

**MARYLAND STATE LOTTERY COMMISSION
JANUARY MINUTES**

DATE: January 26, 2005
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

Buddy Roogow, Director
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
Jimmy White, Director of Communications
Paul Dorsey, Director of Policy and Development
Shirley Basse, Internal Auditor
Marie Torosino, Executive Associate

OTHERS

PRESENT: Sean Athey, Scientific Games Online Entertainment Systems
Jeff Hale, Scientific Games Online Entertainment Systems
David Blum, Eisner Communications

CALL TO ORDER

Chairman Bonaventure stated there was a quorum present and he called the meeting of the Maryland Lottery Commission to order at 9:00 a.m.

APPROVAL OF MINUTES

Chairman Bonaventure stated this morning the Commissioners were given a copy of the December Minutes with some red-line changes. He asked the Commission to review the revised minutes. Mr. Meehan requested that the sentence referencing county dispensers be struck from the Minutes. Chairman Bonaventure asked if there were any further changes and hearing none, requested a motion for approval. Vice Chairman Marriner made a motion to approve the December Minutes with the modifications and Commissioner Payne seconded the motion. The December Minutes with the modifications were approved by unanimous vote of the Commission

EISNER COMMUNICATIONS

Mr. David Blum stated Eisner is working on concurrent productions and will share them with the Commission in the upcoming months.

Mr. Blum stated changes were made to the billboards that advertise the Mega Millions jackpot. Currently, the Lottery advertises on four billboards in high profile locations and is attempting to locate two more locations for the next fiscal year. He showed the Commission a copy of the changes to the billboard that would be made in mid-February or March.

Mr. Blum stated a test program has been initiated using signage in front of seven strip shopping centers to see if it has any impact on retailer sales. Prince Georges and Montgomery Counties are difficult areas to obtain outside signage. Baltimore Signs is the company that created these signs.

Mr. Blum showed the Commission the point-of-sale piece for the Scratchelor/Scratchelorette scratch-off tickets. This ticket is a take-off of the Bachelor/Bachelorette show. The game was designed to reach out to the younger age group. A question was asked if the name was cleared with Legal. Mr. Blum responded yes.

Mr. Blum stated that Eisner and the Lottery would be working with Comcast on a Lottery sponsored giveaway for the World Championship Poker scratch-off game. Entries would be taken by Comcast and they would award a trip to Las Vegas.

Mr. Blum stated he had two television commercials to share with the Commission. The first commercial is for the Hit Family series of scratch-off tickets. The commercial is a

spoof of reality television shows. The second ad is a 10-second spot to support the Scratchelot/Scratchelorette scratch-off game being done in partnership with WMAR-TV for the giveaway contest for Baltimore's Most Eligible Bachelor/Bachelorette. He then showed the spots to the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey introduced Jeff Hale, the new Scientific Games Operations Manager. Mr. Hale started with AWI since 1988, working as a technician. He then worked in Florida as a Computer Operator then worked in West Virginia as an Operations Manager. The Commission welcomed Mr. Hale.

Ms. Athey stated the bonus coupon software that was installed at all agent locations for the Pick 3 Bonus Match Up promotion is up and running and doing well. The second phase of the Racetrax monitor game will start shortly. Commissioner Wagner asked what does the next phase consist of. Ms. Athey responded that the next five lottery agents would be added. She stated that every six weeks five lottery agent would be added until there are a total of 20 lottery agents. Commissioner Wagner asked if the next five lottery agents being added are in Baltimore or across the State. Dr. Robertson responded there are several areas in the five phases. Commissioner Wagner asked how long would the test program run. Response was the test program ends in July. Mr. Roogow stated there are a variety of types of agent locations being included in the testing phase.

COMMISSION BUSINESS

Chairman Bonaventure stated the appointment of Chairman of the Lottery Commission takes place annually. Vice Chairman Marriner made a motion to appoint Frank Bonaventure as Chairman of the Lottery Commission. Commissioner Wagner seconded the motion. The motioned was passed by unanimous vote of the Commission with Chairman Bonaventure excusing himself from the vote.

