

**MARYLAND STATE LOTTERY COMMISSION  
JANUARY MINUTES**

DATE: January 28, 2004  
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  
Commissioner George M. Wagner

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 of Communications  
Paul Dorsey, Director of Policy and Development  
Frank Hemberger, Sales Manager  
Suzanne Meltzer, Executive Assistant  
Marie Torosino, Executive Associate

OTHERS  
PRESENT:

John Williams, Scientific Games  
Christian Ross, Scientific Games  
David Blum, Eisner Communications

## **CALL TO ORDER**

Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:30 a.m.

## **APPROVAL OF MINUTES**

Chairman Bonaventure asked if there were any changes or corrections to the Minutes for November 19, 2003 and December 17 and 29, 2003 meetings. Hearing none, Commissioner Reeder made a motion that the Minutes for November 19, 2003 and December 17 and 29, 2003 be approved and Commissioner Marriner seconded the motion. The Minutes were approved by unanimous vote of the Commission. Commissioner Wagner abstained from the vote because he was not a member of the Commission at that time and thus was not present at those meetings.

## **DATE AND TIME OF NEXT MEETING**

Chairman Bonaventure stated the next Commission meeting is scheduled for Wednesday, February 25, 2004 at 8:00 a.m. at Lottery Headquarters.

## **EISNER COMMUNICATIONS**

Mr. David Blum, Senior Vice President, stated the Eisner staff was quite busy over the holiday season. The Eisner team worked with the Lottery during this period time to stay on top of advertising opportunities during the Maryland Terrapins football game at the Gator Bowl, the Mega Millions jackpot, and the Ravens participation in the football playoffs. He showed the Commission three new commercials for Mega Millions, a commercial for the Lotto Super Draw Promotion and a radio spot for the Big Ben Bucks scratch-off spot. BWI is also doing advertising for that ticket and it is starting to hit the airways. Mr. Blum then showed the Commission the Big Ben Bucks print ad that appeared in Baltimore Magazine. A question was asked if there were any winners in the Big Ben Bucks scratch-off game as yet. The response was that eight winners have come forward to claim the airline tickets.

## **SCIENTIFIC GAMES**

Mr. John Williams stated he has been transferred to Maryland as the new General Manager. He has 25 years of experience with the Lottery industry and for the past 15 years has been working in Tallahassee, Florida. Maryland is by far one of the most forward thinking Lotteries. He is looking forward to working with the Maryland Lottery and is happy to be here.

Mr. Williams stated plans are moving forward for the launch of the InWin game next month and they are working on a plan to help increase Lottery revenues. The Commission welcomed Mr. Williams to the Lottery.

### **DIRECTOR'S REPORT**

Mr. Buddy Roogow stated sales are \$23 million ahead of last year. The Lottery has been setting records for past five years. Although Pick 3 sales are down \$5 million over last year, this seems to be the trend across the country. Pick 4 continue to grow with sales at \$1.7 million ahead of last year. Mr. Roogow stated revenues are \$290,000 below last year due to the high Pick 4 payouts.

Mr. Roogow stated Keno and Keno Bonus continue to perform well and the combined sales of Keno and Keno Bonus are ahead of last year. Scratch-offs have grown over the last two years and continue to grow. Mega Million sales are growing because of the current jackpot. The Lottery's per capita sales are improving. Lotto sales are up. An ad is running for the current Lotto promotion. For a five-week period, a 12-digit serial number is chosen for a \$25,000 prize. Players hold onto their non-winning tickets for a chance to win \$25,000 and a Hummer H2 at the end of the promotion. The promotion is doing well. To date, one serial number winning has been claimed.

Mr. Roogow stated the Lottery is planning a number of new things later on this year to increase sales and revenues. A Keno Tripler is planned in March to celebrate the one millionth Keno drawing as well as implementation of mid-day Sunday drawings in April and the InWin game will be launching soon. Tracey Cohen will give a presentation on InWin later in the meeting.

Mr. Roogow stated the Big Ben Bucks scratch-off game has been successful. He attributes the success to the news coverage on radio and television during the first week of the game. The Lottery sold \$551,000 during the first week of sales. As of yesterday, there have been eight winners of the airline tickets.

Mr. Roogow stated George Andersen, the long time Director of the Minnesota Lottery and past president of NASPL, died suddenly yesterday.

Mr. Roogow stated the Administration has introduced a slots bill similar to last year's bill. The additions in Senate Bill 322 include two non-track facilities along the I-95 corridor and a nine member Blue Ribbon Panel appointed by the Governor to award licenses to the non-track facilities.

Chairman Bonaventure asked has the Lottery ever pulled any games in the past that are in a downward trend, but still have significant sales. Is there any threshold? Mr. Roogow responded in 1998, the Cash In Hand game was introduced. This lotto type game offered a top prize of \$500,000. A decision was made to discontinue the game when it no longer

generated enough sales to support it. After that game was stopped, the Lottery introduced the Bonus Match 5 game that had a top prize of \$50,000.

