

**MARYLAND STATE LOTTERY COMMISSION  
NOVEMBER MINUTES**

DATE: November 17, 2004  
TIME: 9:00 a.m.  
PLACE: Maryland Lottery Headquarters

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

Gina Smith, Assistant Director and CFO  
Andrea Johnson, Principal Counsel  
Sandra Johnson, Chief Information Officer, Information Technology  
Stephen Meehan, Deputy Director, Sales  
Tchicaya Robertson, Ph.D., Director, Research and Planning  
Jill Baer, Director, Creative Services  
Tracey Cohen, Director, Product Development  
Brian Johnson, Assistant Director of Communications – Promotions  
& Special Events  
Paul Dorsey, Director of Policy and Development  
Daviedra Williams, MBE Liaison Officer  
Suzanne Meltzer, Executive Assistant  
Marie Torosino, Executive Associate

OTHERS  
PRESENT:

Sean Athey, Scientific Games Online Entertainment Systems  
David Blum, Eisner Communications  
Kathy Matson, Oberthur Gaming Technologies  
Diane Connell, Oberthur Gaming Technologies  
Chris Aguirre, Oberthur Gaming Technologies

## **CALL TO ORDER**

Chairman Bonaventure stated that at 9:00 a.m. the Commission met with the Principal Counsel to discuss the Motion to Stay for the revocation of the lottery license of Hobbits. The Commission is now on record with the official Commission Meeting.

Chairman Bonaventure stated the Commission has considered the Motion to Stay for Hobbits. The consensus of the Commission is to deny the Motion to Stay. He requested that the Principal Counsel convey this information to Hobbits' legal counsel.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Ms. Sean Athey stated the Racetrax pilot program is scheduled to begin on November 29, 2004. Training sessions have been held for Lottery personnel and training for the first five agents will be held this week. She stated the software for bonus promotion cashing in the field is scheduled to launch in December. Commissioner Wagner asked who are the closest agents to this building. The response was the first five agents are LeCompte's Restaurant, Baltimore 21212; Henri's, Baltimore 21218; J Convenience, Baltimore 21234; Nikki's Discount, Baltimore 21236; and CJ Tavern, Laurel.

## **REPORTS**

### ***Research and Planning – Dr. Tchicaya Robertson***

Chairman Bonaventure asked Dr. Tchicaya Robertson to begin the discussion regarding the MBE goal waiver request of Oberthur Gaming Technology (OGT). Dr. Robertson stated in July 2004, Oberthur Gaming Technology requested a waiver of their MBE goal for fiscal year 2004. The Lottery has been corresponding with the Maryland Department of Transportation (MDOT) and the Governor's Office of Minority Affairs (GOMA) to obtain clarification as to what can be counted towards MBE participation. OGT has a brokering relationship with one of their vendors. OGT is being given the opportunity to present their justification for a waiver. Ms. Kathy Matson, Mr. Chris Aguirre and Ms. Diane Connell from OGT presented to the Commission their reasons for the MBE waiver request.

### **OGT Waiver Request Presentation**

Ms. Kathy Matson, Vice President of U.S. Sales and Marketing for Oberthur Gaming Technology stated OGT prints scratch-off tickets. A few of the Lottery Commissioners have been to San Antonio in the past to tour the facility. The printing of lottery scratch-off tickets involves a lot of security from the beginning to the end product. Because of the nature of the security, there is little that can be outsourced to MBEs. OGT obtains some materials and supplies, which is the biggest part of their outside cost. OGT also contracts with minority companies for ink, boxes and the oversized point-of-sale tickets for Maryland. OGT has a brokering business arrangement with Business Assets, who brokers

paper for OGT and other companies. According to OGT, this is a third party arrangement that was presented in their bid to the Lottery five years ago.

Dr. Robertson stated the final ruling about how to count brokering dollars was received from GOMA yesterday. Commissioner Wagner asked if the broker is a minority contractor. Dr. Robertson responded there are three paper companies that meet OGT's quality standards, but they are not MBEs.

Commissioner Wagner asked if OGT were not trying to meet the MBE goals would OGT purchase paper without using a broker. Ms. Matson stated they do in some cases and they use Business Assets for other accounts. Mr. Aguirre stated there are five state Lotteries that require MBE. They are California, Wisconsin, West Virginia, Maryland, and Rhode Island. OGT developed a mentorship program with Business Assets. The company has a distributorship for the sale of paper for lottery needs. Commissioner Reeder asked does the company take title to the paper and then invoice OGT. Ms. Matson stated OGT negotiates a price. OGT is limited in its resources in looking for producers of paper. Ms. Matson stated OGT would still continue to use Business Assets regardless of whether or not they can put a percentage of the broker fees to meet the MBE goal. Vice Chairman Marriner inquired about the propriety of a commission being paid to a broker. Ms. Matson responded that the broker has the financial ability to stand alone. Vice Chairman Marriner also inquired whether OGT could outsource internal design and graphics to a minority concern. Ms. Matson responded the demands on internal design and graphics are more technical than normal, but that she would look into it. Chairman Bonaventure thanked OGT for their presentation. Ms. Matson stated OGT would continue to look for MBE companies that they are not aware of. Chairman Bonaventure stated the Commission would review the request for the MBE goal waiver and respond to OGT.

