

**MARYLAND STATE LOTTERY COMMISSION  
FEBRUARY MINUTES**

DATE: February 23, 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

Buddy Roogow, Director  
Gina Smith, Assistant Director and CFO  
Andrea Johnson, Principal Counsel  
Sandra Johnson, Chief Information Officer, Information Technology  
Tchicaya Robertson, Ph.D., Director, Research and Planning  
Tracey Cohen, Director, Product Development/Creative Services  
Jimmy White, Director of Communications  
Paul Dorsey, Director of Policy and Development  
Patricia Regalbutto, Corporate Sales Manager  
Shirley Basse, Internal Auditor  
Marie Torosino, Executive Associate

**OTHERS**

PRESENT: Sean Athey, Scientific Games Online Entertainment Systems  
Mark Brown, 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 9:05 a.m.

## **APPROVAL OF MINUTES**

Chairman Bonaventure stated the Commissioners were given a copy of the January Minutes with some red-line changes. He asked the Commission to review the revised 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 January Minutes with the changes and Commissioner Reeder seconded the motion. The January Minutes with the changes were approved by unanimous vote of the Commission.

## **EISNER COMMUNICATIONS**

Mr. Mark Brown stated he had three commercials to present to the Commission. Mr. Roogow stated that Mr. David Blum and Ms. Jill Baer are in California working on some commercial spots. Mr. Brown stated next the set of Scratch Squad television spots have been completed. The recent spots were filmed at Wisp Ski Resort with Chip Franklin. He showed the four spots to the Commission. The next commercial he showed to the Commission was for the Hit Family series of scratch-off tickets. This commercial pokes fun at reality television shows. He next played the radio commercial for the Scratchelor/Scratchelorette scratch-off game. Chairman Bonaventure asked if these spots are currently airing. Mr. Brown responded yes, they are airing in the DC and Baltimore area.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Ms. Sean Athey stated the bonus coupon software for the Pick 3 Bonus Match-up promotion performed well in the field. Another promotion may run in May 2005. She stated a Business System Requirements was being prepared in preparation for California joining Mega Millions. Scientific Games will be ready for implementation when the start date is decided.

## **COMMISSION BUSINESS**

Vice Chairman Marriner asked Mr. Brown of Eisner what Eisner's point of view is of yesterday's article in the Sunpapers regarding Chip Franklin. Mr. Brown responded the article was not damaging to Eisner.

Commissioner Reeder asked when would the changes occur on the billboards for the Mega Millions advertising. Mr. Brown responded the changes would take place at the end of March. Also, in 12 shopping center locations in Maryland there will be have signs matching the Mega Millions billboard artwork.

Vice Chairman Marriner advised the Commissioners that he has been reappointed to the Commission for a four-year term.

### **DIRECTOR'S REPORT**

Mr. Buddy Roogow stated he attended Board of Public Works meeting last week to request approval of two items. The first item was the Contract for Consulting Services Related to a Lottery Online Computer System. The Board of Public Works approved this contract. Ms. Sandy Johnson would be heading the committee to put together the on-line RFP and evaluate the proposals. The current on-line contract ends in July 2006. Mr. Roogow stated he would keep the Commission informed of the progress.

The second item was a Change Order to the On-line Games Computer System Contract #96-04. This is for maintenance for 160 additional terminals. Scientific Games would be paid a maintenance fee of \$29 per week per terminal. The Board of Public Works approved this contract.

Mr. Roogow stated another issue came up regarding unregulated slot machines in Maryland. He stated that there are several thousand machines throughout the state, primarily in the Baltimore/Washington market. Mr. Roogow stated news stories appeared in the Baltimore Sun and Washington Post. Maryland receives no revenue from these machines. He stated that WJZ-TV Channel 13 had gone to the locations and described the machines.

Commissioner Reeder asked if these machines are the gray machines that have been referred to in the past. Mr. Roogow responded yes, but there are many different types of these machines. Commissioner Reeder asked if the local authorities were doing anything about these machines. Mr. Roogow responded busts have occasionally been conducted. Since hearing the news story, about Prince Georges County Liquor Board has been looking into the issue.

