

**MARYLAND STATE LOTTERY COMMISSION
MAY MINUTES**

DATE: May 26, 2004
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure
Vice Chairman E. Randolph Marriner
Commissioner Osborne A. Payne
Commissioner George Wagner
Commissioner Bruce Reeder

Buddy Roogow, Director
Gina Smith, Assistant Director and CFO
Andrea Johnson, Principal Counsel
Sandra Johnson, Chief Information Officer, Information Technology
Joseph Jason, Deputy Director of Marketing
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 of Policy and Development
Shirley Basse, Internal Auditor
James Butler, Assistant Attorney General
Suzanne Meltzer, Executive Assistant
Marie Torosino, Executive Associate

OTHERS

PRESENT: John Williams, Scientific Games Online Entertainment Systems
David Blum, Eisner Communications

CALL TO ORDER

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

APPROVAL OF MINUTES

Chairman Bonaventure stated the Minutes for the March 2004 and April 2004 are being presented for approval. He had previously sent the Commissioners both sets of Minutes with some corrections based on his notes. Commissioner Payne made a motion to approve the March 2004 and April 2004 Minutes and Vice Chairman Marriner seconded the motion. The March 2004 and April 2004 Minutes were approved by unanimous vote of the Commission.

COMMISSION BUSINESS

Chairman Bonaventure stated the Legal Division has prepared a draft of a Ticket and Prize Accountability Policy for the Commission's review. The guidelines would apply to the handling, distribution, tracking and record keeping of tickets, and items of value given as prizes acquired by the Lottery through sponsorship agreements, public affairs contracts, large and small procurement contracts, media buys, purchases by vendors, the Lottery cooperative agreements or from any agreement or arrangement entered into by the Lottery with any third party. Ms. Johnson then reviewed the policy with the Commission. Mr. Roogow stated that the Lottery has been keeping records for some period of time and documents are on file that show what tickets were received and how they were distributed. Chairman Bonaventure suggested that a copy of the policy be given to the internal auditor for review.

Chairman Bonaventure asked for a status of the update of the Lottery regulations. Ms. Johnson stated the Lottery is currently updating the regulations to reflect changes in the laws. The Commission was given a copy of the proposed revisions to Chapter 2 that deal with the duties and responsibilities of the Director and Commissioners. Revisions were proposed several months ago but were held up until it was determined whether or not the slots bill would pass. The slot bill did not pass and the Lottery now wishes to proceed with the updates to reflect current policies and procedures. Ms. Johnson reviewed the regulations noting all the changes that were being made.

Motion made by Vice Chairman Marriner to accept Chapter 2 Regulations Applicable to the Agency. Commissioner Wagner seconded the motion. Motion passed with unanimous vote of the Commission.

EISNER COMMUNICATIONS

Chairman Bonaventure asked Mr. Blum to extend to Mr. Steve Eisner the Commission's heartfelt sympathy in the loss of his father.

Mr. Blum stated a radio spot for the Big Ben Bucks scratch-off was taped at the Bon Voyage event for the first traveler to London on British Airways. The objective was to bring to life some winners who played and won a trip and to remind people there are more winning tickets available. A question was raised as to how many Big Ben Bucks prize trips are left. The response was that there are approximately 50 out of a potential 100 trips are left.

Mr. Blum then played the commercials for the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. John Williams stated last Sunday the Pick 3 and Pick 4 mid-day drawing was successfully implemented.

Mr. Williams stated the Call Center Help Desk and Hotline were moved from Maryland to Georgia last week. The move went smoothly and it was transparent to the agent network. There are currently no plans to make any further moves. There was some impact on the internal organization. Seven people were displaced and Scientific Games found other jobs for six of them and the seventh person received a severance package.

Commissioner Reeder stated an article had appeared in the Frederick New Post with regard to the Sunday mid-day drawings and some Frederick clergy have voiced their non-support of the mid-day drawings. Mr. Roogow stated he is not aware of any concerns. Commissioner Reeder also stated that he was concerned with response times.