### **EISNER COMMUNICATIONS**

Mr. David Blum stated the most recent Scratch Squad was shot during the Baltimore Marathon with Chip Franklin as host. These spots would be tagged with holiday scratch-off tickets. Also, the Hampden Lights spot would air and be tagged with holiday scratch-off tickets. Mr. Blum stated a radio spot would air the week after Thanksgiving. He then showed the Commission the three Scratch Squad commercials as well as the Hampden Lights commercial.

Chairman Bonaventure asked if releases were obtained from those people who participated in the Scratch Squad spot. Mr. Blum responded releases were obtained from all those people who participated and only those people featured in the final spot were paid. Commissioner Wagner asked if they are rehearsed. Mr. Blum responded there is no rehearsal. He stated there were 19 people filmed and only three were selected for the final commercial.

## **APPROVAL OF MINUTES**

Chairman Bonaventure made a motion to approve the September Commission Minutes and Commission Wagner seconded the motion. The September Commission Minutes were approved by unanimous vote of the Commission.

Chairman Bonaventure stated the approval of the October Commission Minutes would be tabled until the December Commission Meeting.

## **COMMISSION BUSINESS**

Chairman Bonaventure invited the Commission to come up with ideas as to what they can do to be more proactive in the Lottery.

Chairman Bonaventure asked Dr. Robertson to review the MBE goal waiver request from Oberthur Gaming Technologies. Dr. Robertson distributed to the Commission a copy of the letter from the Governor's Office of Minority Affairs (GOMA). She then gave an overall review of the waiver request as well as the response from GOMA. GOMA concurred with the Lottery's assessment of OGT's relationship with its MBE vendor, Business Assets, in that counting all dollars to meet the MBE goal is not appropriate. Also, the Lottery would need to increase MBE purchases in other areas to compensate for the shortfall resulting from this contract. Chairman Bonaventure stated that during OGT's presentation, Ms. Matson stated that this broker arrangement was included in their bid five years ago. He asked Dr. Robertson to look into this and let the Commission know whether or not the Lottery was aware of this broker relationship. Chairman Bonaventure stated next month after hearing the results of this research, the Commission would resolve this waiver request and make its recommendation.

## **REPORTS**

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

Ms. Andrea Johnson stated there is one lottery license revocation to present to the Commission today. Jack's Café was licensed in September 1998 and had a total of five insufficient fund transfers since 2001. A revocation letter was sent on October 20, 2004 and the signed certified card was received. No response has been received from the agent within the ten-day deadline. Based upon the facts presented, the Director is requesting the Commission to uphold the revocation of the lottery license of Jack's Café. Commissioner Wagner made a motion to accept the Director's recommendation to revoke the Lottery license of Jack's Café and Commissioner Reeder seconded it. The Lottery license of Jack's Café was revoked by unanimous vote of the Commission.

Ms. Johnson confirmed with the Commission the date of December 22, 2004 at 1:00 p.m. for the revocation hearing for Hobbit's Liquors.

Ms. Johnson stated as appeal of the revocation of the lottery license of Genies Liquors has been received. She asked the Commission to consider a date and time to schedule the hearing. The Commission agreed to schedule the revocation hearing on Wednesday, February 23, 2005 at 1:00 p.m. It is estimated the length of the hearing would be three to four hours.

Ms. Johnson provided the Commission a copy of the signed ADA settlement agreement. The Lottery has 90 days to implement the changes. The agreement was signed on November 3, 2004 and the implementation deadline is February 2005. The Lottery has established in-house committees that are working to ensure that the changes occur.

Ms. Johnson stated her office has been working on the monitor game contract amendment with Ms. Suzanne Meltzer, Procurement Director. She requested Ms. Meltzer to update the Commission. Ms. Meltzer stated the draft contract amendment has been forwarded to Scientific Games for their review. Ms. Meltzer provided copies of the draft contract amendment to the Commission. She stated the Lottery would compensate Scientific Games for the playslips and equipment maintenance. The not to exceed amount of the contract amendment is \$37,717.50. TABCORP owns the rights to game and licensed the rights to Scientific Games who would then sub-license it to the Lottery. The sub-license agreement is still being reviewed. Chairman Bonaventure asked if there is any additional cost to the Lottery except for the \$37,717.50 amount. Ms. Meltzer responded we are not paying Scientific Games for anything else, but the Lottery has incurred other costs. There are telecommunications costs and monitor costs.

