

**MARYLAND STATE LOTTERY COMMISSION  
JULY MINUTES**

DATE: July 28, 2004  
TIME: 9:00 a.m.  
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure  
Vice Chairman E. Randolph Marriner  
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  
Tchicaya Ellis, Ph.D., Director, Research and Planning  
Jill Baer, Director, Creative Services  
Tracey Cohen, Director, Product Development  
Jimmy White, Director, Communications  
Frank Hemberger, Sales Manager  
Paul Dorsey, Director of Policy and Development  
Shirley Basse, Internal Auditor  
Suzanne Meltzer, Executive Assistant  
Marie Torosino, Executive Associate

OTHERS  
PRESENT: John Hadley, Scientific Games Online Entertainment Systems  
Trish McClean, Eisner Communications

## **CALL TO ORDER**

Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:05 a.m.

## **APPROVAL OF MINUTES**

Chairman Bonaventure stated the Minutes for May 2004 and June 2004 are being presented for approval. A copy of the Minutes for May and June with noted corrections were included in the Commissioners' folders for their review. Commissioner Reeder made a motion to approve the May 2004 and June 2004 Minutes and Commissioner Wagner seconded the motion. The May 2004 and June 2004 Minutes were approved by unanimous vote of the Commission.

## **COMMISSION BUSINESS**

Chairman Bonaventure stated the report from the Commission Audit Committee regarding the Ticket and Prize Accountability Policy is still under review. Next month, a draft will be available for the Commission's review. Mr. Roogow stated that the Lottery has been keeping detailed records of the disposition of the tickets.

Chairman Bonaventure stated at last month's meeting, he requested and subsequently received a copy of the agent application form. He requested legal counsel to review the application. He suggested that the applicant sign the application in affidavit form stating that all statements are true. Ms. Johnson stated she would review the application form.

## **EISNER COMMUNICATIONS**

Ms. Trish McClean stated she had new Lotto advertising to present to the Commission. The Lotto ad launched on July 26, 2004. She showed the three 30-second Lotto television spots. The spots will be tagged with information regarding the current Lotto promotion. She stated Eisner is working with WBAL-TV on an Olympic sponsorship package to air 15-second spots regarding the Lotto promotion. An ad was also printed in the Baltimore Sunpapers concerning the Lotto promotion.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Mr. John Hadley, Regional Director, stated that Ms. Sean Athey has been hired to fill the position left vacant by John Williams departure. Ms. Athey has over 15 years in the Lottery industry, 10 years that were with Oberthur Gaming Technologies as Vice President for Marketing. Her official start date is Monday.

Mr. Hadley stated the new summer promotions are up and running.

## **DIRECTOR'S REPORT**

Mr. Roogow stated there have been some personnel changes this month. He stated that Mr. Hadley just spoke about Sean Athey being hired by Scientific Games. The Lottery looks forward to working with her. She has industry experience with both on-line and instant games.

Mr. Roogow stated Mr. Joseph Jason, Deputy Director of Sales, retired last month. Mr. Stephen Meehan has been hired as the new Deputy Director of Sales. He starts on Monday. He previously worked at the Pennsylvania Lottery as Deputy Director of Marketing and currently works at Comcast.

Mr. Roogow stated Ms. Dot Colvin the Assistant Director of Communications--Public Affairs resigned to take a job with the Community College of Baltimore.

Mr. Roogow stated total sales for FY2004 were \$1,397,604,409. The Lottery had a terrific year. Pick 4 sales were up about same amount that Pick 3 sales were down. Lotto and Lotto subscriptions as well as Keno and Keno Bonus sales were up compared to last fiscal year. Mega Millions sales were at \$89 million compared to \$68 million for last fiscal year. Bonus Match 5 sales were about the same compared to last fiscal year. Instant sales were \$355 million compared to \$316 million for last fiscal year.

Mr. Roogow stated revenue for FY2004 was \$458 million compared to \$444 million for last fiscal year. Revenues were \$18 million ahead of the Lottery's revenue goal set by the Bureau of Revenue Estimates.

A question was asked how much sales and revenue would the Sunday mid-day Pick 3 draw add per year. The response was an increase of \$15 to \$20 million in sales and \$5 to \$8 million in revenue. It is not cannibalizing the sales of other games.

