

**MARYLAND STATE LOTTERY COMMISSION
DECEMBER MINUTES**

DATE: December 17, 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

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
Frank Hemberger, Sales Manager
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.

Chairman Bonaventure informed the Commission and those present that Commissioner Carl Hein had submitted his resignation and the resignation was accepted by the Chairman. Chairman Bonaventure stated he would send a letter to the Governor informing him of Mr. Hein's resignation. Commissioner Marriner suggested something be done to recognize Commissioner Hein's years of service. It was agreed that a plaque would be ordered.

OLD BUSINESS

Chairman Bonaventure stated at the previous meeting, there was discussion regarding the hiring of an internal auditor. Ms. Smith stated that an offer was made in writing to an individual. The Lottery is waiting for a response from this individual as to whether or not he will accept the position. Chairman Bonaventure stated that the individual should be asked for a response by the end of the week. If he is not going to accept the position, then the Lottery needs to move forward to fill the position with another individual.

Chairman Bonaventure stated that Dr. Ellis was requested to complete an MBE plan. Dr. Ellis stated she is working on this plan and requested additional time to complete it. Additional time was granted.

Chairman Bonaventure stated that Ms. Johnson was reviewing an e-mail from Eisner Communications regarding the Lottery commercial that was similar to a beer commercial. Ms. Johnson responded she reviewed the e-mail and the responsibility is on Eisner to make sure that the Lottery is protected.

EISNER COMMUNICATIONS

Mr. David Blum, Senior Vice President, stated Eisner has been busy preparing for the upcoming year. Mr. Blum shared with the Commission the point-of-sale for the Lotto promotion that begins on January 12, 2004. He also presented to the Commission the point-of-sale for the Big Ben Bucks instant game, which is a joint venture between the Lottery, BWI Airport and British Airways. There will be similar signs at BWI Airport advertising this game and BWI is doing additional advertising with British Airways to promote the instant game.

Mr. Blum stated the Lotto Super Draw promotion would launch on January 12, 2004. Between January 12, 2004 and February 14, 2004, players who purchase a Lotto ticket valued at \$2 or more will have a chance to win \$25,000. A Hummer H2 and \$25,000 will be awarded to one grand prize winner at the end of the promotion.

Three new Scratch Cam commercials hosted by Chip Franklin will air. The three spots are tagged with holiday tickets. Mr. Blum showed the Scratch Cam commercial to the Commissioners. Several years ago, a series of commercials were filmed in the Hampden area. This is the third year the commercial will run on television. He showed the Commission the Hampden Lights commercial.

SCIENTIFIC GAMES

Mr. Ray Shaffer, Account Executive, stated members of the main office of Scientific Games have been meeting with personnel to review games and promotions. After the first of year, new organizational charts should be available.

Mr. Shaffer stated Scientific Games is working on the InWin and Keno Doubler promotions, which are on schedule. Everything has been tested for the millionth Keno drawing. Mr. Shaffer stated the software for the Sunday mid-day drawings and for the hybrid ticket will be tested. He stated that 23 Modular Game Controllers units for Keno interlog graphics, which replace the Cdi players, are in the field for testing before they are displayed system-wide. Mr. Shaffer stated Scientific Games is working with the Lottery Director to move forward with obtaining thermal printers.

Mr. Shaffer stated on behalf of the staff at Scientific Games, he wanted to wish the Lottery a happy holiday season and a prosperous New Year.

Commissioner Reeder asked what is the status of Riverboat, the Lottery agent in Colonial Beach. The response was that this business was completely wiped out by the hurricane and he will be rebuilding the business. In the meantime, a Lottery application has been received from another business in that area.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated sales are \$11 million ahead of last year and revenue is \$3.4 million ahead of last year. Commissioner Reeder asked if the 23.9 weeks noted in the Sales and Revenue report includes the last two snowstorms. Mr. Roogow responded the snowstorm was on the same day as last year. This year's storm lowered sales, but not as much as last year. The Lottery is not in the same situation as compared to last year.