Chairman Bonaventure made a motion to approve the draft Contract Amendment for the monitor pilot program and Vice Chairman Marriner seconded the motion. The draft Contract Amendment was approved by unanimous vote of the Commission.

Chairman Bonaventure stated he and Mr. Roogow had the opportunity to present the monitor pilot program to Mr. Jim Fielder, Secretary of the Department of Labor, Licensing and Regulation, who oversees the Racing Commission. Secretary Fielder thought it was a great game and understood it is scheduled for a limited time period. Secretary Fielder raised the issue concerning sharing the revenue from the pilot program.

Ms. Johnson stated she is working on a response to an inquiry as to whether lottery sales of 7-11 franchisees should be made available to the 7-11 parent company. The request is being treated as a public information request under the Maryland Public Information Act.

*Administration, Finance and Operations – Gina Smith, Assistant Director/CFO*

In Mr. Roogow's absence, Ms. Gina Smith presented the Director's report along with AFO's report. She stated sales are \$39 million ahead of last year. Sales of all games are doing well with the exception of Bonus Match 5 and Lotto. Pick 4 sales are \$6.6 million ahead of last year. Sales for Keno and Keno Bonus combined are \$11.1 million ahead of last year. Revenue is approximately \$3.0 million ahead of last year. The Lottery has been experiencing higher than normal Pick 3 and Pick 4 payouts. The Mega Millions jackpot

rolled last night and Maryland had four \$175,000 second tier winners. The Lottery needs to average \$28.7 million in sales and average \$9 million in revenue to reach its estimate. The current sales average is \$27 million.

Ms. Smith stated she and Mr. Roogow met with Mr. David Roose from the Comptroller's Office. Mr. Roose wanted to discuss where the Lottery is headed this year. Ms. Smith stated that she and the Director also met with the Department of Budget and Management regarding the 2006 unfunded budget request. The Lottery is asking for \$2 million more in advertising and for additional positions. It does not appear that the request will be granted. Ms. Smith stated that the Lottery's Accounts Payable Supervisor, who had an extensive accounting knowledge, has left the agency. Another employee is handling those duties temporarily until a replacement is hired. Also, the Assistant Controller left the agency and his duties were divided among staff to cover until a replacement is hired.

Ms. Smith distributed the July, August, and September audited reports to the Commission. There are no significant changes between the audited and unaudited statements. You may note changes in the footnotes as the Lottery performed the comprehensive rewrite to improve them. Chairman Bonaventure asked if it is possible to see a red line copy. Ms. Smith responded she would look into seeing if one existed.

Ms. Smith stated at last month's meeting the Commission inquired as to the next scheduled visit by the legislative auditors. She stated they might possibly be coming in January 2005. She distributed to the Commission a report of the current status of the findings/recommendations as well as a copy of the legislative audit report. Ms. Smith read each finding/recommendation and reported on the status. A copy of Ms. Smith's report is attached hereto. Chairman Bonaventure stated that Agency has done a great job.

*Information Technology – Sandra Johnson, Chief Information Officer*

Ms. Sandra Johnson stated work continues on obtaining input from Lottery Divisions for the on-line RFP. She is in the process of consolidating all this information into a document for the on-line consultant.

Ms. Johnson stated testing continues on the software for the monitor game. The software should be ready for implementation by November 29, 2004. Ms. Johnson stated software testing continues for cashing in the field. They are working towards a December 2004 implementation date.

Ms. Johnson stated work continues on the Keno website enhancement. A database has been developed to support the enhancement and graphic renderings.

Ms. Johnson stated preparation of the specifications for the new Unisys system mainframe are being completed.

Ms. Johnson stated she is working with Scientific Games to support the Keno Doubler promotion that is running from October 11 through December 5, 2004 and the Keno Tripler that would run from December 6, 2004 to December 26, 2004.

Ms. Johnson stated planning for the migration from the Windows 2000 operating system to Microsoft XP is underway. As a result of the Microsoft software assessment that was done, any system product can be upgraded at no additional cost to the Lottery. This is valid for three years.

*Communications* – **Brian Johnson, Assistant Director, Promotions and Special Events**

In Mr. Jimmy White's absence, Mr. Brian Johnson presented the Communications Division's report. Mr. Johnson stated Communications Division participated at the Baltimore Marathon, the Mid-Atlantic Food and Beverage Expo in Timonium, the Baltimore Heart Walk and the WRNR Concert and Street Festival in Annapolis.

Mr. Johnson stated the Mega Millions jackpot is \$149 million for Friday. Maryland had four \$175,000 second tier winners for last night's drawing and the media was alerted. Mr. Johnson stated the recent Lotto winner is scheduled to come to the Lottery today and the media has been alerted.