Commissioner Reeder stated instant game sales are up to 25% of total sales, but the revenue dropped to 20.9% and asked what was the reason. Mr. Roogow responded that the revenue has not actually dropped. It has increased from 38.4% last year to 40.8%. Commissioner Reeder said sales went up \$22 million over last year. Mr. Roogow stated in order to achieve higher sales, there are higher payouts on scratch-offs, whereby the players are winning more money. The administrative costs change by using less money from the unclaimed prize fund. Last year, it was inflated by money from the unclaimed prize fund to support the ticket runs. The Lottery is not doing that this year to the same extent.

## **REPORTS**

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

Dr. Tchicaya Ellis stated Research would be fielding a Promotional Awareness study through February to determine awareness level of the British Airways/Big Ben Buck scratch-off tickets as well as awareness of the current Lotto promotion.

Dr. Ellis stated the Annual Employee Survey was administered in December 2003 and she is currently analyzing the data. She may have the summary available at the next meeting.

Dr. Ellis stated the results of the December Tracking Study would be presented to Lottery staff at 9:00 a.m. on February 7, 2004. The Commissioners are invited to attend this presentation.

### *Legal Division – Andrea Johnson, Principal Counsel*

Ms. Andrea Johnson gave a brief overview of her Division's responsibilities to the new Commissioner.

Ms. Johnson stated there were no revocations to present to the Commission this month.

Ms. Johnson stated a lawsuit was filed against the New York Lottery concerning the jackpot for the December 24, 2002 Mega Millions drawing. Prior to expiration of the claiming period, a lawsuit was filed stating that the ticket was lost in a snowstorm. The person filing this lawsuit has not produced the actual ticket. The New York Lottery is holding the money from each Mega Millions state for the jackpot prize. If a prize is not claimed, a portion of sales associated with top prize for each state is turned back to the individual state. Maryland would receive \$1.5 million and any interest that accrued. New York has requested that the states wait until the hearing on the claim occurs on February 2, 2004. Commissioner Wagner asked if there is any chance the person might win that case. Ms. Johnson responded New York's legal counsel felt there was no justification for the

claim. Commissioner Wagner asked if that amount is based on the percentage of tickets Maryland sold. The response was yes.

Ms. Johnson advised that Mega Millions states are drafting disaster liability language due to the power failure and blackout that occurred several months ago. The language would address a situation that could arise where a jackpot amount has been set and announced, but due to the power failure, sales fall below the estimated projection. The language will be presented to the Directors for review.

Mr. Johnson stated the Legal Division is working with Dr. Ellis and her staff regarding MBE compliance issues.

Ms. Johnson stated a draft document of the responsibilities and duties of Commission was sent to the Commission members. The document contains excerpts from the Maryland Annotated Code, the Code of Maryland Regulations and various OAG opinions and other related materials. She stated to please feel free to contact her with any questions. Chairman Bonaventure stated this document is very helpful and has all the information in one document.

There was a discussion concerning liabilities and the Attorney General representing the Commission in any lawsuits. It was requested that Ms. Johnson look into the liability coverage for the Commission since the duties and responsibilities of the Commission may increase if slots are approved. Ms. Johnson stated she shared their concerns and would look into this.

Ms. Johnson stated that her Division continues to work with the other Lottery Divisions.

Chairman Bonaventure stated he had previously mentioned the possibility having someone conduct Contract Administration training. Ms. Meltzer stated the Department of Budget and Management offers training in contract management and she would follow-up on this.

### **ELECTION OF CHAIRMAN AND VICE CHAIRMAN**

Chairman Bonaventure nominated Commissioner Marriner for Vice Chairman of the Commission. Commissioner Reeder made the motion and Commissioner Payne seconded the motion. The vote was unanimous with Commission Wagner abstaining due to not being officially sworn in as Commissioner.

A motion was made by Commissioner Marriner that Frank Bonaventure be elected Chairman of the Commission. The motion was seconded by Commissioner Payne. The vote was unanimous with Commission Wagner abstaining from the vote.

## **COMMISSION COMPENSATION**

The Chairman opened up for discussion Commission compensation issue. Some points discussed were the current cap on reimbursement and the need for modification of the language if the slots bill is passed. If the slots bill passes, the Commission would have more responsibilities and may need to hold meetings more often than once a month.

## **COMMISSION AUDIT COMMITTEE REPORT**

Chairman Bonaventure stated an Audit Committee was formed. Commissioner Marriner distributed to the Commission, Mr. Roogow and Ms. Smith the structure for the internal audit function.

The Committee structured the internal audit functions as a public company would be structured. The three basic functions are that the internal auditor would report to the Lottery Director for all administrative functions. Second, the internal auditor would report internal audit findings in writing directly and solely to the Lottery Commission as the Commission and the internal auditor deem appropriate. Third, the internal auditor would functionally report to the Commission or a committee thereof. Chairman Bonaventure opened the Audit Committee's report for comments and discussion. There was extensive discussion of each function of the internal auditor. Chairman Bonaventure stated all concerns would be taken under advisement.

