohen stated some other summer promotion ideas they are also looking at is running an on-line menu promotion. For example, Pennsylvania did this within the last three years and it was very successful. They called it Keystone Café. Basically, players go in and order different menu items. For instance, number one would be a jackpot sampler and number two could be 7 for 6 on Pick 3. She will update the Commission at next month's meeting with further details on this promotion.

Ms. Cohen stated there are five instant tickets to present to the Commission.

Game #401 *Fast Cash Bingo* is a \$1.00 ticket with a top prize of \$1,500 and a ticket quantity of 2 million. It has a playstyle of bingo and features multiple win. The odds are 1:4.54 with a payout of 59.97%. It is a bingo theme and has a launch date of April 2003.

Game #408 *Baseball Bucks* is a \$1.00 ticket with a top prize of \$1,000 and a ticket quantity of 2 million. It has a playstyle of match three and features bonus symbol. The odds are 1:5.11 with a payout of 59.98%. It is a sports theme and has a launch date of April 2003.

Game #409 *Hole in One* is a \$1.00 ticket with a top prize of \$2,000 and a ticket quantity of 2 million. It has a playstyle of fifty-fifty, yours beats theirs and features bonus game and multiple games. The odds are 1:4.97 with a payout of 59.96%. It is a sports theme and has a launch date of April 2003.

Chairman Lewis asked what factor most influences the payout variance. Ms. Cohen responded it is the price of the ticket. Mr. Roogow stated the lower dollar tickets usually have a 59 or 60 percent payout. Chairman Lewis stated the tickets being presented are \$1 tickets and one of them has odds of 1:5.11. Ms. Cohen responded the prizes and how the game is played determine the odds.

Chairman Lewis stated three instant tickets have been presented to the Commission and asked the Principal Counsel if they have been reviewed for legal sufficiency. Ms. Johnson responded Game #401 *Fast Cash Bingo*, #408 *Baseball Bucks* and #409 *Hole In Won* have been reviewed and approved for legal sufficiency.

Chairman Lewis stated Game #401 *Fast Cash Bingo* has been presented and requested a motion. Commissioner Reeder made a motion to approve Game #401 *Fast Cash Bingo* and Commissioner Hein seconded it. Chairman Lewis stated it has been moved and seconded that Game #401 *Fast Cash Bingo* be approved and requested a vote. Game #401 *Fast Cash Bingo* was approved by unanimous vote of the Commission.

Chairman Lewis stated Game #408 *Baseball Bucks* has been presented and requested a motion. Commissioner Payne made a motion to approve Game #408 *Baseball Bucks* and Commissioner Hein seconded it. Chairman Lewis stated it has been moved and seconded that Game #408 *Baseball Bucks* be approved and requested a vote. Game #408 *Baseball Bucks* was approved by unanimous vote of the Commission.

Chairman Lewis stated Game #409 *Hole In One* has been presented and requested a motion. Commissioner Hein made a motion to approve Game #409 *Hole In One* and Commissioner Payne seconded it. Chairman Lewis stated it has been moved and seconded that Game #409 *Hole In One* be approved and requested a vote. Game #409 *Hole In One* was approved by unanimous vote of the Commission.

Ms. Cohen continued to present the instant tickets for approval.

Game #410 *Trucks N' Bucks* is a \$1.00 ticket with a top prize of \$1,500 and a ticket quantity of 2 million. It has a playstyle of key symbol match. The odds are 1:4.54 with a payout of 59.97%. It is a sports theme and has a launch date of May 2003.

Game #411 *1st Down Doubler* is a \$1.00 ticket with a top prize of \$1,200 and a ticket quantity of 2 million. It has a playstyle of beat the score. The odds are 1:5.01 with a payout of 59.97%. It is a sports theme and has a launch date of August 2003.

Chairman Lewis asked the Principal Counsel if these instant tickets have been reviewed for legal sufficiency. Ms. Johnson responded Game #410 *Trucks N' Bucks* and Game #411 *1st Down Doubler* have been reviewed and approved for legal sufficiency.

Chairman Lewis stated Game #410 *Trucks N' Bucks* has been presented and requested a motion. Commissioner Payne made a motion to approved Game #410 *Trucks N' Bucks* and Commissioner Hein seconded it. Chairman Lewis stated it has been moved and seconded that Game #410 *Trucks N' Bucks* be approved and requested a vote. Game #410 *Trucks N' Bucks* was approved by unanimous vote of the Commission.

Chairman Lewis stated Games #411 *1st Down Doubler* has been presented and requested a motion. Commissioner Hein made a motion to approved Game #411 *1st Down Doubler* and Commissioner Reeder seconded it. Chairman Lewis stated it has been moved and seconded that Game #411 *1st Down Doubler* be approved and requested a vote. Game #411 *1st Down Doubler* was approved by unanimous vote of the Commission.

Chairman Lewis stated the instant tickets are approved as submitted.

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

Procurement – Suzanne Meltzer, Procurement Director

Ms. Suzanne Meltzer stated she wanted to update the Commission on several Requests for Proposals that the Lottery is working on. A Request for Proposals for Instant Ticket Vending Machines was recently issued. The Lottery desires to purchase or lease up to 300 additional ITVMs and are considering procuring 16-bin, 20-bin and/or 24-bin units.

Ms. Meltzer stated the Lottery issued a Request for Proposals for Auditing and Accounting Services yesterday. The current auditing and accounting contract ends at the end of June 2003.

Ms. Meltzer stated a Request for Proposals for Professional Consulting Services Related to a Video Lottery Terminal Program was also issued. If the VLT legislation passes, the Lottery would issue two Request for Proposals, one for a central system and one for the

machines. The consulting services would help the Lottery draft the Request for Proposals, serve as a technical advisor during the evaluation period and also assist the Lottery in the implementation of the central system and the terminals. The Pre-Proposal Conference for this Request for Proposals is tomorrow.

Chairman Lewis asked which contract ends in June. Ms. Meltzer responded the auditing and accounting contract with Bert Smith ends in June 2003. Ms. Meltzer stated she would keep the Commission updated on the progress of these Requests for Proposals.

COMMISSION COMMENTS

Chairman Lewis stated he wanted to thank everyone for their reports and their continuous work on behalf of the State and the people of the State. On behalf of the Commission he asked everyone to be mindful of and pray for our military women and men as they participate in the war and hope that they come home safe and sound very soon.

ADJOURNMENT

There being no further business, the meeting adjourned at 11:55 a.m.

Respectfully submitted,

Buddy Roogow