Mr. Roogow stated Pick 3 sales lag behind last year, but should increase with the recent promotion. Overall, the Pick 3 promotion was successful and should have somewhat of a residual effect on sales. Pick 4 sales continue to grow. Keno and Keno Bonus sales are running very close to last year's sales. Instant sales have been averaging \$6.5 million per week. The Mega Millions jackpot rolled last night to \$85 million. The Lottery is gaining on last year's Mega Millions sales. Lotto sales are behind last year and Bonus Match 5 sales are ahead of last year by approximately \$2 million.

Mr. Roogow stated Lottery revenues are doing well. Payouts have been low in the Pick 3 game. Normally, Pick 3 payouts run from 49% to 50%, but they are currently running 43% to 45%. The Lottery is on target for the \$450 million revenue estimate for this fiscal year.

Mr. Roogow stated now that Texas has joined the Mega Millions group, the effect on the jackpot was less than expected. Their sales have only been \$3 million to \$6 million per week. The Texas Lottery is also doing a multiplier and the Lottery will be studying that. Mr. Roogow gave an explanation of how the multiplier worked. The multiplier does well in Powerball states. There is some debate among the Mega Millions states about the multiplier and additional software would be required to run it.

The July 2003 Lotto winner came forward to claim the \$5.7 million jackpot. Due to the federal tax law, the winner could no longer take the cash option and had to take the annuity.

The Legislative session begins on January 14, 2004. Mr. Roogow was a speaker at the House Ways and Means Committee Retreat. He showed that Committee a video of commercial spots and talked about slots.

Mr. Roogow stated the Lottery is moving forward with the VLT Consulting RFP. The bids are due on January 26, 2004. The Governor and Department of Budget and Management requested that the Lottery be ready to issue RFPs for video lottery terminals and a central system, if the legislation passes.

Mr. Roogow stated Scientific Games has agreed to provide thermal printers. With these printers, the Lottery will be able to provide more information on tickets and have a better way to show graphics for the InWin game. Scientific Games would provide the thermal paper and the Lottery has agreed to pick up the difference in the cost of the thermal paper versus the regular ticket stock, which would be approximately \$250,000 a year. In the spring, the Lottery would go before the Board of Public Works for approval.

Mr. Roogow stated the Lottery would also go before the Board of Public Works for the incentive program approval for the InWin game. The Lottery and Scientific Games would run the InWin game for several months before the contract incentive program begins to ensure that the game is successful before it goes to the Board for approval. The Lottery would receive 85% of net revenue and Scientific Games would receive 15% of net revenue.

Mr. Roogow stated the Lottery is working with the Orioles organization on a 50th Anniversary promotion. Ms. Cohen will talk more about this in her report.

Chairman Bonaventure asked what happens with the VLT Consulting RFP if nothing happens with the legislation by mid-February. Where does the Lottery stand? Mr. Roogow responded he has talked with the Governor and the Department of Budget and Management, and they wish to move forward with issuing the RFP. A question was raised that when the RFP was advertised, was there any fallout. Mr. Roogow responded Greg

Garland, a reporter from the Sunpaper, contacted him when he saw the RFP notice advertised in the newspaper.

Mr. Roogow stated he is excited about the joint venture with British Airways and BWI Airport regarding the Big Ben Bucks instant ticket. He hopes it will be a success.

REPORTS

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

Dr. Tchicaya Ellis distributed her report to the Commission. She stated her Division is working on many research projects as well as MBE issues. Page three of her report contains the Executive Summary of the September 2003 Retailer Satisfaction Study. Page five of her report contains the Executive Summary of an October 2003 Subscription Database Analysis. The Annual Employee Survey was distributed to Lottery employees in December 2003. Responses are due December 17, 2003. The IT Customer Service Survey and Communications Division Feedback Survey are in the processes of being analyzed.

Dr. Ellis stated the MBE waiver request from Scientific Games was sent to the Attorney General's Office for review and a response has been received. After review, she will forward the waiver request to the Commission. Dr. Ellis stated a meeting was held with John Connelly and Diane Connell of Oberthur Gaming Technologies and a corrective action plan was issued to categorize MBE dollars.

Chairman Bonaventure asked what are the Lottery's options if the MBE goal is not met. Dr. Ellis responded a possible penalty for failure to reach the goal or termination of the contract.