Mr. Roogow stated total sales for the current fiscal year are approximately \$14 million ahead of last year. Pick 3 sales are approximately \$1.2 million ahead of last year. Pick 4 sales are \$1.6 million ahead of last year. Keno and Keno Bonus sales combined are \$2.8 million ahead of last year. Instant sales are \$2 million ahead of last year. Mega Millions sales are \$7.5 million ahead of last year. Lotto sales and Bonus Match 5 sales are slightly behind last year.

Mr. Roogow stated the NASPL Conference will be October 5 to 7, 2004 in Quebec, Canada. He will be attending as well as few employees. If any Commissioners wish to attend, he asked that they contact him.

## **REPORTS**

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

Dr. Tchicaya Ellis stated there are currently four research projects in the field or in the analysis and report writing stage. They are the Pick 3 Awareness and Evaluation Research, the Mega Millions Multi-State Research, the June Tracking Study and the Golden Ticket Scratch-off Promotion Research. Next month she should have an executive summary to present to the Commission.

Dr. Ellis stated her report contained a laminated sheet of an overview of the Lottery's FY2005 Managing for Results Plan. This sheet shows the Agency's vision, mission, value and goals. The back of the sheet shows the upcoming products and promotions planned for each quarter. A question was asked as to how long the Lottery has been doing Managing for Results. The response was it started in 1997 and she has been involved for the past three years.

Dr. Ellis stated an MBE waiver request has been received from Oberthur Gaming Technologies (OGT). Dr. Ellis stated she is currently reviewing the waiver request. Chairman Bonaventure requested that OGT appear before the Commission to state the reasons why they are unable to meet their MBE goal. Dr. Ellis stated she would advise the Commission when this is scheduled.

Dr. Ellis stated attached to her report was a summary of the 2004 MBE legislation and its anticipated impact on the Lottery. She stated SB904/HB1487 requires State procurement units to reserve 10% of their procurements for bid solely by small businesses. It also requires the Department of General Services to establish and maintain a list of qualified small businesses. This legislation directly impacts all procurement activities conducted by the Lottery. The Lottery's Procurement and MBE Divisions will meet before law become effective on October 1, 2004, to map out a strategy. She stated SB903/HB1488 requires the prime contractor to identify MBE subcontractors at the time they bid on a State contract instead of allowing them to wait until ten days after the contract award.

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

Ms. Andrea Johnson stated she had two Lottery license revocations to present to the Commission. The first Lottery license revocation is for L. Square, Inc., T/A Lightning Jack's Bar and Grill located at 1113 South Ponca Street, Baltimore, MD 21224. The revocation is based upon the agent's failure to make timely and proper settlements of ticket sales revenues. Ms. Johnson presented an overview of the facts leading to the Director's decision to revoke this agent's Lottery license. A certified letter of revocation was sent to the owners' business address on June 14, 2004 and copies were sent to the owners' home addresses via regular mail. The certified letter was returned by the Post Office marked "Moved, Left No Address". No response was received from the owners. Ms. Johnson stated based upon these facts, she is presenting the revocation for the Commission's approval. Chairman Bonaventure made a motion to accept the Director's recommendation

to revoke the Lottery license of Lightning Jack's Bar and Grill and Vice Chairman Marriner seconded it. The Lottery license of Lightning Jack's Bar and Grill was revoked by unanimous vote of the Commission.

Ms. Johnson stated the second Lottery license revocation is for Worth Keys, Inc., T/A Greer's Liquors located at 4508 Annapolis Road, Bladensburg, MD 20710. The revocation is based upon the agent's failure to make timely and proper settlements of ticket sales revenues. A certified letter of revocation was sent to the owners' business address on May 27, 2004 and copies were sent to the owners' home addresses via regular mail. Ms. Johnson presented an overview of the facts leading to the Director's decision to revoke this agent's Lottery license. The signed certified card was received by the Lottery on June 14, 2004 and the owners had ten days to response. No response was received from the owners. Ms. Johnson stated based upon these facts, she is presenting the revocation for the Commission's approval. Vice Chairman Marriner made a motion to accept the Director's recommendation to revoke the Lottery license of Greer's Liquors and Chairman Bonaventure seconded it. The Lottery license of Greer's Liquors was revoked by unanimous vote of the Commission.