Chairman Bonaventure stated also the appointment of Vice Chairman of the Lottery Commission takes place annually. Chairman Bonaventure made a motion to appoint Randy Marriner as Vice Chairman of the Lottery Commission. Commissioner Wagner seconded the motion. The motion was passed by unanimous vote of the Commission with Vice Chairman Marriner excusing himself from the vote.

Chairman Bonaventure stated the Lottery's upcoming budget included six new positions, and with those six positions the Lottery should be able to implement the cost accounting recommendation made by the Commission. Mr. Roogow stated the Lottery is scheduled for budget hearings before the Senate Budget & Taxation--Education Business & Administrative Subcommittee on February 25, 2005 and before the House Appropriations--Transportation and Environment Subcommittee on March 9, 2005. He invited the

Commission to attend these hearings. The Commission would be provided with the names of the Committee members.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated he just returned from a Mega Millions Directors' Meeting that was held in New York. The Mega Millions group is currently competing with the Power Ball group to acquire California as a new member. California would provide a large population base and a chance to continue to make the Mega Millions game more exciting and dynamic. California has indicated they were leaning towards joining Mega Millions, and they understand the differences between the two games and the media markets. If California is added to the mix, there could be a change to the game matrix. Mr. Roogow stated he should have an answer by the beginning of February and would keep the Commission informed.

Mr. Roogow stated sales are over \$61 million ahead of last year with revenue \$13 million ahead of last year, despite the fact that 4444 hit during the Pick 4 mid-day drawing a few weeks ago. The Lottery paid out \$7 million but only brought in one-half million dollars. The Lottery's original Bureau of Revenue Estimates figure was \$461.9 million, and then the amount was revised in December to \$467.4 million. A question was asked as to who is on the Bureau of Revenue Estimates. Mr. Roogow responded it includes the staff members from the Comptroller's Office and Department of Budget and Management. They make adjustments to the estimates throughout the year.

Mr. Roogow stated sales for Pick 3, Pick 4, Keno and Keno Bonus, instant games and Mega Millions are up with Lotto sales about even and Bonus Match 5 sales about the same.

Mr. Roogow stated six new positions have been requested in the Lottery's current budget request. They include two accounting positions, two IT positions, another procurement specialist position and a Public Affairs Officer position. He stated the Lottery is currently recruiting to hire a procurement specialist to replace Ms. Suzanne Meltzer who recently resigned. The Lottery is one of the few State agencies showing an increase in their budget request. Mr. Roogow stated the Legislative Analyst assigned to the Lottery reviews the Lottery's budget and makes recommendations as to whether any cuts should be made and the amount of the cuts. Commissioner Wagner asked are the six new positions funded. Mr. Roogow responded the positions are in budget but the budget would not be approved until July. Commissioner Wagner stated then as a result of the budget hearings, there is a possibility that the positions could be cut from the budget. Mr. Roogow stated the committees may or may not cut positions. Commissioner Wagner asked if vacant positions could be filled. Ms. Smith responded to fill a vacant position the Lottery must have funding in its current budget. There is a statewide hiring freeze and an exemption request must be submitted to the Department of Budget and Management. However, the Lottery is a "green agency" and usually receives approval.

Mr. Roogow stated for the record, he has received several e-mails and comments over the last few months concerning lottery agent locations in Prince Georges and Montgomery Counties where there has been an expansion of gray machines, essentially slot machines, in convenience stores, bars and restaurants that are for amusement purposes only. Once in the while you may read about a business being busted and the machines confiscated. Commissioner Wagner asked what about the poker machines in businesses in Baltimore City. Mr. Roogow responded they are supposed to be for amusement only. Mr. Roogow stated he spoke at the House Ways and Means Committee retreat last fall concerning the Lottery's current status as well as the impact of these gray machines.

Commissioner Reeder stated instant ticket sales are up \$15 million but that revenue is down approximately \$2 million and asked what is the reason. Mr. Roogow responded last year Unclaimed Prize Funds were applied to instant tickets to increase payouts. The Lottery has held back from doing that this year to save the Unclaimed Prize Fund money for other promotions.

