

**MARYLAND STATE LOTTERY COMMISSION
MARCH MINUTES**

DATE: March 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
Tracey Cohen, Director, Product Development and Advertising
Paul Dorsey, Director of Policy and Development
Patricia Regalbuto, Corporate Sales Manager
Brian Johnson, Assistant Director, Communications/Special Events
Zechariah Way, Director, Information Technology
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 9:10 a.m.

APPROVAL OF MINUTES

Chairman Bonaventure asked if there were any changes or corrections to the February Minutes. There being no changes, Vice Chairman Marriner made a motion to approve the February Minutes and Commissioner Reeder seconded the motion. The Minutes were approved by unanimous vote of the Commission.

EISNER COMMUNICATIONS

Mr. Mark Brown stated he had television and radio commercials to present to the Commission concerning the World Championship Poker scratch-off game. The television spots would run for three weeks starting on March 15, 2005 on Comcast cable during poker programs and other networks popular with poker. The radio spots would air statewide. Mr. Brown played the television and radio spots for the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms. Sean Athey stated the Racetrax pilot game was installed at the next five agent locations. The payouts during the testing phase would range between 65% and 70% to find the best mix for Maryland. The payout was raised to 70% for this phase.

Ms. Athey stated the contractor conducting the SAS 70 audit for the Maryland Lottery is currently at the Scientific Games Western Avenue office and then will be going to Scientific Games' headquarters in Alpharetta, Georgia to review the controls.

Ms. Athey stated the Business Specification Requirements were approved today for Mega Millions and they are moving forward. They will be ready for implementation when California starts selling Mega Millions.

Chairman Bonaventure asked when does the test phase end for the Racetrax monitor pilot game. Ms. Athey responded the test phase ends on August 24, 2005. Chairman Bonaventure asked if the game is only horse racing at this time. Ms. Athey responded yes. She stated by the end of the test phase 20 lottery retailers would be selling the Racetrax game.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated the he appeared before the House Appropriations Subcommittee regarding the Lottery's budget. The Legislative Analyst had recommended that \$3.75

million be cut from the Lottery's advertising budget. The Subcommittee voted to reduce the cut to \$3.45 million. The Lottery also requested six additional positions but the Subcommittee approved two positions. The Subcommittee also included budget language that no Maryland Lottery funds be used to pursue gray machines that were similar to slot machines.

Mr. Roogow stated the Senate Subcommittee budget hearing reduced the House cut for additional money in advertising to \$1.75 million. They also approved four of the requested six positions and eliminated the budget language added by the House. The budget now goes to the Conference Committee.

Mr. Roogow stated he attended Board of Public Works meetings in the last two months. The issue of unregulated slot machines came up during both meetings. The news stories raised some interest in the jurisdictions and the local authorities are investigating. Mr. Roogow stated that at the next meeting he would show the news story that Channel 9 had done.

Commissioner Reeder stated a question was raised in the House Subcommittee meeting regarding Lottery sales by zip code and asked if the Lottery had forwarded this information to the Subcommittee. Mr. Roogow responded the information was supplied to the Subcommittee.

Mr. Roogow stated Lottery sales continue to gain over last year. Pick 3 and Pick 4 sales are doing well with each game ahead of last year. If the Lotto jackpot keeps rolling, then Lotto sales will be ahead of last year. Bonus Match 5 sales are doing fine. Mr. Roogow stated Lottery revenues are \$17 million ahead of last year. He stated that next month Ms. Cohen would present an update on the Racetrax game.

Mr. Roogow stated there have been some personnel changes at the Lottery. Dr. Tchicaya Robertson, the Research Director has resigned and is going to work for the Illinois Lottery. Ms. Stephanie Cannon-Jones, the Research Analyst would be leaving this Friday and is going to work for UMBC.

Mr. Roogow stated yesterday he attended the La Fleurs' Conference that was held in Washington, DC. He was a speaker at one of the sessions and other Lottery staff also attended the conference. It was an informative conference.