Mr. Johnson stated in regard to the Maryland Commission on Human Relations matter, a Pre-hearing Settlement Conference is scheduled for July 30, 2004 with the Office of Administrative Hearings. A Motion to Dismiss has also been filed. She reviewed the report of the zip codes listed in the Complaint that she provided the Commission. She stated of the 15 locations named in the complaint located in Baltimore City, only 12 are licensed lottery locations and they are located in nine different zip codes. There are 394 total agents located in the nine zip codes, with 319 locations being accessible and 64 locations being non-accessible. If the Lottery is not successful in getting the case dismissed, then the trial date will be scheduled within 30 to 60 days. She will keep the Commission updated.

*Administration, Finance and Operations – Gina Smith, CFO*

Ms. Gina Smith stated AFO continues to process the year-end closing entries.

Ms. Smith stated effective October 2004 legislation would become effective that would allow Lottery agents to commingle funds. They will no longer have to maintain a separate account for lottery funds. A question was asked as to who initiated this legislation. The response was Senator Della initiated it at the request of the Agents Association and a large number of agents. Mr. Roogow stated commingling of funds has occurred since the Lottery began and only in the last year or two was it changed to require the agents to set up separate accounts. Mr. Roogow stated that commingled funds has not historically presented a problem. Ms. Smith further stated that the Lottery has adequate internal controls regarding the withdrawal of agent funds to guard against someone at the Lottery withdrawing too much money.

Ms. Smith stated that she and Ms. Sharpless attended a seminar on how to prepare a comprehensive annual financial report (CAFR). The Lottery has until December 31, 2004 to submit a statement to obtain certification.

Ms. Smith stated the Lottery will have to prepare a strategic budget for the FY2006 budget submission and it is due by the end of July 2004. The purpose of the strategic budget is for Agencies to review their resources and determine if they are over/understaffed and over/under budgeted. This is a different format than what was done in previous years. Ms. Smith stated the FY2005 budget of \$50.9 million is being allocated to the various Divisions.

Ms. Smith stated AFO continues to work with IT on the bond database to track the investments. This project is on schedule. This will allow the year-end financial statements to be issued utilizing the database.

Ms. Smith stated the upgrade to the Solomons accounting system has begun and will allow the Lottery to handle more games and account for all new games.

Ms. Smith stated the Sales Network Division that handles agent phone calls was affected by position reductions. To better facilitate the handling of the phone calls, the one employee in that Division was moved to Customer Resource Services. Customer Resource Services and warehouse personnel will now jointly share the responsibility of handling the phone calls from the agent network and members of the public.

Chairman Bonaventure asked about the status of the management report and Ms. Smith responded it was on track on a time basis.

Ms. Smith stated Sales and Agent Administration are reviewing the current agent application form. Also, progress has been made with outstanding change of ownership applications. Chairman Bonaventure asked if there was a time frame for the review of the agent application. Ms. Smith responded she hopes to have it completed by the beginning of next year.

A question was asked as to when the Legislative auditors are expected to return to the Lottery. The response was that the Lottery is not as yet listed on the schedule.

Commissioner Reeder asked if there is a delay with processing Agent Plus applications. Mr. Roogow responded these requests are reviewed very carefully both from a financial standpoint and a need standpoint. Commissioner Reeder stated an agent in his area applied for Agent Plus. Commissioner Reeder will talk further with Mr. Hemberger concerning this matter.

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

Ms. Sandra Johnson stated currently no software testing is being conducted. She stated IT is working on drafting the next on-line RFP. The current contract ends in 2006. A group of employees composed of representatives from different Lottery Divisions have been identified and would begin working with IT to develop a list of technical requirements for the RFP.

Ms. Johnson stated IT is currently supporting the Keno Doubler, Pick 3 Bonus Coupon and the Serial Number Lotto promotions. A kick-off meeting was held with representatives from RESI of Towson University to confirm the work plan and project reporting for the Keno website enhancement.

Ms. Johnson stated the InWin game had been discontinued on June 27, 2004. However, the software would remain on the system for 182 days for any validations that may occur.

Ms. Johnson stated IT is working on a number of projects with AFO such as reviewing the workflow for the W2Gs and IRS files and reports to determine enhancements needed to improve year-end processing requirements.

Ms. Johnson stated IT generated reports from the new bond/annuity system for AFO's review. The system would be turned on this week for testing. Plans are to move the system into production by late August.