*Creative Services* – **Jill Baer, Director**

Ms. Jill Baer stated she is working with Just B TV to shoot a segment at Santoni's on Lombard Street in Baltimore City. The show airs on Sunday at 11:00 pm after the sport's report on Fox 45.

Ms. Baer stated the Scratch Squad spot ran statewide on television for two weeks and began November 1, 2004. She stated the holiday television would air in Baltimore the weeks of November 22 and 29, 2004.

Ms. Baer stated the Lottery partnered with WBAL-TV and WIYY 98 Rock radio for a special media promotion. Both stations highlighted the Hoola Moola scratch-off ticket. This promotion concludes tomorrow night on WBAL-TV. The Director would announce the winner of the trip to Hawaii on WBAL-TV on November 18, 2004. The Director would announce the winner of the trip to Hawaii on WIYY 98 Rock during an afternoon radio show. The date has not yet been determined.

Ms. Baer stated we currently are supporting the Mega Millions jackpot in print both in Maryland as well as the bordering states (Pennsylvania, West Virginia and Delaware) and also on radio.

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

Ms. Tracey Cohen stated the monitor pilot program is scheduled to launch on November 29, 2004. She stated the first cycle of the current format presentation of instant tickets to

the Commission would be December. She should have the sales analysis available at the December Commission meeting.

Ms. 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 #529 *Championship Poker* is a \$5.00 instant ticket with a prize payout of 70.00%. If 95% of the tickets are sold, the profit would be \$2,036,579. If 100% of the tickets are sold, the profit would be \$2,143,767.

Game #530 *Funky Monkey* is a \$1.00 instant ticket with a prize payout of 58.49%. If 95% of the tickets are sold, the profit would be \$771,596. If 100% of the tickets are sold, the profit would be \$812,206.

Game #532 *Lucky Symbols* is a \$1.00 instant ticket with a prize payout of 59.69%. If 95% of the tickets are sold, the profit would be \$738,716. If 100% of the tickets are sold, the profit would be \$777,596.

Game #533 *Double Dollars* is a \$1.00 instant ticket with a prize payout of 58.84%. If 95% of the tickets are sold, the profit would be \$762,006. If 100% of the tickets are sold, the profit would be \$802,112.

Game #534 *Cash Craze* is a \$1.00 instant ticket with a prize payout of 59.94%. If 95% of the tickets are sold, the profit would be \$731,866. If 100% of the tickets are sold, the profit would be \$770,385.

Game #535 *Scratchlore/Sratchlorette* is a \$2.00 instant ticket with a prize payout of 64.00%. If 95% of the tickets are sold, the profit would be \$886,584. If 100% of the tickets are sold, the profit would be \$933,247.

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

Vice Chairman Marriner asked if it is necessary for the Commission to approve the instant tickets. He suggested the Lottery look into a more efficient way to obtain approval from the Commission. Chairman Bonaventure asked the Lottery to develop a more expedient and efficient means of approval.

#### **Sales – Stephen Meehan, Deputy Director**

Mr. Stephen Meehan stated the Sales Division is supporting the current initiatives that include the Hoola Moola instant ticket promotion, Keno Doubler, Keno agent recruitment and agent signage makeover initiative. As part of the Keno recruitment initiative, 70 new

Keno agents were processed. The Sales force is working on the ADA agreement implementation.

Mr. Meehan stated the end of the on-line contract is coming up and the number of terminals available is limited. Sales is reviewing agents that are low performing and taking corrective action. He is challenging the Sales force to find the most profitable locations for those terminals that are available. Chairman Bonaventure asked Mr. Meehan if his group had a strategic plan. Mr. Meehan responded with a discussion of goals.

*Procurement – Suzanne Meltzer, Director*

Ms. Suzanne Meltzer stated the technical evaluation of the proposals submitted in response to the RFP for Consulting Services Related to a Lottery On-line Vendor Gaming Computer System has been completed. The financial proposals were opened and the Lottery requested Best and Final Prices from the Offerors that are due by 1:00 p.m. on November 17, 2004. An award should be made by next month. A question was asked as to how many vendors submitted proposals. The response was three vendors submitted proposals.

**2005 COMMISSION MEETING SCHEDULE**

Chairman Bonaventure made a motion to accept the 2005 Commission Meeting Schedule that was presented to the Commission. The motion was seconded by Commissioner Reeder and passed by unanimous vote of the Commission.

**DATE AND TIME OF NEXT MEETING**

The next Commission meeting is scheduled for Wednesday, December 22, 2004 at 9:00 a.m. at Lottery Headquarters.

**ADJOURNMENT**

There being no further business, Chairman Bonaventure motioned that the meeting be adjourned and Vice Chairman Marriner seconded it. The meeting was adjourned at 11:40 a.m.

Respectfully submitted,

Gina Smith