Vice Chairman Marriner asked how often does the Bureau of Revenue Estimates change the Lottery's estimate. Mr. Roogow responded it is done in September, December and March.

Commissioner Reeder extended his thanks for the fine presentation done by the Lottery at the House Subcommittee meeting.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

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

Ms. Johnson stated the revocation appeal hearing for Genie's Liquors is scheduled for May 25, 2005 at 10:00 a.m. This hearing will last approximately six hours with each side being allowed three hours to make their presentation and conduct cross-examinations. The Commission meeting would begin at 8:30 a.m.

Ms. Johnson stated she has been involved in negotiations with the legal counsels for the other Mega Millions states in regards to adding California. The Multi-State Lottery Agreement, the Mega Millions Official Game Rules and the Mega Millions Drawing Procedures are being revised. Copies of these documents are available if the Commission would like to review them.

Ms. Johnson stated the Lottery has implemented its plan to bring accessibility to new lottery agent locations as well as changes of ownership. Ms. Smith's Division is monitoring this plan.

Ms. Johnson stated she has continued to provide information to the Attorney General's Office with regards to gaming issues. Her office has set up contacts with the counties to ensure consistent advice is given on gaming issues such as gaming machines and gaming events.

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

Ms Gina Smith stated the February unaudited financial statement was not available today and would be mailed to the Commissioners when they become available.

Ms. Smith stated the Legislative Auditors are reviewing the Lottery's working fund and various bank accounts. They will be in the Customer Resource Center reviewing cash receipts and subscription processing. They would also be reviewing accounts receivable and contracts. Currently, there are no findings. Chairman Bonaventure asked if the Legislative Auditors conduct an exit interview before the final report is issued. Ms. Smith responded yes and discussion notes are issued and the Lottery would review the recommendations and prepare responses.

Chairman Bonaventure asked if Lottery employees involved with monitoring contracts attended the contract administration training. Ms. Smith responded all employees that monitor contracts have attended the training. Any new employees will be sent to training if they are responsible for monitoring contracts.

Ms. Smith stated the SAS 70 audit has begun. Stout, Causey and Horning was awarded the contract to conduct the SAS 70. Initially, the Lottery requested that SAS audits be conducted for fiscal years 2004, 2005 and 2006. However, the Lottery has requested that they combine the first audit into two fiscal years. She will present the audit when it is completed.

Ms. Smith stated work continues on the changes to the Mega Million game as a result of the California Lottery joining the group. The Customer Resource Center and IT are working together to made changes to the subscription program. Mega Millions subscriptions would be discontinued in mid-June and a refund would be issued to subscribers for the unused portions of their subscriptions. Existing players would also be provided with a new application to rejoin.

Ms. Smith stated AFO is preparing for closeout of the fiscal year.

Information Technology – Zechariah Way, Director

In Ms. Sandra Johnson's absence, Mr. Zechariah Way presented the Information Technology report. He stated work continues on the necessary changes related to the Mega Millions game to add California. IT is working on changes to the subscription applications and the closeout of the existing game. IT is also supporting all other Lottery activities.

Communications – Brian Johnson, Assistant Director, Special Events

In Mr. Jimmy White's absence, Mr. Brian Johnson presented the Communications Division report. He stated this is the beginning of the busy season for the Division. They would be participating in the Oriole's opening day events at Camden Yards. He stated that during April various events would be taking place throughout the State. Ms. Everett has been handling the winner awareness and is doing a great job.

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated the Orange County Chopper scratch-off game was cancelled yesterday. Chairman Bonaventure asked what costs were involved on the work done to date. Ms. Cohen responded she would inform the Commission at the next meeting.

Chairman Bonaventure stated that at last month's meeting he asked if the scratch-off game name of Red Hot and Blue was cleared. Ms. Cohen responded yes, Oberthur did a name search and it was cleared.

Ms. Cohen stated the World Championship Poker scratch-off game launched in mid-February and is currently one of the Lottery's best selling games. She stated the Lottery created its own version of the game to avoid having to pay a licensing fee.