REPORTS

Research and Planning – Dr. Tchicaya Robertson

Dr. Tchicaya Robertson stated Research has completed testing several new Lotto concepts among a panel of Marylanders and Lottery VIP Club members. After focus group sessions take place in early February, the results should be available for distribution.

Dr. Robertson stated the December Tracking Study presentation has been postponed until next week. She would provide an Executive Summary to the Commission next month.

Dr. Robertson stated the Research Division surveys the retail agent network twice a year and attached to her report was the Executive Summary of the Results for the September 2004 Retailer Satisfaction Study.

Dr. Robertson stated the Lottery's MBE Liaison Officer resigned effective December 31, 2004 and she hopes to fill that position.

Dr. Robertson stated a copy of the MBE Waiver Request Summary for Oberthur Gaming Technologies (OGT) was included with her report. Dr. Robertson stated that Ms. Matson indicated that she had presented the brokering relationship in OGT's proposal to the Lottery. However, after reviewing all the documentation, neither Ms. Meltzer nor Dr. Robertson found any reference to a brokering relationship. Both she and Ms. Meltzer then called Ms. Matson for clarification as to where the brokering relationship was detailed. Following this conversation, Ms. Matson advised Dr. Robertson and Ms. Meltzer that she reviewed the proposal and apparently such a brokering relationship was not detailed in OGT's proposal. Dr. Robertson recommended that the Lottery grant the MBE goal waiver for the period of January 2004 through June 2004. She stated the Lottery would grant OGT a waiver of 7% or \$443,631.11 of their MBE commitment. Table 2 on Page 5 of the

Waiver Summary shows the calculations supporting the recommendation. She then reviewed this Table with the Commission.

Chairman Bonaventure asked if there were any conditions imposed in granting the waiver. Dr. Robertson responded OGT is to submit documentation showing that good faith efforts are being made to find other MBE opportunities. She stated that OGT should conduct activities as outlined in the MBE handbook that supports efforts to identify and utilize MBEs on the Lottery's contract. OGT should continue to search the marketplace to determine if any new MBE opportunities exist on the contract or if new MBEs have entered the marketplace. OGT should submit this documentation to the Lottery each year on June 30 and December 31. Chairman Bonaventure asked if the Lottery is satisfied that OGT made a good faith effort. Dr. Robertson responded yes, but they need to continue to look for MBE opportunities. Chairman Bonaventure requested that Ms. Matson send correspondence to the Commission to correct the misstatements made at the MBE waiver presentation.

Chairman Bonaventure asked for a motion that the recommendation for the MBE goal waiver request be approved subject to the conditions imposed by Dr. Robertson. Vice Chairman Marriner made the motion and Commissioner Payne seconded it. The motion passed by unanimous vote of the Commission.

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson stated she has three lottery license revocations to present to the Commission this morning.

Ms. Johnson stated My Way Restaurant and Bar is located at 9020 Washington Boulevard, Laurel, Maryland. She stated that this agent had been in operation for less than one month when the agent had two occurrences of insufficient fund transfers. The amount that was due to the Lottery was not paid until six months later. The Lottery requested the agent to post a bond, which the agent failed to do. A revocation letter was sent on November 8, 2004, and the certified card was received by the Lottery. The certified card was signed but not dated. No response was received within the 10 day period. Ms. Johnson stated based upon the facts presented, the Director is requesting the Commission to uphold the revocation of the lottery license of My Way Restaurant and Bar. Chairman Bonaventure made a motion to accept the revocation of the lottery license of My Way Restaurant and Bar and Commissioner Wagner seconded the motion. The lottery license of My Way Restaurant and Bar was revoked by unanimous vote of the Commission.