DIRECTOR'S REPORT

Mr. Roogow stated sales are ahead by \$63 million over last year. Pick 3 is \$5.8 million behind last year's sales but all other games are ahead. Pick 4 sales are ahead by \$4.5 million. Keno and Keno Bonus sales are ahead with a combined total of \$9.1 million. Instants sales are ahead by \$34.5 million over last year and continue to perform well. The Lotto jackpot has not been hit in awhile and the jackpot is currently at \$9 million. Mega Millions sales are ahead \$18.3 million over last year.

Mr. Roogow stated revenues are \$20.1 million ahead of last year. The Lottery has completed 90% of the fiscal year.

Mr. Roogow stated the Lottery would begin a Pick 3 and Keno Doubler promotion in mid-June.

Commissioner Wagner asked if it would be possible to do a scratch-off ticket in conjunction with a fuel company that would have a prize of X amount of dollars of gas or X amount of gallons of gas. Mr. Roogow stated there may be a problem due to the number of fuel companies and that some of the gas stations are owned by individuals. In the past, the Lottery did a co-op promotion with Crown with video giveaways. Mr. Roogow stated players are still primarily interested in cash prizes. Tracy Cohen will look into Commissioner Wagner's idea.

Mr. Roogow stated sales for the Pick 3 and Pick 4 Sunday mid-day drawing were approximately \$240,000. This is an increase of \$116,000 or 15.6% over the previous Sunday. The Lottery did no advertising and expects that sales for Sunday will rise each week. A question was asked if the Lottery received complaints about having drawings on Sunday at mid-day. Mr. Roogow responded to his knowledge he has not heard of any. The drawing is not shown live on television due to the expense. The drawing is done at Lottery headquarters in the Communications studio and the drawing is taped. Mr. Roogow stated he was on Fox 45 television on Monday morning talking about the Sunday mid-day drawing. Chairman Bonaventure asked what costs are associated with the drawing. Mr. White stated personnel are paid to work on Sundays. He stated for the first four to five weeks regular full-time employees would conduct the drawing, and then part-time contractual employees would conduct the drawings. A build out area was constructed to secure the drawing equipment. Mr. White said the incremental cost increase is minimal. Director Roogow said the build out cost is virtually nil. Mr. Roogow stated he had previously talked to the Governor and some legislators about the Sunday mid-day drawing. Nine other lottery states conduct mid-day drawings on Sunday.

Mr. Paul Dorsey updated the Commission on Pennsylvania's slots bill. He stated slots would be at 12 to 14 locations having up to 61,000 machines. Racetracks would have up to 5,000 machines and non-track locations would have 500 machines. The license fee would be \$50 million for each location with the exception of resorts who would pay a \$5 million fee. The Pennsylvania Legislature goes back in session on June 6, 2004 and hopes to be finished by June 18, 2004. A question was asked as to what the prerequisites were for obtaining a slots license in Pennsylvania. The response was that the person would have to own the track. Mr. Dorsey stated that West Virginia is now looking into going to full casinos. They have added an additional 1,000 machines Charlestown and they also have done extensive advertising, e.g., a billboard advertisement can be seen on I-95. A question was asked if West Virginia has slots available at off track locations. The response was yes. A question was asked if any studies were done that show the percentage of Marylanders going to Charlestown. The response was that at Charlestown approximately 35% are from Maryland and at Delaware over 35% are from Maryland, based on 1099s.

Mr. Roogow stated the Lottery is looking into a new monitor game. The game is a virtual reality horse racing game that would run on the Keno monitor. Scientific Games is pursuing this for the Lottery and he will have more information in the future.