Dr. Ellis stated an MBE waiver request was received from Eisner Communications on October 31, 2003. In a response to Eisner dated December 3, 2003, the Lottery requested further documentation to support the request. A response was received from Eisner on December 17, 2003 and it will be evaluated.

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson distributed her report to the Commission as well as a copy of the Minutes from the November 28, 2003 Commission Meeting. She stated there is one Lottery license revocation to present to the Commission license. On November 5, 2003, a letter was sent to Accokeek Exxon advising them of the proposed revocation for failure to make timely and proper settlements of ticket sale revenues and failure to post a bond that was requested by the Lottery. As a result, the agent agreed to voluntarily terminate his Lottery license and the Lottery accepted this voluntary termination. Chairman Bonaventure stated the Commission also accepts the voluntary termination of the Lottery license as a result of the revocation.

Ms. Johnson stated that at the October Commission Meeting, an update of the Internet Gambling Bills was requested. House Bill 2143 passed the House in June 2003 and the companion Senate Bill 627 advanced in the Senate in October 2003. There have been no changes in status since that time.

Ms. Johnson stated at the last Commission meeting, the Commission asked what process is utilized to conduct Commission meetings via teleconference. The Commission was given a draft copy of a policy for their review. This draft addresses the legal requirements to conduct meetings for those who cannot attend. Ms. Johnson asked the Commission to contact her with any comments or additions. After review, this matter could be considered for adoption at next month's Commission Meeting.

Ms. Johnson stated she recently worked with the Office of Attorney General's Chief of Opinions and Advice on the issue of Lottery prize assignment as it relates to Commercial Law Article, Title 9 of the Annotated Code of Maryland which appears to conflict with Maryland State Lottery law. The portion that referred to lottery prizes did not change. A question was asked as to what prevailing law would control when the Opinion is received from the Attorney General's Office. Ms. Johnson stated when a response is received she will provide a copy to the Commission. She gave the Commission a brief history of how Lottery prize assignment works. Chairman Bonaventure asked is the Lottery opposed to Lottery prize assignment. Mr. Roogow responded several years ago federal government granted an 18-month period when anyone who had an annuity would be allowed a cash option. It depended on what was left in the annuity and a minimum additional cost. The Lottery had a 30% response. Winners were being harassed by finance companies to sell their annuities. It is a detriment to annuitants because of the large fees the finance companies charge. In Maryland, an appropriate court order is needed for prize assignment. Last year a bill was introduced and a copy is available if the Commission is interested.

Ms. Johnson stated at the last Commission meeting, the Commission was given a copy of the revisions to Chapter 2 of COMAR. If the Commission has any comments, please contact Suzanne Meltzer or Andrea Johnson

Administration, Finance and Operation – Gina Smith, CFO

Ms. Gina Smith distributed a copy of her report to the Commission, as well as the Unaudited Special-Purpose Financial Statement for November 2003, the Audited Special-Purpose Financial Statements for September and October 2003, a copy of the Independent Auditor's Report on the Application of Agreed Upon Procedures dated March 31, 2003, and Bert Smith's Report to Management dated June 30, 2003. She stated revenue for the month ending November 2003 is \$38.7 million and there was nothing unusual to report in the unaudited statement for November. The actual audited statements for September and October reflect the unaudited September and October statements that the Commission received at the previous Commission Meeting.

Ms. Smith stated each year an audit of the Mega Millions procedures is completed to show that Maryland is following the rules. The Agreed Upon Procedures report outlines the procedures that were performed. Copies of the report were also distributed to the Mega Million states for their information.

Ms. Smith stated the Report to Management from Bert Smith contains no new findings and work continues to resolve any outstanding findings. Exhibit 2 of the report contains a summary of the findings that remain outstanding as well as where Lottery is in implementing them. Chairman Bonaventure asked how do these coincide with the legislative audit report. Ms. Smith responded some findings are the same and some are different. The independent auditor's scope of work is different from the legislative auditor's. The legislative audit is more detailed. The independent auditor was given a copy of the legislative audit. A question was asked if there were any new items in the Management Report. The response was there were no new items. Stout, Causey and Horning will be issuing their Management Letter shortly covering the period July 1, 2003 through December 31, 2003.