Mr. Roogow stated the Lottery's budget hearing with the Senate Budget and Taxation—Education, Business and Administrative Subcommittee is Friday, February 25, 2005. The hearing begins at 1:00 p.m. and Patrick Hogan is Chairman of this Subcommittee. The Lottery's budget hearing with the House Appropriations—Transportation and Environment Subcommittee is Wednesday, March 9, 2005. The hearing begins at 1:00 p.m. and Peter Franchot is Chairman of this Subcommittee.

Mr. Roogow stated the Legislative Analyst suggested that nearly \$4 million the Lottery requested for marketing be eliminated and five of the six positions the Lottery requested be eliminated. The Commission is invited to attend the budget hearings.

Mr. Roogow stated the Mega Millions group has admitted the California Lottery. Sales are scheduled to begin June or July. California will have a big impact on sales and revenue. Mr. Roogow stated he might have to go to California on March 8, 2005 to appear before their legislature to talk about Mega Millions.

Mr. Roogow stated there was an article in the Sunpapers regarding Chip Franklin. Mr. Franklin was aware of this article. The Governor's Office was also aware of it. The article did not raise any issues of substance. Mr. Roogow stated that since Mr. Franklin started doing the Scratch Squad commercials that scratch-off sales have increased.

Mr. Roogow stated that Ms. Jill Baer along with members of Eisner were in California working on new advertising spots as part of the new marketing campaign. He would share these with the Commission at a later meeting.

Mr. Roogow stated he made an organizational change in Lottery. Product Development and Creative Services have been combined into one Division with Ms. Cohen as Director. Ms. Baer still retains her same responsibilities.

Mr. Roogow stated Pick 3 sales are \$5.4 million ahead of last year and Pick 4 sales are \$11.7 million ahead of last year. Sales of Keno and Keno Bonus combined are \$21.9 million ahead of last year. Scratch-off sales are \$20.0 million ahead of last year. Mega Millions sales are up and Lotto sales are slightly down. If there were not a winner tonight, the Lotto jackpot would be over \$5 million for the next drawing. Bonus Match 5 is performing as expected.

Mr. Roogow stated Lottery revenues are up approximately \$12 million over last year. There were lower payouts last year compared to this year. The Lottery revenue estimate was raised from \$462 million to \$467.4 million. The Sales Division is doing terrific job in getting the new games out to retailer locations. Commission Reeder asked if the Pick 4 number, 4444, had not been drawn, would the revenue total be \$7 million more. Mr. Roogow responded yes, it would have been \$7 million more.

## **REPORTS**

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

Dr. Tchicaya Robertson stated the Mega Millions Multi-State Research has been completed. A preliminary report of the findings was provided to the Mega Millions states for their review. She stated she is working with Product Development on the Lottery Game Development Research. Two concepts were tested and the focus groups were held in

February to further understand the appeal to either concept. The results were presented on February 22, 2005. She would keep the Commission updated.

Dr. Robertson distributed to the Commission a copy of the MBE Participation report for fiscal year 2004. The Lottery's MBE participation for total agency spending is 11.5%. Overall in-house spending and large procurement spending for MBE was \$3,689,993.64. The second page of the report shows sheet MBE participation by contractor. Note that the contractors at bottom had no MBE goals but the Lottery has to report all participation.

Dr. Robertson distributed a copy of the letter from Oberthur Gaming Technologies dated February 21, 2005. OGT submitted this letter regarding the statements made at the November 2004 Commission meeting concerning the broker relationship. In this letter, Ms. Kathy Matson, Vice President of Sales and Marketing apologized for any confusion regarding the statements made that the broker relationship was in OGT's 1999 proposal.

Vice Chairman Marriner stated the total agency MBE participation is 11.5 % and asked what are the consequences of not reaching the 25% MBE goal. Dr. Robertson responded when the Lottery request an MBE waiver and it is granted, the Lottery must make up the shortfall in other areas and continue to look for other MBE opportunities.

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

Ms. Andrea Johnson stated there were no license revocations to present to the Commission this morning.

Ms. Johnson stated the lottery license revocation appeal hearing for Genie's Liquors has been postponed for 90 days, which would be the May Commission meeting. She asked the Commission if they would like to set a date and time for the hearing. She stated each side has three hours for their presentation. After discussion, the Commission's decision was to have the May 23, 2005 Commission meeting start at 8:30 a.m. and end at 10:00 a.m. After a short break, the hearing for Genie's Liquors would begin at 10:15 a.m. and at 1:15 p.m. there would be a lunch break. The hearing would then resume at 2:00 p.m.