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

Game #528 *Big Bucks* is a \$10.00 ticket with a prize payout of 75.57% and a print run of 2.0 million tickets. The estimated profit is \$2,936,211.57.

Game #538 *Loads of Money* is a \$2.00 ticket with a prize payout of 63.46% and a print run of 2.0 million tickets. The estimated profit is \$925,182.25.

Game #539 *Triple Money Bags* is a \$2.00 ticket with a prize payout of 63.46% and a print run of 2.0 million tickets. The estimated profit is \$925,182.25.

Game #543 *Cash on the Cob* is a \$2.00 ticket with a prize payout of 63.96% and a print run of 2.0 million tickets. The estimated profit is \$904,581.22.

Game #547 *5 Times the Money* is a \$5.00 ticket with a prize payout of 72.87% and a print run of 3.0 million tickets. The estimated profit is \$2,575,714.61.

Game #548 *Power 7's* is a \$5.00 ticket with a prize payout of 72.73% and a print run of 3.0 million tickets. The estimated profit is \$2,551,984.61.

Vice Chairman Marriner made a motion to approve Game #528 *Big Bucks*, Game #538 *Loads of Money*, Game #539 *Triple Money Bags*, Game #543 *Cash on the Cob*, Game #547 *5 Times the Money*, and Game #548 *Power 7's*. Chairman Bonaventure seconded the motion. Game #528 *Big Bucks*, Game #538 *Loads of Money*, Game #539 *Triple Money Bags*, Game #543 *Cash on the Cob*, Game #547 *5 Times the Money*, and Game #548 *Power 7's* were approved by unanimous vote of the Commission.

Ms. Cohen presented to the Commission the final analysis of two instant games that closed.

Games #458 7-11-21 had a print run of 1,940,400 tickets and sold 96.71%. With the subtraction of the adjustment for the administrative allocation, the estimated profit was \$457,697.15. The profit before administrative costs were adjusted was \$532,732 if 95% sold and \$560,770 if 100% sold. A question was asked what are instant ticket reversions. Ms. Cohen responded instant ticket reversions are unclaimed winning tickets. Any unclaimed ticket beyond the 182 claiming period goes to the unclaimed prize fund.

Game #453 *Find the 9's* had a print run of 2,067,600 tickets and was 97.24% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$512,472.97. The profit before the administrative costs were adjusted was \$542,713 if 95% sold and \$571,277 if 100% sold.

Chairman Bonaventure asked if the amount of reversions is a typical number. Ms. Smith responded this is an average amount but sometimes there is a larger reversion amount when the top prize remains unclaimed.

Sales – Patricia Regalbuto, Corporate Sales Manager

In Mr. Stephen Meehan's absence, Ms. Regalbuto presented the Sales Division report. She stated the Hit Family instant ticket dispensers have been successful. Over 1,300 agents have requested installation of these dispensers, in addition to the dispensers they already have. There has been an approximate \$1.5 million increase in instant sales.

Ms. Regalbuto stated that the Sales Division is reviewing the low sales performance of instant ticket vending machines (ITVMs) at agent locations and possibly relocating the ITVMs to the expected 30 Food Lion locations.

Ms. Regalbuto stated that 55 new locations were added under the Keno recruitment program. Starting in April, these new agents will be evaluated for further incentive rewards eligibility.

Ms. Regalbuto stated the Sales Division is undergoing some reorganization to make it more efficient. Mr. Meehan will update the Commission at a later date.

OTHER BUSINESS

Mr. Roogow introduced Mr. Robert Howells, the new Procurement Director who is taking Suzanne Meltzer's place. Mr. Roogow stated Mr. Howells formerly worked in Procurement at the Department of Budget and Management. Chairman Bonaventure asked if the on-line procurement on schedule. The response was yes. The target date to issue the on-line RFP is the end of April 2005. Also, the RFP for instant ticket printing is targeted to be issued towards the end of this year.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, April 27, 2005 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 the motion. The meeting was adjourned at 10:00 a.m.

Respectfully submitted,

Buddy Roogow