

**MARYLAND STATE LOTTERY COMMISSION
NOVEMBER MINUTES**

DATE: November 19, 2003
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure
Commissioner Osborne A. Payne
Commissioner Bruce L. Reeder
Commissioner E. Randolph Marriner – via telephone

Buddy Roogow, Director
Andrea Johnson, Principal Counsel
Gina Smith, Assistant Director and CFO
Sandra Johnson, Chief Information Officer, Information Technology
Tchicaya Ellis, Ph.D., Director, Research and Planning
Jill Baer, Director, Creative Services
Tracey Cohen, Director, Product Development
Jimmy White, Director, Communications
Paul Dorsey, Director, Policy and Development
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

**OTHERS
PRESENT:** Ray Shaffer, Scientific Games
David Blum, Eisner Communications

CALL TO ORDER

Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:10 a.m.

EISNER COMMUNICATIONS

Mr. David Blum, Senior Vice President, stated Eisner is in the production mode for all materials needed for the balance of the winter and spring. The Scratch Cam television commercial for the holiday was shot and is in the editing process.

Production will begin this week on the Mega Millions television commercial. The commercial is being shot in Hampstead, Maryland this Thursday or Friday.

Mr. Blum stated Eisner is working on the point-of-sale efforts for the Lotto promotion, InWin and Keno. Next month, he will have a few items to present to the Commission.

Commissioner Reeder asked what were the results of the awards at the recent NASPL conference. Ms. Baer responded the Lottery won Batchy awards for the Mega Millions jackpot commercial, the Crab TV spots and one of the Pick 3 print ads.

Chairman Bonaventure asked if it is more advantageous for the Lottery to shoot commercials outside the State of Maryland. Mr. Blum responded by providing a discussion about the economics of locations and stated that Eisner is looking for and doing the best for the Lottery.

SCIENTIFIC GAMES

Mr. Ray Shaffer, Account Executive, stated on November 7, 2003, IGT became part of the Scientific Games organization. Yesterday, he had an opportunity to meet with the Vice President of Operations and a number of other individuals from Scientific Games.

Mr. Shaffer stated software testing is on schedule for InWin and the one millionth Keno drawing and should be installed in mid-February 2004 at test locations and then installed statewide by February 23, 2004.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated sales are \$7.5 million ahead of last year. Revenues are \$4.3 million ahead of last year. The Lottery gained in Pick 3 over the past month due to the Pick 3 Match-up promotion. He then gave a brief description of the promotion. On November 29, 2003, the Lottery will broadcast the winning numbers to award the \$25,000, \$50,000 and \$100,000 (taxes paid) prizes.

Pick 4 is showing continued growth. Keno is slightly behind last year, but by the next month, sales should be ahead. Keno Bonus is \$2.7 million ahead of last year. Instants are setting records. Several weeks ago, the Lottery had a \$7 million sales week in instants. Mega Millions and Lotto sales are behind last year. Lotto jackpots are being hit more often. Mr. Roogow stated the Lottery's revenue estimate was reduced from \$470 million to \$449 million.

Mr. Roogow stated he is working with Lori Nash and Carole Everett to develop matrix ideas for the Mega Millions game. With Texas in the Mega Millions group, the jackpot may be hit more frequently, and California is looking to join Mega Millions. If that happens, then the matrix will have to be changed. He will keep the Commission updated.

Mr. Roogow stated he, Paul Dorsey and Carole Everett visited the Rhode Island Lottery last Thursday for a discussion on slots. The Rhode Island Lottery has a good program and is doing well. Paul Dorsey will be giving a presentation to the Commission concerning slots later in the meeting.

Mr. Roogow stated the British Airways agreement has been signed and he thanked everyone involved. The Lottery appears before the Board of Public Works on December 3, 2003 for approval of the contract. The Lottery will launch an instant ticket called "Big Ben Bucks" and a sample of the artwork was shown to the Commission. It is a \$5 ticket with a top prize of \$30,000 plus 100 prizes of two round trip tickets from BWI Airport to London on British Airways with spending money and expense money to pay the taxes. BWI is supporting the promotion and British Airways will hand out literature about the Lottery game. Mr. Roogow stated that the Lottery will purchase the round trip tickets below market price and that if there was some unusual decline in sales, the Lottery would resolve with its relationship with the parties.

Mr. Roogow stated he is meeting tomorrow with people from Scientific Games to go over various issues, such as Sunday mid-day drawings for the Pick 3 and Pick 4 game, the InWin game, a new monitor game and a warehouse program.