Commissioner Reeder stated he received inquiries from players in Western Maryland regarding the unavailability of the winning numbers recording on the 800 line. Mr. Roogow stated winning numbers are still available through other sources such as the Lottery's website, Baltimore Sunpaper, winning numbers are scrolled on television after the drawings and covered on the news and the radio. Mr. Roogow also said the number of complaints were very few. Some Lottery retailers in rural areas even have the winning numbers recorded on their answering machine systems. Ms. Smith stated the Lottery budgeted \$32,000 for this fiscal year and the cost climbed to \$155,000. For fiscal year 2005, she had budgeted \$54,000, but that was cut back to \$32,000. It became cost prohibitive. A question was asked when was this recording discontinued on the 800 line. The response was that it was discontinued last Monday.

REPORTS

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

Dr. Tchicaya Ellis distributed to the Commission an analysis of the Big Ben Bucks scratch-off ticket. She then gave some highlights of the report. Sales began on January 11, 2004 and sales for the first 19 weeks were \$5.9 million. Compared to other money-themed \$5 scratch-off tickets, Big Ben Bucks sales were lowest when compared to the same number of weeks. The \$5.00 scratch-off ticket Barrel of Bucks was the Lottery's first die cut ticket and the best money-themed \$5 ticket during the first 19 weeks of sales. Question was asked what is a die cut ticket. The response was that it is a scratch-off ticket cut in the shape of the theme of the ticket. Other \$5 scratch-offs typically have top prizes of \$50,000. The Barrel of Bucks ticket had a \$5,000 top prize and did best as compared to other ticket of these kinds. Average weekly sales of Big Ben Bucks were \$315,000 as compared to sales of \$445,000 for Barrel of Bucks. Sales of three other \$5 tickets ranged from \$321,000 for Cash Explosion to \$369,000 for Pharaoh's Gold. Baltimore County had the highest percentage of sales at 17% followed by Baltimore City with 16% and Prince Georges County with 14%. From an advertising standpoint, they looked at awareness and message recall. Vice Chairman Marriner asked if the Lottery received any feedback from BWI. Ms. Cohen responded BWI was very happy with the game. The Commission complimented Dr. Ellis on this report.

Dr. Ellis stated Lottery procurement and MBE personnel recently attended a Procurement Summit regarding how the new legislation would affect State procurements. She stated she would provide more information at next month's meeting.

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson stated in 2001 a complaint was file with the Maryland Human Relations Commission regarding public accessibility by a disabled person in a wheelchair named Mr. Reuter. All pertinent information on this case was included with Ms. Johnson's

report. Mr. Reuter went to 15 locations and could not enter the establishments due to the size of the doorways. He filed a complaint with the Human Relations Commission and they went forward with investigation. Ms. Johnson then gave a brief review of the activities that have taken place since then. On April 30, 2004, the Maryland Human Relations Commission filed a Statement of Charges with the Office of Administrative Hearings. A hearing is scheduled for July 30, 2004. She will keep the Commission advised.

Chairman Bonaventure asked for a brief overview regarding the decision by the World Trade Organization with regards to Internet gambling. Mr. James Butler, Assistant Attorney General distributed information to the Commission. He stated Antigua went to the World Trade Organization to file an injunction against the United State's prohibition of Internet games. Currently, it is estimated that there are 1,800 sites outside the United States. The United States is concerned about the financial and social risks to citizens. Online casinos employ some 3,000 of Antigua's 67,000 people. United States official contend that Internet gambling is illegal if it involves activity on United States soil. The World Trade Organization agreed with Antigua ruling that the United States violated international trade laws with it anti-Internet betting policies. Mr. Butler stated he would keep the Commission updated on the ongoing events.

Administration, Finance & Operations – Gina Smith, CFO

Ms. Gina Smith stated the Commission was sent the audited Special Purpose Financial Statement for March 2004 as well as the April 2004 unaudited Special Purpose Financial Statement. The Lottery is beginning its year-end close out. The Commission will continue to receive the unaudited statements, but the accounting firm will not release the audited statement until October.

The close out team is meeting weekly to ensure required Department of General Services and Department of Budget and Management deadlines are met. By mid-July the Lottery will complete its spending and posting and then start the conversion to GAAP. A meeting has been scheduled with Stout, Causey & Horning to discuss the year-end closing processing and conversion to GAAP. This will be the accounting firm's first close out process.