Ms. Johnson stated the Legal Division has been working on a licensing agreement for Keno Bonus. The agreement would allow the Lottery to continue to use Keno Bonus in the event another vendor wins the upcoming on-line procurement.

Ms. Johnson stated she is working on the agreement for the continued maintenance of 300 ITVMs after they are purchased by the Lottery when the current lease expires.

Ms. Johnson stated the attorneys from the Mega Millions states have been holding conference calls each week negotiating changes to the Mega Millions game rules and operating procedures. The agreement will be amended with a subscription language change. There are three lotteries that offer Mega Millions subscriptions and it will be up to each Lottery to determine what to do when the matrix changes.

Ms. Johnson stated her office is looking into an injury allegedly sustained by an agent at his location when a Keno monitor fell on his hand. He may be pressing some type of claim against the State. Chairman Bonaventure asked if the Keno equipment belongs to the agent or the Lottery. Ms. Johnson responded the equipment belongs to Scientific Games. The Lottery will look at the monitor and review the issues. She will keep the Commission updated on this issue.

Ms. Johnson stated the documents regarding the implementation of the ADA agreement have been finalized. The Lottery's website contains an accessibility statement as well as a list of accessible locations by zip code. The Lottery is also currently working on listing the accessible locations by county. The Lottery is in total compliance.

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

Ms Gina Smith distributed the unaudited financial statement for January 2005 to the Commissioners. She stated the audited financial statement for December 2004 was recently mailed to the Commission.

Ms. Smith stated the Legislative auditors have begun their work at the Lottery. The staff has started reviewing the cash reconciliations and working fund. Ms. Smith stated they would be here for approximately six months. She stated she would keep the Commission updated.

Ms. Smith stated the matrix change to the Mega Millions game as a result of California joining would greatly affect the AFO Division. She is currently working on the subscription issue. The Lottery would issue a refund to subscribers for the time remaining on their subscriptions. There would be a period of time where subscriptions would not be processed until the new matrix takes effect. She stated the Lottery went through the same thing a few years ago with very little problems. Chairman Bonaventure asked if there are any contractual issues with subscriptions. Ms. Johnson stated the Lottery can issue refunds to the subscribers.

Ms. Smith stated the SAS 70 Audit contract was awarded to Stout, Causey & Horning. She is waiting for the paperwork from the Department of Budget and Management. Fieldwork should begin within two weeks of the contract award.

Ms. Smith stated the Lottery is currently recruiting for the MBE Liaison position. Mr. Roogow stated eventually the MBE responsibility would move from Dr. Robertson to the new Procurement Director, Robert Howells, who is scheduled to begin on March 14, 2005.

Ms. Smith stated the Lottery is currently recruiting to fill the vacant position for Account Payables Supervisor and the vacant positions in Customer Resource Services. The Lottery also received the exemption approval to hire an Assistant Controller.

Ms. Smith stated regarding the ADA settlement agreement, Agent Administration has been sending requests to agent retailers for a corrective action plan. She will keep the Commission updated.

Commissioner Reeder asked what effect has the ADA had on the agent plus locations. Ms. Smith responded all agent locations are included in the corrective action plan. The Sales Division performs an ADA assessment on new locations and change of ownership locations and submits the plan to the Lottery's ADA coordinator who makes a determination as to whether or not the location is handicapped accessible. If the location is not accessible, a letter is sent to the location citing where the problem lies. The applicant then has to respond as to what they are going to do to make the location accessible. Commissioner Reeder asked what if the agent cannot comply due to costs, etc. Ms. Johnson responded that the Director has the capacity under certain criteria to make an exception. Mr. Roogow stated the customer would be directed to another nearby location nearby that is accessible.

Ms. Smith stated the NASPL Accounting Subcommittee would be meeting in May 2005. She is working with NASPL on the round table discussion topics.

*Information Technology – Sandra Johnson, Chief Information Officer*

Ms. Sandra Johnson the IT Division is now 100% staffed. Ms. Debora Kess has been hired as the Administrative Specialist. She formerly worked at Baltimore Community College and is a graduate of the University of Baltimore.