Ms. Johnson stated SpamKiller software was installed on the Lottery's internal network. Ms. Johnson stated the new ticket stock should be received shortly and distribution to the agent locations should be within the next few weeks.

#### *Communications - Jimmy White, Director of Communications*

Mr. Jimmy White stated the Communications Division was busy this month participating in many events. During this time, the Mega Millions jackpot reached \$290 million and was won by someone in Massachusetts. The Lotto winner for the May 28, 2004 drawing came forward and a subscription holder won the Lotto jackpot for the July 12, 2004 drawing.

Mr. White stated Communications participated at events at Merriweather Post Pavilion, Orioles games, Six Flags America in Bowie, the 4<sup>th</sup> of July Parade in Catonsville, and the USTA Women's Tennis Satellite Tour held at Druid Park.

Mr. White stated there were 26 press releases issued by the Lottery. The 23 articles that were printed in the newspapers were evaluated by Eisner and valued at \$6,055.97. He stated the Lottery's Promotional Partners Program distributed \$4,496 in scratch-off tickets to the radio stations and received a promotional value of \$76,415. He stated the VIP Club conducted three contests and awarded tickets to the Capital Jazz Festival and Merriweather concerts.

Mr. White stated Communications is preparing for the prize awards of the Corvette and plasma televisions at the State Fair on August 29, 2004. This giveaway is associated with phase two of the Golden Ticket scratch-off game. On September 10, 2004, awarding of the cash and other prizes would occur at the bullpen party at Oriole Park. This is associated with phase one of the Golden Ticket scratch-off game.

Mr. White stated this week is Lottery Employee Appreciation week. There are various employee activities occurring throughout the week. On Friday, awards will be presented for Employee of Year and Taking Pride in People.

Mr. White stated the Lottery would be participating at the Maryland Association of Counties Conference scheduled from August 18 to 21, 2004 in Ocean City, Maryland.

*Creative Services – Jill Baer, Director*

Ms. Jill Baer stated last week advertising for the Pick 3 Bonus Match-up promotion ended.

Ms. Baer stated she is working with Comcast to make arrangements for the broadcast of the grand prize awards for phase one of the Golden Ticket scratch-off game.

Ms. Baer stated three new Lotto spots would run tagged with information about the Lotto Summer Super Draw promotion. The spots will air statewide on television the week of July 26, 2004 for four weeks.

Ms. Baer stated that WBAL-TV Olympic sponsorship package was approved. WBAL-TV will try to schedule the 30-second spots as close as possible to the swimming events with Michael Phelps. Spots will also run during the opening and closing ceremonies.

Ms. Baer stated the Lottery is working to finalize a package with WCBM to air the Lottery Minute in the morning and afternoon every Thursday and Friday. She stated she is also working with WMAR-TV relative to coverage of Lottery activities at the State Fair. Specifically, for the prize awards for phase two of the Golden Ticket scratch-off game.

*Product Development – Tracey Cohen, Director*

Ms. Tracey Cohen stated she has information to present to the Commission 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 #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.

The next four scratch-off tickets are a series of tickets that will use a special instant ticket dispenser.

Game #497 *Hit \$25* is a \$1.00 instant ticket with a prize payout of 58.37%. If 95% of the tickets are sold, the profit would be \$691,867. If 100% of the tickets are sold, the profit would be \$728,281.

Game #498 *Hit \$50* is a \$2.00 instant ticket with a prize payout of 64.12%. If 95% of the tickets are sold, the profit would be \$881,887. If 100% of the tickets are sold, the profit would be \$928,302.

Game #488 *Hit \$500* is a \$5.00 instant ticket with a prize payout of 72.98%. If 95% of the tickets are sold, the profit would be \$1,337,684. If 100% of the tickets are sold, the profit would be \$1,408,088.

Game #499 *Hit \$5,000* is a \$10.00 instant ticket with a prize payout of 76.08%. If 95% of the tickets are sold, the profit would be \$2,068,872. If 100% of the tickets are sold, the profit would be \$2,177,760.

Game #492 *Extreme Cash* is a \$10.00 instant ticket with a prize payout of 75.83%. If 95% of the tickets are sold, the profit would be \$2,117,802. If 100% of the tickets are sold, the profit would be \$2,229,265.