Chairman Bonaventure stated in the Sales and Revenue report, the amount of revenue turned over to the Maryland Stadium Authority for FY2004 is \$10.9 million and for FY2003 it was \$16.4 million, a \$5.5 million difference. Why is there a difference in the fund amounts. Mr. Roogow responded the Lottery is only required to give \$21 million to the Maryland Stadium Authority by the end of the fiscal year. Last year, the Lottery had some big jackpots in Mega Millions, which resulted in higher sales. All revenue from Mega Millions goes to the Maryland Stadium Authority. Last year, the Lottery used revenue from several scratch-off games, but has now determined that it can fulfill the obligation with only Mega Millions revenues.

Commissioner Reeder stated he noted that \$2.4 million of the unclaimed prize fund was used for the Summer Keno Doubler promotion and asked if this is higher than normal. Mr. Roogow responded no, it is slightly lower than normal.

Commissioner Reeder asked where were the \$1 million and \$3.3 million winning Lotto tickets purchased. The response was the \$1 million winning ticket was purchased in Baltimore and the \$3.3 million winning ticket was purchased in Hagerstown. A \$5.5 million winning Lotto ticket purchased in Silver Spring still remains unclaimed.

REPORTS

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

Dr. Tchicaya Ellis distributed her report to the Commission. She stated page three of the report contains an Executive Summary of the September 2003 Tracking Study. This is a quarterly collection of core tracking, advertising, and special topics.

An analysis of Lottery subscription holders was done to determine if there were any player behavioral patterns. She stated she would provide a summary of the report to the Commission at next month's meeting.

Commissioner Payne entered the meeting at this point in time.

Dr. Ellis stated at this time, no action needed to be taken on the Commission's part regarding the MBE waiver request for the Replacement Parts for the Instant Ticket Vending Machines Contract and the item was removed from the meeting agenda.

Dr. Ellis stated the Lottery received an MBE waiver request from Eisner Communications for FY2004. Commissioner Marriner asked if Eisner had submitted an MBE plan within their response to the Advertising RFP, which was then incorporated into their contract with the Lottery Agency. If so, why would the Lottery Agency entertain a waiver because Eisner was unable to meet their MBE obligation. Dr. Ellis stated that the request is currently under review. She stated there are a series of steps that the vendors follow in filing MBE waiver requests. More details should be available next month. Chairman Bonaventure asked under the statutes, does the Commission have a responsibility in approving the Director's decision concerning MBE waiver requests. Ms. Johnson responded an MBE waiver is a provision of a contract and because it is a contract provision, approval is required.

Dr. Ellis stated that attached to her report is the Lottery's MBE participation report for the first quarter of fiscal year 2004 (July to September 2003). The overall percentage for the first quarter is 6.04%. She stated that the Lottery's MBE goal for the fiscal year is 25%. The Lottery is not near where it needs to be for the year. Chairman Bonaventure asked what does the Lottery intend to do to meet this goal. Dr. Ellis responded they would monitor the contracts and carefully review any MBE waiver requests. There was further discussion about the MBE goals and waiver requests. The Chairman stated he would like to see the Lottery's plan as to how it can improve and meet its MBE goal.

APPROVAL OF MINUTES

Chairman Bonaventure asked if there were any changes or corrections to the Minutes for October. Hearing none, Commissioner Reeder made a motion that the Minutes be approved and Commissioner Payne seconded the motion. The Minutes were approved by unanimous vote of the Commission.

REPORTS (continued)

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson distributed her report to the Commission. She stated there were no revocations to present to the Commission this month.

Ms. Johnson stated the work on the British Airways contract has been completed and signed. British Airways would not commit to a definite date of March 31, 2005. There is language in the Lottery's game rules that will attempt to protect the Lottery in the event British Airways decides to leave BWI before the end of the contract. Two first-class round trip tickets cost \$11,222.

Ms. Johnson stated there was an issue raised at last month's meeting concerning the Eisner commercial that was similar to a beer commercial. She received a copy of a memorandum that was sent to Jill Baer from Eisner that addresses this legal concern. She read the memo to the Commission. A copy of the memorandum was also provided to the Commission. Ms. Johnson stated she would review this further.

Ms. Johnson stated that the Chairman requested that she review the duties and responsibilities of the Lottery Commission. She then gave a summary of those duties and responsibilities and would provide a copy in writing to the Commission.

Administration, Finance and Operation – Gina Smith, CFO

Ms. Gina Smith distributed a copy of her report to the Commission. She stated the audited financial statements for July and August 2003 were previously mailed to the Commission, and a copy of the audited financial statement for September 2003 was contained in the Commission's folders. She then distributed a copy of the unaudited financial statement for October 2003. She stated for the month ending October 31, 2003, the Lottery's total income allocation was \$36.9 million, and year to date at the end of October, it was \$145.5 million. There was nothing unusual to report in the unaudited statement.

Ms. Smith stated that as of November 17, 2003, there have been 5,443 winners of the \$250 prize in the Pick 3 Match-up promotion. The Customer Resource Center has handled 3,001 claims to date. The last claiming date is December 31, 2003.