Ms. Johnson stated Tremont Food Market is located at 4740 Frederick Avenue, Baltimore, Maryland. The agent had 75 occurrences of insufficient fund transfers. The agent had made some payments and \$10,000 was collected from the agent's bond. The amount of \$5,954.71 plus the Central Collections Unit fee and ongoing interest is still owed, and a lien has been filed. A revocation letter was sent on December 21, 2004, and the signed and dated certified card was received by the Lottery. No response was received within the 10

day period. Ms. Johnson stated based upon these facts, the Director is requesting the Commission to uphold the revocation of the lottery license of Tremont Food Market. Chairman Bonaventure made a motion to accept the revocation of the lottery license of Tremont Food Market and Commissioner Wagner seconded the motion. The Lottery license of Tremont Food Market was revoked by unanimous vote of the Commission.

Ms. Johnson stated Five Mile House is located at 5302 Reisterstown Road, Baltimore, Maryland. The agent had 15 occurrences of insufficient fund transfers over a two year period, beginning less than three months after the agent was in operation. The amount owed by the agent was paid on April 22, 2004 by a certificate of deposit that was pledged as security to the Lottery. A revocation letter was sent on December 10, 2004. No response was received within the 10 day period. Ms. Johnson stated based upon these facts, the Director is requesting the Commission to uphold the revocation of the lottery license of Five Mile House. Chairman Bonaventure made a motion to accept the revocation of the lottery license of Five Mile House and Commissioner Wagner seconded the motion. The lottery license of Five Mile House was revoked by unanimous vote of the Commission.

Ms. Johnson stated the appeal hearing for Genie's Liquors is scheduled for February 23, 2005, at 1:00 p.m., following the Commission meeting. She stated preliminary contact with the agent's legal counsel indicated that there might be 50 to 100 witnesses. By end of month, the agent's legal counsel would be submitting a position summary. When she receives the summary, she would bring it to the Chairman's attention. This hearing could be drawn out over two to three days. Commissioner Reeder asked if there is a time limit for the witnesses. Ms. Johnson responded yes, but we have to allow the witnesses to be heard. Ms. Johnson then gave a brief summary of the facts as to why the lottery license of Genie's Liquors was being revoked. Ms. Johnson stated there would be one Assistant Attorney General representing the Lottery and another Assistant Attorney General representing the Commission. Chairman Bonaventure stated his goal is to have a fair hearing for all involved and to have a good record in the event of an appeal. Chairman Bonaventure stated when the position statement from the agent's legal counsel along with the number of witnesses is received, then the Commission would be able to make a decision as to how much time would be needed for the hearing. Chairman Bonaventure stated that the time of the Commission meeting could be moved to 8:00 a.m. and be an abbreviated meeting. The hearing could possibly start at 10:00 or 10:30 a.m. and go to 7:00 or 8:00 p.m. if necessary. He stated the Commission would wait for counsel's response before a decision is made concerning the start time.

Ms. Johnson stated she is working on finalizing the documentation concerning ADA. The Lottery is committed to accessibility to individuals with handicaps.

Chairman Bonaventure stated the Commission is scheduled to hold a discussion session after the today's Commission meeting with the Lottery's Principal Counsel regarding litigation matters. However, he has to leave and would not be present for that discussion.

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

Ms Gina Smith distributed Hit Family instant tickets to the Commissioners. She gave also the Commissioners a copy of the unaudited financial statement for December 2004. She stated the audited financial statement for November 2004 as well as a copy of the Comprehensive Annual Financial Report (CAFR) was recently mailed to the Commission. Ms. Smith stated this is the Lottery's first submission of a CAFR to obtain certification and a response should be received in the next few months. Chairman Bonaventure asked who judges the CAFR and makes the decision to award certification. Ms. Smith responded the Government Finance Officers Association (GFOA) makes the decision and also would send their comments back to the Lottery.

Ms. Smith stated prior to the budget hearings she would e-mail to the Commission the job descriptions of the six positions that are being requested in the Lottery's budget. She would also inform the Commission of the start times of the hearings.

Ms. Smith stated the SAS 70 audit procurement being done through the Department of Budget and Management has been completed and reviewed and a contract award recommendation was made. The Department of Budget and Management is in the process of awarding the contract. Ms. Smith stated she is preparing for year-end reporting ensuring all W2Gs and 1099s are being generated for mailing.