Ms. Johnson stated the Pick 3 Bonus Match-up promotion ended on February 6, 2005. From an operational standpoint, everything went well. The weekly \$100,000 second chance drawing associated with this promotion ended on February 7, 2005, with the last of six drawings conducted by IT.

Ms. Johnson stated that the IT Division is supporting the Racetrax monitor game. IT checks the game each morning to assure that everything is up and running. Five additional communications lines have been ordered for the third phase of the test project.

Ms. Johnson stated IT completed its work on the 1099s and continues to work on the preparation of the W2Gs.

Ms. Johnson stated Verizon has assigned a new service manager to the Lottery's account for the second time in less than 14 months. The turnover in the service manager's position has delayed completion of billing credits to the Lottery. This problem is a top priority for the new service manager. She stated the Lottery is doing everything it can to obtain those credits. The credit is estimated at \$40,000.

Ms. Johnson stated IT is working on the software changes to the Mega Millions game to accommodate adding California. Changes must be made to the game parameters, reports, subscription system, playslip and advance play modification.

Ms. Johnson stated the RFP Committee has completed a draft on-line RFP and it will be given to the consultant. She stated the consultant would be at the Lottery on Monday to begin work on the on-line RFP.

Ms. Johnson stated she continues to work on the NASPL Standards Initiative that includes reviewing the RFP standards. Some of the components of the RFP standards were incorporated into the RFP requirements list for the upcoming on-line RFP. Some of the standards were not amicable with Maryland's MBE requirements.

Ms. Johnson stated Scientific Games hired a computer operator and still has a few vacant positions. She is staying on top of this and has met with Scientific Games. Chairman Bonaventure asked if there are any issues with Scientific Games' performance. Ms. Johnson responded there have been a few minor problems.

Vice Chairman Marriner asked if the Lottery has the contract with Verizon. Ms. Johnson responded the Department of Budget and Management has the contract on the Lottery's behalf. Vice Chairman Marriner asked if the Department of Budget and Management has any leverage in obtaining the credits owned to the Lottery. Ms. Johnson responded she is working with the Department of Budget and Management and they have not been successful either.

#### *Communications – Jimmy White, Director*

Mr. Jimmy White stated the Communications Division recently participated at the Polar Bear Plunge, the International Auto Show, and the Black Heritage Art Show.

Mr. White stated that 15 press releases were issued. The Director did numerous interviews related to California joining Mega Millions. Mr. White stated that 16 articles were evaluated by Eisner and valued at approximately \$2,000.00.

Mr. White stated five updates were sent via e-mail to VIP Club members and a prize giveaway of ski lift tickets for Wisp Ski Resort was done.

Mr. White stated he is working on the second chance program tied to the Orange County Choppers scratch-off game. Mr. White stated his report contains copies of the recent Promotional Partners and Winning Ways newsletters.

*Product Development/Creative Services – Tracey Cohen, Director*

Ms. Tracey Cohen stated scratch sales are fantastic and the Lottery has had three weeks of \$8 millions sales. The Scratchelor/Scratchelorette scratch-off was the second best selling \$2 instant ticket. She stated World Championship Poker instant game recently launched on February 21, 2005 and the “Hot Family” instant tickets would launch next month.

Ms. Cohen stated that the Racetrax monitor game is doing well. Sales average \$30,000 per week with payouts of 60%.

Commissioner Reeder asked if the Lottery is still working with the Orioles. Ms. Cohen responded yes, a meeting is scheduled with the Orioles on Thursday to discuss a spring promotion.

Ms. Cohen stated she had five new instant games to present to the Commission.

Game #536 *Orange County Choppers* is a \$5.00 ticket with a prize payout of 71.00% and a print run of 4.0 million tickets. The estimated profit is \$2,899,407.36. She stated the Lottery would be giving away one custom made chopper. This is a joint instant ticket venture with the Virginia Lottery. Maryland and Virginia would be sharing the advertising costs.

Game #541 *Wild Cash* is a \$5.00 ticket with a prize payout of 72.93% and a print run of 3.0 million tickets. The estimated profit is \$2,571,994.61.