Ms. Smith stated that she met with the Department of Budget and Management on November 7, 2003 to review the Lottery's FY2005 budget request. The Lottery requested that \$3 million in advertising be restored, but the Department of Budget and Management agreed to only restore \$2 million. This has to be reviewed by the Legislature. Ms. Stacy Porter is the Lottery's new Legislative Services Budget Analyst. Ms. Smith stated Ms. Porter met with her and Michael Cover to learn about the Lottery and its games.

Ms. Smith stated they are monitoring the FY2004 budget to stay within spending limits. She stated they are working on closing out the FY2003 budget and working with Montgomery Park on the remaining build-out costs.

Ms. Smith stated the Security Division and Claims Center are obtaining all the claim forms from the agent plus locations so that the W-2G's can be generated.

Ms. Smith stated a meeting was held with the Bank of America regarding Positive Pay. Positive Pay is a feature that is offered by the bank to help prevent check fraud. The Lottery would remit a tape to the bank on a daily basis advising them of checks that were issued during the day. If a check is presented that is not on the listing, the bank will flag the check as suspicious and the Lottery will have to investigate to determine if it should be paid. However, a majority of our players leave the Claims Center and immediately go to the bank to cash their check. In this case, the bank will not have a record of the check since the overnight process did not occur. The bank would then call the Lottery to verify. She is working on internal procedures to implement this process by approximately December 2003. She stated she is also working with the bank to identify other economical services they may offer. Chairman Bonaventure asked if Bank of America could give the Lottery real time information. Ms. Smith stated that they could not.

Ms. Smith stated each year the IRS has sent the Lottery a penalty letter stating that the Lottery issued W-2G's and 1099's that do not agree with the IRS records. The IRS has waived the penalty fine in the past. However, this year, they requested all documentation that we sent requesting the corrected information. AFO is working on gathering that information to send to the IRS.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson distributed her report to the Commission. She stated the IT Division continues to work with Scientific Games and the other Lottery Divisions on the plans for the one millionth Keno drawing, the Sunday mid-day Pick 3 and Pick 4 drawings, InWin and the Lotto promotion. The Pick 3 Match-up promotion is in production and IT is generating daily reports for management, and updating the databases in preparation for the grand prize drawing.

Ms. Johnson stated the software for the new ICS provided by Elsym, a subcontractor of Scientific Games, was installed at the Lottery. Elsym provided training manuals and onsite

training for IT Operators. Testing will continue for approximately two weeks before final acceptance and cut over to the new system.

Ms. Johnson stated a meeting with the Legislative Audit IT Unit was held to follow up on their audit recommendations. One recommendation is the use of a utility to compare the program code that IT programmers change before and after the program goes into production. IT has identified a product that will work with the Lottery's UNISYS hardware and software. It was tested and the Lottery will implement it in December. Another recommendation was adding more security to the Lottery's remote access authentication so that authorized users would be required to change their passwords on a regular basis. Additional software has been added to the system to accommodate that recommendation. The third recommendation was that the Lottery takes over draw control operations that include observing and tape recording the drawings, entering the winning numbers in Scientific Games' system and placing the games into pay status. Procedures have been drafted. IT expects to assume the draw control functions after the first of the year.

Ms. Johnson stated the NASPL Standards Committee has released a call for input to the NASPL Executive Committee on three standards: the quality assurance standard, accounting best practices and the use of instant ticket barcodes. Responses received will be reviewed for inclusion in the draft standards that will be forwarded to the Steering Committee for review. The final step is review and approval by the Executive Committee.

Communications – Jimmy White, Director

Mr. Jimmy White stated a copy of his report is contained in the Commission's folders. He stated the report highlights a number of events that the Division has been involved in and information on Lottery winners.

Mr. White stated that the Pick 3 Match-up winning numbers for the \$25,000, \$50,000 and \$100,000 prizes will be broadcast Saturday, November 29, 2003 between 7:30 p.m. and 8:00 p.m. It will be broadcast again on Sunday during the Ravens Game on Fox 45.

Mr. White stated Eisner evaluated the news articles and determined that they were valued at \$4,320.

Mr. White stated the Promotional Partners Program provided scratch-off tickets for promotions to 25 radio stations. The Lottery distributed \$5,290 worth of scratch-offs tickets to these radio stations and received \$131,713 in promotional value.

Creative Services – Jill Baer, Director

Ms. Jill Baer distributed a copy of her report to the Commission. She stated there would be a two-week flight of radio spots to promote the Pick 3 Match-up promotion. Ten to 15 second messages encouraging viewers to tune into the drawing on WJZ began on

November 24, 2003. Print ads that repeat the winning numbers will run in the Sunday edition of the Baltimore Sun on November 30, 2003. A 60-second version of the drawing will air on Fox 45 during the Ravens Game on November 30, 2003.