A question was asked what is the special dispenser being used for the “Hit” series. The response was it is a plexiglass dispenser that sits on the agent’s counter and will hold just the “Hit” scratch-off tickets. The agent dispenses the tickets. It is not an instant ticket vending machine.

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

Mr. Roogow stated the Break the Bank hybrid scratch-off ticket has been one of the best selling \$5.00 scratch-offs and it is close to being sold out. He stated Ms. Cohen and her group are working on a second hybrid ticket.

#### **Sales – Frank Hemberger, Sales Manager**

Mr. Frank Hemberger stated in June, Mr. Joseph Jason, Deputy Director of Sales retired. In addition, Ms. Cindy Ford, Sales Network Manager also retired. He stated the new Deputy Director of Sales, Mr. Stephen Meehan will be at next month’s meeting. Mr. Hemberger stated it has been a pleasure attending the Commission meetings. The Commission complimented Mr. Hemberger as well as Ms. Regalbutto on doing a fine job.

#### **Procurement Division – Suzanne Meltzer, Director**

Ms. Suzanne Meltzer stated a copy of the RFP for Consulting Services Related to a Lottery On-line Gaming Computer System was recently mailed to the Commission for their review and approval. She stated she is working with the Department of Budget and Management on some minor changes.

Chairman Bonaventure made a motion to approve the Consulting Services RFP and Vice Commissioner Wagner seconded it. The Consulting Services RFP was approved by unanimous vote of the Commission.

Ms. Meltzer stated the Lottery recently issued an RFP for the SAS-70 Audit. There were two bids received. However, she said it was determined that it is in the Lottery's best interest to reject these bids.

Commissioner Wagner asked what does RFP stand for. Ms. Meltzer responded it is a Request for Proposals. She requests the Commission's approval of the RFP because many of the contract terms contained in the RFP become part of the resulting contract that the Commission approves.

Ms. Meltzer stated the Lottery will be entering into another contract with Pollard Banknote and she will be requesting the Commission's approval of this contract. She will mail a copy to the Commission as soon as it is available.

Ms. Meltzer stated work continues on the changes to Chapter 4 of the regulations. She will forward these change to the Commission for their review in the next few weeks.

#### *Policy & Development Division – Paul Dorsey, Director*

Mr. Paul Dorsey distributed to the Commission an updated report on the slots issue in Maryland and the surrounding states. He stated the Pennsylvania legislature recently passed their slots bill. He stated that 14 facilities would have slots throughout Pennsylvania, with up to a total of 61,000 machines. The map attached to the report shows the potential locations. The percentage of revenue breakdown is as follows: 48% to tracks and non-tracks; 9% to purses; 4% to local governments; 34% to the State; and 5% to the Economic Development Fund. A seven member Pennsylvania Gaming Board will be established to oversee all licensing and operations of the slots venues. The Governor will appoint three members, and the Legislature will appoint four members (one each by the Senate President, the Senate Minority Leader, the House Speaker and the House Minority Leader). Pennsylvania State employees and members of the Legislature can hold up to one percent interest in a licensed facility or company that owns the facility. VLT machines will be through a distributorship and Legislators can own up to 100% of a distributorship. The report contains more detailed information.

#### **OTHER COMMENTS**

Mr. Roogow stated a report on Mega Millions ad spending and sales has been completed. This report shows the relationship between advertising and sales in the DC and Baltimore media markets. Ms. Lori Nash and Ms. Erinn Williams showed a PowerPoint presentation to the Commission on Mega Millions ad spending and sales. Vice Chairman Marriner stated this report is a first step to demonstrate the effects of advertising and a good report to have available for the Annapolis Legislature.

Commissioner Reeder stated the Lottery had great year. The Commission thanked the Director and staff for the great sales and revenues.

**DATE AND TIME OF NEXT MEETING**

The next Commission meeting is scheduled for Wednesday, August 25, 2004 at 9:00 a.m. at Lottery Headquarters.

The Commission also agreed to move the Wednesday, October 27, 2004 meeting to Wednesday, October 20, 2004.

**ADJOURNMENT**

There being no further business, Chairman Bonaventure motioned that the meeting be adjourned. The meeting was adjourned at 11:10 a.m.

Respectfully submitted,

Buddy Roogow