Game #542 *Red Cherries* is a \$5.00 ticket with a prize payout of 72.93% and a print run of 3.0 million tickets. The estimated profit is \$2,571,994.61.

Game #544 *Red Hot & Blue 7's* is a \$5.00 ticket with a prize payout of 72.39% and a print run of 3.0 million tickets. The estimated profit is \$2,545,654.61. A question was asked if the name Red Hot and Blue was cleared. Ms. Cohen responded she would look into this.

The name of Game #546 *Cash Cow* is being changed to *Bovine Bucks*. This is a \$1.00 ticket with a prize payout of 59.69% and a print run of 2.8 million tickets. The estimated profit is \$678,061.85.

Chairman Bonaventure made a motion to approve Game #536 *Orange County Choppers*, Game #541 *Wild Cash*, Game #542 *Red Cherries*, Game #544 *Red Hot & Blue 7's*, and Game #546 *Cash Cow* now called *Bovine Bucks*. Commissioner Payne seconded the motion. Game #536 *Orange County Choppers*, Game #541 *Wild Cash*, Game #542 *Red Cherries*, Game #544 *Red Hot & Blue 7's*, and Game #546 *Bovine Bucks (Cash Cow)* were approved by unanimous vote of the Commission.

Ms. Cohen presented to the Commission the final analysis of five instant games that closed. Game #438 *Blackjack Tripler* was 98.58% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$862,602.53.

Games #444 *Polar Bucks* was 98.3% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$1,281,603.48.

Game #448 *Let It Roll* was 97.27% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$526,720.46.

Game #449 *Winter Take All* was 95.97% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$834,868.33.

Game #451 *14 Karat Cash* was 98.81% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$858,255.41.

A question was asked as to what happens to remaining instant tickets that are not sold after the end of the claiming period. The response was that the tickets are shredded. Ms. Cohen stated next month the reports on closed instant tickets would contain the original estimates and administrative costs.

Commissioner Reeder asked when the scratch-off top prize is claimed, does the Lottery pull ticket. Ms. Cohen responded no, they continue to sell. A notice is sent to the Lottery retailers to advise players of the number of prizes remaining. A notice is also placed on the Lottery's website. The Lottery makes players aware what top prizes are no longer available.

#### **Sales – Patricia Regalbuto, Corporate Sales Manager**

In Mr. Stephen Meehan's absence, Ms. Regalbuto presented the Sales Divisions report. She stated that Mr. Meehan was in San Antonio, Texas at the Oberther Gaming Technologies facility for a training session.

Ms. Regalbuto stated that work continues on adding 30 Food Lion locations to the agent network. There are no ITVMs available at the current time and Sales is looking at retail locations with low performing ITVMs to possibly relocate the ITVMs to other locations. She stated they are also waiting on the outcome of the Kmart/Sears merger for possible recruitment for agent retail locations.

Ms. Regalbuto stated administering of the ADA requirements on agent licensing have increased the workload of the Sales team and some restructuring changes are being reviewed to best administer the ADA requirements.

*Policy and Development* – **Paul Dorsey, Director**

Mr. Paul Dorsey distributed to the Commission a VLT Legislation Update Report. He stated Senate Bill 205 passed and that House Bill 1361 could come up for Committee vote today and could reach the House by Friday. He then read the high points of each bill.

Mr. Dorsey stated he recently sent to the Commission the Contract for ITVM Maintenance and Related Services. This is a one-year contract with the option to extend the contract for two additional one-year periods. The cost for maintenance is \$69.60 per ITVM per month. The Lottery will have the right to purchase the 300 ITVMs at \$1.00 each at the end of the current lease. These ITVMs were manufactured by the Contractor and are proprietary to the Contractor. Therefore, this is a sole source contract as no other company can provide all of the required services to fully utilize these ITVMs. Chairman Bonaventure made a motion to approve the Contract for ITVM Maintenance and Related Services and Vice Chairman Marriner seconded it. The motion passed by unanimous vote of the Commission.

**DATE AND TIME OF NEXT MEETING**

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

**ADJOURNMENT**

There being no further business, Chairman Bonaventure motioned that the meeting be adjourned and Commissioner Reeder seconded it. The meeting was adjourned at 10:45 a.m.

Respectfully submitted,

Buddy Roogow