Chairman Bonaventure stated at each meeting the Commission receives the financial reports as well as various reports from each Division. He requested that any reports that would be distributed at the meeting be sent to the Commission the week prior to the meeting.

Ms. Smith stated Positive Pay offered by the Bank of America to help prevent check fraud would be implemented by January 1, 2004.

Commissioner Reeder asked if there was anything unusual to report in the financial reports. Ms. Smith responded there was nothing unusual to report.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson distributed her report to the Commission. She stated IT continues to work with Scientific Games and the Lottery Divisions on the one millionth Keno draw, Sunday mid-day Pick 3/Pick 4 drawings and the Lotto promotion. IT is working on the Big Ben Bucks incentive program with the Sales Division. She stated IT has been reviewing all the systems that are run internally to support those promotions. For the Positive Pay program, a number of changes needed to be programmed. IT is testing the software for the new Internal Control System supplied by Elsym, a subcontractor of Scientific Games. A new operating system is being installed for any retailers who receive the new terminal displays. These displays are attached to the terminal and the unit requires a system different from the older unit.

Twenty-three Monitor Game Controller (MGC) units have been placed in some agent locations. These units replace the Cdi players currently used with Keno. The new technology is being introduced slowly as it is slightly different from the Cdi players and

there are a limited number of units available. The players like the brighter, clearer graphics and larger game numbers and time remaining before next game. Feedback has been positive. Commissioner Marriner asked if there was a way to test the effect of the MGC units on sales. Mr. Hemberger responded these are being utilized not to boost sales but to replace the Cdi players that are wearing out and unavailability of parts. These new units are much better and can display more graphics. The monitor in the Sales Division is equipped with one of the new units.

Ms. Johnson stated on Thanksgiving Day, the Lottery participated in its first Amber Alert. A message was sent to all Lottery retailers. She found some improvements needed to be made in the current procedures. As a result, an additional telephone line and a strobe light were installed to better alert Lottery personnel.

Ms. Johnson stated IT is also testing a new video program to show Keno drawings on the website as they occur.

Communications – Jimmy White, Director

Mr. Jimmy White was not present at the meeting. His report was contained in the Commission's folders.

Creative Services – Jill Baer, Director

Ms. Jill Baer distributed a copy of her report to the Commission. She stated a list of all the media running in December is contained in her report. In December, the Hampden Lights spot and Scratch Cam spots tagged with holiday scratch tickets are running on television statewide. Ms. Baer advised that the Lottery is trying to buy commercial time during the Ravens play-off games.

Ms. Baer stated work continues on the Orioles 50th Anniversary package for the 2004 season. She stated conversations with Merriweather have begun for the 2004 concert season.

Ms. Baer stated three new Mega Millions spots were filmed in November. The Director as well as the Virginia Lottery reviewed and approved the rough cuts. She hopes to have the new Mega Millions commercial on the air as soon as possible.

Ms. Baer stated the point-of-sale for the Lotto promotion has been received. She met with the Director to review the media recommendations and is working with two radio stations in Baltimore and DC to support the promotion.

Ms. Baer stated a meeting was held with BWI's advertising agency to discuss media plans for Big Ben Bucks as well as the Lottery's media plans to support the ticket. British Airways and BWI approved the point-of-sale. Commissioner Marriner asked if BWI was

cooperating with the Lottery. The response was both BWI and British Airways have been very cooperative. There are ITVMs in the airport and they will be highlighted with point-of-sale.

Sales – Frank Hemberger, Sales Manager

Mr. Joseph Jason was unable to attend the meeting and Mr. Frank Hemberger stated a copy of Mr. Jason's report was contained in the Commission's folders. Mr. Hemberger stated the Sales representatives received the new point-of-sale to deliver to agent locations. He stated a 12-week agent incentive program would run for Big Ben Bucks starting on January 12, 2004. For every book of Big Ben Bucks the agent activates, they receive a chit. At the end of each accounting week, the IT Division will draw three chits. The first prize is \$300, the second prize is \$150 and third prize is \$50. Prizes are awarded via adjustment to the retailer's account the following week. At the end of the program, all the chits go back and one chit is chosen. The winning retailer will receive a pair of round trip tickets to London on British Airways plus expense money.