A modification was made to item number 3 d. and e. The sentences should begin with "After consultation with the Director, ..."

A motion was made that the Commission approve the functions and responsibilities of the internal auditor as modified. Chairman Bonaventure seconded the motion. The vote was unanimous with Commissioner Wagner abstaining from the vote.

## **MBE WAIVER REQUESTS**

Chairman Bonaventure requested that at the February 25, 2004 Commission meeting that the contractors who have filed a request for an MBE waiver appear before the Commission to make a formal presentation as to why they are requesting the waiver. After the presentations, the requests will be discussed and a decision will be made.

Questions raised as to what is the Commission's authority to waive the request. Dr. Ellis responded if a contractor makes a good faith effort and can provide proof of that effort then you have the authority to grant the waiver based on them meeting the good faith requirements.

## **REPORTS (continued)**

### *Procurement – Suzanne Meltzer, Director*

Ms. Meltzer stated she had previously sent the Commission a copy of the extension of the Lottery's contract with Oberthur Gaming Technologies Corporation for the printing of instant ticket lottery games. The original contract expires on May 18, 2004. The first year extension cost is \$6,892,178 and would run through May 17, 2005. The second year extension is \$7,558,456 and would run through May 17, 2006. The Lottery would like to concurrently exercise both of the one-year extensions.

Chairman Bonaventure asked why is the Lottery exercising both of the one-year extensions. Ms. Meltzer responded the two-year time period gives the Lottery an opportunity to do long term planning for game development and instant ticket promotions. Also, by exercising both of the one-year extensions, this contract would expire at the same time when the on-line contract expires. This will give the Lottery an opportunity to see where technology is going. Mr. Roogow stated, for example, the Tennessee Lottery combined both their on-line and instant bids together. He stated that Oberthur has been a great partner, going above and beyond what they are required to do. In FY2000, instant sales were \$221 million and in FY2003, sales are \$316 million.

Chairman Bonaventure requested that in the future more notice be given to the Commission before the one-year option comes into play. Chairman Bonaventure motioned that the Commission approve the two-year contract extension. Commissioner Payne seconded the motion. The contract extension was approved by unanimous vote of the Commission. Commissioner Wagner abstained from the vote.

A question was raised as to the status of the VLT consulting RFP. Ms. Meltzer stated bids were due on Monday, January 26, 2004. The Lottery received four bids. The Evaluation Committee is in the process of reviewing the proposals. A question was raised if the Commission would have any input in the process. Ms. Meltzer stated that she would share the recommendation report with Commission prior to presenting it to the Department of Budget and Management.

### *Product Development – Tracey Cohen, Director*

Ms. Tracey Cohen distributed information to the Commission on the InWin game and showed the PowerPoint presentation. She stated the InWin Game pre-launch period is February 9 to 22, 2004 to test the software. The InWin Game will be installed at 30 retailer locations during this period to test the software and get player feedback. The game will launch statewide on February 23, 2004. The launch plan includes advertising on radio, print advertising, possible television advertising and promotional parties at retailer locations. A sales report should be available by the next meeting. The Lottery's current contract with Scientific Games does not cover any new games. This game will fall under a Contract Incentive Program. The Lottery will not go before the Board of Public Works for

approval and commit to this program until the InWin game is in operation for eight weeks. Criteria has to be established and once the criteria is met, then Scientific Games would be entitled to payment. Chairman Bonaventure asked if there were any concerns with retailers palming winning tickets. The response was that the Lottery would be monitoring this closely.

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 #470 *Midas Touch* is a \$2.00 instant ticket. If 95% of the tickets are sold, the profit would be \$906,547. If 100% of the tickets are sold, the profit would be \$954,260.

Game #471 *Double Down* is a \$2.00 instant ticket. If 95% of the tickets are sold, the profit would be \$888,150. If 100% of the tickets are sold, the profit would be \$934,895.

Game #472 *Money Bags* is a \$2.00 instant ticket. If 95% of the tickets are sold, the profit would be \$890,890. If 100% of the tickets are sold, the profit would be \$937,779.

Game #473 *Bonus Lucky 7's* is a \$5.00 instant ticket. If 95% of the tickets are sold, the profit would be \$1,330,874. If 100% of the tickets are sold, the profit would be \$1,400,920.

Game #474 *The Golden Ticket* is a \$10.00 instant ticket. If 95% of the tickets are sold, the profit would be \$2,174,333. If 100% of the tickets are sold, the profit would be \$2,288,771.

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. Commissioner Wagner excused himself from the voting.

## **REPORTS FROM OTHER DIVISIONS**

Chairman Bonaventure skipped the oral presentations by AFO, IT, Creative Services, Communications and Sales. The Commission was previously supplied with the reports from these Divisions.

## **ADJOURNMENT**

There being no further business, the meeting was adjourned at 12:20 p.m.

Respectfully submitted,

Buddy Roogow