Ms. Baer stated a two-week flight of statewide holiday TV will begin at the end of November. "Hampden Lights" spots will run and Scratch Cam shots will run tagged with various holiday scratch tickets.

Ms. Baer stated they are making progress with the Orioles working on the details for next year's 50th anniversary. She does not have information available as of yet.

The Director filmed another segment of Headline News on Comcast on November 18, 2003. It will air the week of December 15, 2003.

Ms. Baer stated work continues with the Virginia Lottery on a continuation of the Mega Millions partnership. The Maryland Lottery Director approved production of three new Mega Millions spot. She met with the Virginia Lottery on Monday on the new joint spots.

Sales – Joseph Jason, Deputy Director

Mr. Joseph Jason was not present at the meeting due to illness. A copy of his report is contained in the Commission's folders.

Procurement – Suzanne Meltzer, Procurement Director

Ms. Suzanne Meltzer stated she is requesting the Commission's approval of the British Airways contract. A question was raised if there were any business risks. The response was it rests on the ability to sell the tickets. It will cost the Lottery \$90,000 to print the tickets. One of the risks is if for some reason British Airways pulls out of BWI sooner than the contract allows. The risk to the Lottery is one-half of the printing costs, which would be \$45,000, and British Airways agreed to be responsible for **the other** half.

Chairman Bonaventure made a motion to approve the contract and Commissioner Payne seconded it. The contract was approved by unanimous vote of the Commission.

Ms. Meltzer stated she is also requesting the Commission's approval of the Contract for Replacement Parts for ITVMs. She had previously sent to the Commission a draft copy of the contract. However, she was recently advised by the Department of Budget and Management to do a modification of the ITVM Contract that was approved in June 2003 by the Board of Public Works. Ms. Meltzer requested approval of Contract Modification. Chairman Bonaventure made a motion to approve the Contract Modification and Commissioner Reeder seconded the motion. The motion passed with unanimous vote of the Commission.

Ms. Meltzer stated she previously mailed copies of the draft RFP for Consulting Services related to a VLT Program to the Commission.

Product Development – Tracey Cohen, Director

Ms. Tracey Cohen stated a copy of her report is contained in the Commission's folders. She stated she is continuing to work on developing new ideas. She is working on the final details of the Lotto promotion that is scheduled to start in late February 2004.

Policy & Development – Paul Dorsey, Director

Mr. Paul Dorsey stated contained in the Commissioner's folders was a copy of a report on video lottery terminals. The report provides an overview of Maryland's situation for last year and the present situation. It also contains an overview of video lottery terminals regarding the central system and VLT machine vendors. Additionally, the report contains information on states with VLT programs at racetracks alone and other statistical data. Mr. Dorsey then gave a brief summary of the report.

COMMENTS BY THE CHAIRMAN

Chairman Bonaventure stated he testified before the Mandel Commission. Chairman Bonaventure stated he would like to hold another Commission meeting on Friday, November 28, 2003 at 9:00 a.m. at Lottery headquarters to discuss the draft of the Mandel Commission Report.

REPORTS (continued)

Product Development – Tracey Cohen, Director

Ms. Cohen continued presenting information on the instant tickets of which working papers have not yet been finalized. The following pending instant game financials were presented to the Commission for their review and approval.

Big Ben Bucks Game is a \$5.00 instant ticket with a prize payout of 76.17%. If 95% of the tickets are sold, the profit would be \$1,025,536. If 100% of the tickets are sold, the profit would be \$1,079,512. A motion was made to approve this game and the vote by the Commission was unanimous to approve this game.

Game #460 *Lucky 7's* is a \$5.00 instant ticket with a prize payout of 73.08%. If 95% of the tickets are sold, the profit would be \$1,327,899. If 100% of the tickets are sold, the profit would be \$1,397,788.

Game #464 *Lucky Loot* is a \$5.00 instant ticket with a prize payout of 72.65%. If 95% of the tickets are sold, the profit would be \$1,369,975. If 100% of the tickets are sold, the profit would be \$1,442,079.

The above tickets have been reviewed and approved for legal sufficiency by the Lottery's Legal Division.

Commission Reeder made a motion to approve Games #460 *Lucky 7's* and #464 *Lucky Loot*. Commissioner Payne seconded the motion. The above instant tickets were approved by unanimous vote of the Commission.

ADJOURNMENT

There being no further business, a motion was made to adjourn the meeting until the next meeting on November 28, 2003 at 9:00 a.m. followed by the December 17, 2003 meeting at 9:00 a.m. Commissioner Reeder seconded the motion. The meeting adjourned at 11:10 a.m.

Respectfully submitted,

Buddy Roogow