Ms. Smith stated letters of approval were sent to lottery agents with ADA issues. Sales would be responsible in following up with agents.

Commissioner Reeder stated that he notes in Ms. Smith's report that as of February 21, 2004, winners will be required to show proof of their Social Security Number when cashing a winning ticket over \$600. Ms. Smith responded a letter was sent to the Agent Plus network advising them of this new requirement. She stated this is a requirement the Lottery adding to the Agent Plus policy.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson stated in February the new administrative specialist will be starting and she will be assisting Ms. Johnson and the IT Division.

Ms. Johnson stated the Pick 3 Bonus Match Up promotion with cashing in the field capabilities was turned on for all agents on December 27, 2004, and everything is going well. IT is supporting the weekly \$100,000 grand prize drawings based on that game and that is also going well.

Ms. Johnson stated work on the Keno website continues. The Lottery would be purchasing an additional firewall to protect it from public access since the server for this project would be housed at the Lottery instead of SAILOR where the Lottery's website is housed.

Ms. Johnson stated the new Unisys computer has been delivered and upon installation and systems testing, it would be moved to Lanham by early next year.

Ms. Johnson stated IT is currently working with AFO on the processing of 1099s and W2Gs to meet the January deadline.

Ms. Johnson stated work continues on a draft RFP for on-line gaming computer system to be given to the on-line consultant who would begin work sometime in February.

Ms. Johnson stated migration from Windows 2000 to Microsoft XP has been completed. The migration to the XP version of Microsoft Office Suite would be done next.

Ms. Johnson stated the Commission has already met Jeff Hale, the new Operations Manager.

Communications – Jimmy White, Director

Mr. Jimmy White stated the Pick 3 Bonus Match Up promotion began on December 27, 2004. Four drawings for the \$100,000 grand prize have taken place and there are two drawings left. To date, only one of the four prizes has been claimed. Every Thursday during the evening drawings, a recap of the winning numbers announced.

Mr. White stated that the Lottery was present at the Mercantile Tennis Challenge that was held at First Mariner Bank Arena. Communications staff conducted surveys and gave away Lottery prizes. Proceeds from this event benefited the Baltimore Community Foundation.

Mr. White stated as part of the WQSR Ravens Radio Tailgate patrol, a trip to the Super Bowl in Jacksonville would be awarded on WQSR this Friday morning, January 28, 2004. Mr. White stated the Polar Bear Plunge is this Saturday and the Lottery will be involved again this year.

Mr. White stated the Lottery is working with WZBA on their Bring a Date to Lunch promotion at Harbor Place. This is a four week promotion and the Lottery will be doing prize giveaways.

Mr. White stated the Lottery's Promotional Partners Program distributed \$4,900 in scratch-off tickets to radio stations and received a promotional value of approximately \$61,000. He stated there were 21 press releases prepared that resulted in seven news clips. The news clips were evaluated by Eisner and valued at approximately \$2,129. He stated six updates of information were sent via e-mail to the VIP Club members and one prize giveaway of Terps tickets was also done.

Mr. White stated a few months ago Dot Colvin, the Assistant Director of Public Affairs resigned and the position has not yet been filled. However, in the interim, Carole Everett

will be assisting Communications with letter writing and assuming Ms. Colvin's responsibilities.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated a television ad would run in January on WJZ to support the Pick 3 Bonus Match-Up promotion. She stated Mr. Blum talked about the Scratchelot/Scratchlorette promotion. The Lottery has partnered with WMAR to support this instant game with participants entering the contest on-line at WMAR to be Baltimore's Most Eligible Bachelor/Bachelorette. The Lottery Director will announce the winners during the Bachelorette show's finale on February 28, 2005. She stated that the "Hit Family" scratch-off tickets would be supported with three weeks of statewide television beginning January 24, 2005.