Commissioner Marriner stated in the Director's Report, it mentions that the Corporate Accounts Division is currently recruiting retailer locations at hospitals and asked for further information. The response was that the Director requested that Sales visit the hospitals to look at the possibility of having terminals located in possibly the gift shops. At one time, there was a retailer location across the street from Johns Hopkins Hospital. Commissioner Marriner stated he has contacts at Howard County General and he would be happy to provide any assistance if necessary.

Product Development – Tracey Cohen, Director

Ms. Tracey Cohen stated a copy of her report is contained in the Commission's folders. She stated a meeting was held with the Orioles on Friday on the promotional scratch-off ticket. It will be a \$10 ticket with a top prize of \$100,000. This will tie in with the Orioles 50th Anniversary. Chairman Bonaventure asked if the Orioles are contributing advertising money. The response was that Ms. Baer is working on the media with them. Mr. Roogow stated clearance from the players to use their images needs to be obtained.

Ms. Cohen stated the hybrid ticket concept and the on-line InWin game is moving forward.

Ms. Cohen then presented 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.

Game #465 *Super Hot 7's* is a \$3.00 instant ticket with a prize payout of 68.18%. If 95% of the tickets are sold, the profit would be \$1,084,402. If 100% of the tickets are sold, the profit would be \$1,141,476.

Game #466 *Money Mania* is a \$2.00 instant ticket with a prize payout of 63.48%. If 95% of the tickets are sold, the profit would be \$906,938. If 100% of the tickets are sold, the profit would be \$954,672.

Game #467 *Super Double Doubler* is a \$2.00 instant ticket with a prize payout of 63.94%. If 95% of the tickets are sold, the profit would be \$888,933. If 100% of the tickets are sold, the profit would be \$935,719.

Chairman Bonaventure made a motion to approve these games and Commissioner Marriner seconded the motion. The above instant tickets were approved by unanimous vote of the Commission.

Procurement – Suzanne Meltzer, Procurement Director

Ms. Suzanne Meltzer stated the Request for Proposals for Professional Consulting Services Related to a Video Lottery Terminal Program #2004-06 was issued on December 9, 2003. The bids are due on January 26, 2004. A Pre-Proposal Conference is scheduled for January 9, 2004. If the Commission would like a copy of the RFP, copies are available.

Ms. Meltzer stated the Lottery went before the Board of Public Works on December 3, 2003 and received approval of the Contract to Procure Airplane Flights for Lottery Prizes and the Modification for Replacement Parts for ITVMs.

Ms. Meltzer stated she is working on the Extension of the Instant Ticket Printing Contract to present to the Board of Public Works in January or February.

Commissioner Marriner asked if slots were approved, would Eisner Communications benefit from any advertising. The Director responded that the Bill written last year gave the Lottery oversight and approval for advertising of slots only. The owner of the locations where slots would be located would do advertising, but the Lottery would have the right to final approval.

COMMENTS BY THE CHAIRMAN

Chairman Bonaventure stated he would hold a special Commission Meeting on Monday, December 29, 2003 at 9:00 a.m. At this meeting, he requested Paul Dorsey to present a final review of other states' commission structures regarding VLTs. Chairman Bonaventure asked Commissioner Reeder to review the compensation issue and make a presentation. There would also be a discussion regarding structuring of the internal audit. Chairman Bonaventure requested Commissioner Marriner to review the current Eisner contract and report back to the Commission.

APPROVAL OF MINUTES

Chairman Bonaventure stated he made some changes to the Minutes of November 19, 2003. Commissioner Marriner stated he also had a change to the Minutes. It was agreed to postpone the approval of the Minutes until January's meeting.

Chairman Bonaventure requested approval of the Minutes from the November 28, 2004 special Commission meeting. Motion was made by Commissioner Marriner to approve these Minutes and seconded by Commissioner Reeder.

ADJOURNMENT

The next meeting will take place on December 29, 2003 at 9:00 a.m. followed by the January 28, 2004 meeting at 9:00 a.m. There being no further business, the meeting was adjourned at 10:50 a.m.

Respectfully submitted,

Buddy Roogow