Ms. Smith stated work is being done to erect an area to store the drawings equipment used for the Sunday mid-day drawings. Also, work is being done to have the area connected into the existing security system. She stated that Mr. White is working with WJZ to enhance security at the storage vault at the television station. A question was asked if the vault at the station is linked to the Lottery's system. The response was that it is connected to WJZ's security system.

Ms. Smith stated a status report on the Management Letter from Stout, Causey and Horning was attached to her report. The Lottery's implementation timeline is on schedule.

Ms. Smith stated Lottery personnel responsible for monitoring contracts attended Contract Management training. There is another session in the fall. A question was asked if the training was worthwhile. The response was yes.

Vice Chairman Marriner asked Ms. Smith to advise Stout, Causey and Horning that the audit letter should reflect they are a Commission, not a Board of Trustees. Ms. Smith responded she would ask them to make the change.

Commissioner Wagner inquired about the percentage of administrative expenses for the scratch tickets. Ms. Smith responded that the percentage of administrative expenses does not match actual printing but is rather a historical average.

Information Technology – **Sandra Johnson, Chief Information Officer**

Ms. Sandra Johnson stated her Administrative Specialist left last month to work for another State agency and she would be recruiting to fill this position as soon as possible. Also, at the end of July, Donald Alford, who has been with the Lottery for 29 years and with the State for 40 years, will be retiring. She would be filling this position as well.

Ms. Johnson stated testing was completed for the software for the Sunday mid-day drawings and changes to the Instant Ticket Gaming Module to support the new hybrid ticket. The InWin agent incentive program ended on May 1, 2003 and IT is moving forward with preparation for the Pick 3 Bonus Raffle promotion and the Keno Doubler promotion that will run in the summer. She stated that IT is also working with other Lottery Divisions and Scientific Games on the requirements and planning phases of the promotion for a software enhancement to support the cashing of the bonus raffle ticket in the field.

Ms. Johnson stated that IT is working on the final efforts for Keno to Go. The Business System Requirement has been completed and has been reviewed for final changes. Additions will be made to the Lottery's website to provide interactive means for players to check winning number and view Keno drawings. Ms. Johnson stated she has been meeting with the managers at Towson University's Research Economic Study Impact Program to determine if they can assist the Lottery with website enhancements. A proposal is expected from them later this month.

Ms. Johnson stated she met with Unisys to review the findings of a systems performance analysis that was done. The study recommended using more memory and relying less on the processor to avoid the slow down of performance. Plans are underway to make adjustments for better performance.

Ms. Johnson stated the Call Center Operation was moved from Maryland to Georgia as of May 18, 2004. IT made several calls to the new location for testing and did not notice any problems.

Ms. Johnson stated 254 MGC units were installed at Keno locations. A set up problem occurred with a unit showing the logo for another state. However, all 254 units were checked to insure that another state's logo does not appear.

Ms. Johnson stated with the end of the fiscal year approaching, IT is working on a number of procurement requests including a high volume network printer, and Unisys maintenance agreements for the primary and back-up mainframe computers.

Communications - Jimmy White, Director of Communications

Mr. White stated the Communications Division has been very busy this month. They participated in the Bay Bridge Boat Show in Stevensville, the Baltimore Women's Show in Timonium, Wine in the Woods in Columbia, and will be participating at Cruisin Ocean City next weekend.

Mr. White stated numerous players have visited the Lottery to claim their winnings. A group of eight senior citizens from Carroll County arrive via limousine to claim their first tier Mega Millions winnings of \$175,000. There were also two Bonus Match 5 winners and numerous scratch-off first tier winners and Big Ben Buck winners.

Mr. White stated a Bon Voyage party was held at the British Airways terminal at BWI Airport for the first Big Ben Bucks winner to travel to London. Other Big Ben Buck trip winners were also invited. The event garnered four print stories about Big Ben Bucks.