Ms. Baer stated beginning the week of February 14, 2005, radio spots would run during Terps basketball games on WBAL. Radio spots are also running on WMAL in Washington during every regular season basketball game. She stated radio spots would also run statewide to support Scratchelot/Scratchelorette scratch-offs.

Ms. Baer stated a new MBE publication, Baltimore County Times, has been added to the list of community publications. She stated she is working on proposals with the Orioles and Terrapin Marketing for the next fiscal year. Another of Scratch Squad segment would be filmed at Wisp Ski Resort on February 5, 2005.

Product Development – Tracey Cohen, Director

Ms. Tracey Cohen stated on January 24, 2005, the next five agents were added to the Racetrax monitor pilot program and there are currently 10 locations. The five locations recently added were Emerald Tavern, Milford Liquors, Mall Spirits and Shop N Go that are located in Baltimore, and Double Eagle Tavern located in Leonardtown.

Ms. Cohen stated she would be presenting to the Commission the final analysis of two instant games that closed out in December 2004. Game #439 *10 Times the Money* was 99.84% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$898,236.77. The estimated number of tickets printed was 2 million. When the ticket was presented in August, a percentage was allocated for administrative costs. The revised information shows the break down of administrative costs directly related to the instant ticket—Scientific Games fee, instant ticket printing, instant ticket delivery, and ITVMs.

Game #450 *Cash Flurries* was 97.89% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$513,499.81. When presented in August, under the other calculation, if 95% sold, the estimated profit was \$553,477 and if 100% sold, the estimate project was \$582,607.

Ms. Cohen stated the following new games are being presented to Commission.

Game #524 *Hot \$27* is a \$1.00 ticket with a prize payout of 59.17% and a print run of 2.5 million tickets. The estimated profit is \$490,681.60.

Game #525 *Hot \$77* is a \$2.00 ticket with a prize payout of 64.83% and a print run of 2 million tickets. The estimated profit is \$745,348.40.

Game #526 *Hot \$777* is a \$5.00 ticket with a prize payout of 72.39% and a print run of 3 million tickets. The estimated profit is \$1,587,319.00.

Game #527 *Hot \$7777* is a \$10.00 ticket with a prize payout of 75.15% and a print run of 2 million tickets. The estimated profit is \$2,961,670.40.

Chairman Bonaventure made a motion to approve Game #524 *Hot \$27*, Game #525 *Hot \$77*, Game #526 *Hot \$777*, and Game #527 *Hot \$7777* and Commissioner Wagner seconded the motion. Game #524 *Hot \$27*, Game #525 *Hot \$77*, Game #526 *Hot \$777*, and Game #527 *Hot \$7777* were approved by unanimous vote of the Commission.

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated he received and reviewed the mid-year sales report by territories. Overall, Sales is exceeding the territory sales goals with only four districts out of 40 not reaching their goal. The Sales reps will also review this data and make recommendations as to how they can maximize sales.

Mr. Meehan stated the Sales reps are currently installing new instant ticket dispensers for the “Hit Family” instant tickets and 1,500 dispensers were installed last week. He stated recruitment efforts are ongoing to ensure terminals are placed where needed and the anticipated ADA impact on placement. Mr. Meehan stated Sales personnel have also expressed concerned regarding the loss of sales to the bordering states as well as competition with gray machines.

OTHER BUSINESS

Commissioner Reeder referred to a recent issue of the Lottery Insights magazine that the Commissioners receive each month. The Maryland Lottery has been mentioned throughout this publication for various reasons such as winning the NASPL award for Best Instant Ticket for the Golden Ticket scratch-off, and also the Price is Right scratch-off joint venture with the Virginia Lottery. This is recognition of the Maryland Lottery on a national basis and could be something to show the Legislature. He offered his congratulations to the Lottery staff. Chairman Bonaventure stated the other Commission members also share Mr. Reeder’s compliments.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, February 23, 2005 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Chairman Bonaventure requested a motioned that the meeting be adjourned. Vice Chairman Marriner made the motion and Commissioner Wagner seconded it. The meeting was adjourned at 10:55 a.m.

Respectfully submitted,

Buddy Roogow