Mr. White stated the Promotional Partners Program provided scratch-off tickets for promotions to 17 radio stations. The Lottery distributed \$3,650 worth of scratch-off tickets to these radio stations and received approximately \$57,200 in promotional value.

Mr. White stated the VIP club currently has 21,320 members.

Mr. White stated Eisner evaluated the 33 news articles and determined that they were valued at \$26,000.

Mr. White stated Communications is preparing for the upcoming State Fair in September and are also preparing for the Orioles bull pen party for the award of the Golden Ticket grand prizes.

Mr. White states upcoming events that Communications will be involved in include Hometown Holidays in Rockville on May 29 and 30, 2004, the Frederick Keys baseball game on June 10, 2004, and Zoomerang at the Baltimore Zoo on June 11, 2004. They will also be at various Merriweather Post Pavilion concerts, at a Six Flags event on July 11, 2004 and the Maryland Municipal League Convention of local governments in Ocean City from June 27 to 30, 2004.

Mr. White stated a website test page link for the Commission will be completed shortly. The website will contain a photograph and short biography of each Commissioner as well as a description of the duties and responsibilities of the Commission.

Creative Services – **Jill Baer, Director**

Ms. Jill Baer stated there was not a heavy schedule of media currently running. A lot of media ran in the beginning of the month relative to scratch-offs. Running minimal TV advertising and Big Ben Bucks radio advertising. Other media running is the Mega Millions jackpot advertisement and some advertising for Lotto.

Ms. Baer stated she is working with WBAL-TV and Infinity Radio (WQSR and LITE radio stations) to help promote the Lottery \$10 Vegas scratch-off ticket. Each station will be giving away a trip to Las Vegas.

Ms. Baer stated she is currently reviewing sports sponsorship proposals from the Baltimore Ravens, the Washington Redskins and WJFK Redskins Radio.

Ms. Baer stated another round of scratch cam was filmed on May 15, 2004 at Wine in the Woods in Columbia. It should be completed shortly. She is also looking into the production of some Lotto spots.

Sales – **Joseph Jason, Deputy Director**

Mr. Joseph Jason stated a training seminar is being held today to train or retrain personnel from Corporate Accounts in proper accounting procedures and security. The training will focus on prevention or detection problems such as shortages on instant tickets and losses due to poor accounting practices, before they become a major issue. There will be 22 attendees from the various corporate accounts and 59 attendees from their Lost Prevention Units attending. The Commission is welcome to attend this meeting. It is being held in the Maryland Department of the Environment's conference room on the first floor. The Lottery will also have hands on training on the instant ticket vending machines and lottery terminals.

Procurement Division – **Suzanne Meltzer, Director**

Ms. Suzanne Meltzer stated she would be requesting the Commission's approval for two contracts at the June meeting. The contracts are for maintenance for hardware and software for the Unisys LX5200 computer and Unisys LXE6500 computer systems. The current agreements expire on June 29, 2004 and the Lottery wishes to enter into another one-year agreement. There is no solicitation involved as this is a sole source agreement. Ms. Meltzer provided the Commission with copies of both agreements.

Product Development – Tracey Cohen, Director

Ms. Tracey Cohen stated another Pick 3 raffle promotion would run this summer. If the last two digits of the serial number match the last two digits of that evening's Pick 3 drawing, players win \$250. She stated IT is working on software to enable players to claim their \$250 winnings at agent locations rather than having to come to the claims center. Three grand prizes would be awarded at the end of the promotion. They are a Cadillac Escalade, a Harley Davidson motorcycle and a home entertainment system.

Ms. Cohen presented the information on the instant ticket of which working papers have not yet been finalized. The following pending instant game financial was presented to the Commission for their review and approval.

Game #496 *White Ice 8's* is a \$2.00 instant ticket with a prize payout of 63.91%. If 95% of the tickets are sold, the profit would be \$890,107. If 100% of the tickets are sold, the profit would be \$936,955.

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

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, June 23, 2004 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure motioned that the meeting be adjourned. The meeting was adjourned at 11:15 a.m.

Respectfully submitted,

Buddy Roogow