

**MARYLAND STATE LOTTERY COMMISSION
MAY MINUTES**

DATE: May 25, 2005
TIME: 8:30 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
Steve Meehan, Deputy Director, Sales
Tracey Cohen, Director, Product Development and Advertising
Jill Baer, Director, Creative Services
Jimmy White, Director, Communications
Robert Howells, Director of Procurement
Shirley Basse, Internal Auditor
Marie Torosino, Executive Associate

OTHERS
PRESENT: Sean Athey, 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 8:30 a.m.

APPROVAL OF MINUTES

Chairman Bonaventure stated a copy of the April Minutes with some redline changes were in the Commissioners' folders. He asked them to review the changes. There being no further changes, he requested a motion for approval. Vice Chairman Marriner made a motion to approve the modified April Minutes and Commissioner Wagner seconded the motion. The modified April Minutes were approved by unanimous vote of the Commission.

EISNER COMMUNICATIONS

Mr. David Blum, Senior Vice President, stated that for the last few months the Lottery has been frequently advertising on television. Now that we are moving into the summer, the Lottery's media needs shift from television to radio. He presented the point-of-sale for the summer promotion to the Commission. The first piece was for the Pick 3/Pick 4 Bonus promotion that starts on June 6, 2005. This successful promotion was run in the past. The Lottery is now adding the Pick 4 game to the product mix. The point-of-sale sends the message to players that they can receive their \$250 bonus winnings at any retailer location. He also showed the Commission the point-of-sale winning numbers pad that would be posted at retailer locations. Chairman Bonaventure asked who fills in the winning numbers. Mr. Blum responded the retailers fill in the winning numbers. This promotion runs through July 10, 2005. Mr. Blum then presented to the Commission the 24" by 36" die cut poster point-of-sale for the new crab family of scratch-off tickets.

Mr. Blum played the radio spot for the Pick 3/Pick 4 Bonus promotion. This was followed by the Bushel of Crabs radio commercial with two gentlemen talking in an improv fashion about the scratch-off product. Chairman Bonaventure asked if the commercial was recorded in Maryland. Mr. Blum responded it was recorded in New York by a company that specializes in improv talent.

Vice Chairman Marriner asked Mr. Blum if in fact the Lottery had filmed the Governor in a new TV spot for the new Bovine Campaign. Mr. Blum responded that indeed they had done a mock press conference spot with the Governor. Vice Chairman Marriner stated he was surprised and annoyed to hear that the shoot had taken place because he had specifically requested the Director notify him so he could attend the shoot. Vice Chairman Marriner then announced a policy change that, without exception the Commission must be notified in advance if the Governor is to be involved in any Lottery venture, meeting or discussion, so the Commission has the opportunity to attend. Vice Chairman Marriner

stated he would like to see the spot that was done with the Governor. Mr. Blum stated he would get a copy of the tape for the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Ms Sean Athey stated Scientific Games is moving through the acceptance testing for the Mega Millions changes that would occur in June with the addition of California. She stated that last month the Commission was given a report on the Racetrax monitor program. She stated they are moving into the final phase that would include the best of the best retailers to determine the potential of the game.

COMMISSION BUSINESS

Chairman Bonaventure stated Ms. Shirley Basse, the Lottery's Internal Auditor, would be resigning effective at the end of June. The Commission wished her well.

Chairman Bonaventure recommended that a dual track process be followed to fill the position. The first recommendation is to recruit for a replacement person. The second recommendation is to issue an RFP to bring in a vendor with expertise in internal audit functions. Ms. Smith requested further discussion with the Commission. She stated she recently attended a NASPL Internal Audit Subcommittee Conference last week. The other Lotteries that were present have Lottery employees that perform internal audit functions. She believes it is beneficial to have someone at the Lottery 24/7 to get to know the business and strongly believes it would be more beneficial for the Lottery to have an employee as the Internal Auditor. Further discussion continued on the recommendation of hiring an Internal Auditor and/or bringing in an outside firm to perform the internal audit function. Chairman Bonaventure proposed a resolution that the Commission move forward on the dual track recommendation and not to make a final decision until both options are reviewed. Commissioner Payne seconded it and it was approved by unanimous vote of the Commission.

Chairman Bonaventure asked Ms. Andrea Johnson to discuss the appeal hearing for Genie's Liquors that was scheduled for today, but was subsequently dismissed. Ms. Johnson stated Mr. James Butler did an outstanding job in preparing for this hearing. She asked that he present to the Commission the summary of facts concerning this case. Mr. Butler distributed to the Commission information on Genie's Liquors. Chairman Bonaventure asked why this information was not provided to the Commission prior to the hearing. Mr. Butler stated that there could have possibly been administrative matters as well as civil and criminal charges and he did not want to taint the Commission's view of the case with this information ahead of time. It would not be fair to the other party. Mr. Butler then gave an extensive overview of the facts that were gathered in preparation for the appeal hearing. Ms. Johnson asked the Commission if they would move to revoke the lottery license of Genie's Liquors. Chairman Bonaventure made a motion to revoke the lottery license of Genie's Liquors and Vice Chairman Marriner seconded the motion. The lottery license of Genie's Liquors was revoked by unanimous vote of the Commission.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Johnson stated as you know the General Assembly passed SB225 and HB678 that allowed for the assignment of lottery prizes. The Office of the Attorney General had some concerns and in a letter to the Governor advised that there were two deficiencies contained in the bills. The first was that a provision was not included in the bills that excluded the application of the Maryland version of the Uniform Commercial Code. The other deficiency related to the fact that court proceedings for voluntary assignments would be adversarial proceedings and the Lottery would have to physically appear for every assignment that would occur. This was the basis for the veto request and the bill was subsequently vetoed.

DIRECTOR'S REPORT/ADMINISTRATION, FINANCE AND OPERATIONS REPORT

In Mr. Buddy Roogow's absence, Ms. Gina Smith presented the Director's Report. Vice Chairman Marriner inquired why the Director was not attending the Commission meeting. Ms. Smith stated that Mr. Roogow was out of town attending and speaking at the Gaming Technology Summit Conference.

Ms. Smith stated Lottery sales are approximately \$89 million ahead of last year and revenue is approximately \$24 million ahead of last year. Keno, Keno Bonus, and Mega Millions games are growing. The Lottery should have not problem reaching its revenue goal of \$467.4 million and hopes to exceed that goal. The Lottery needs weekly revenue of \$6.6 million to reach its estimate. The Lottery's current weekly revenue average is \$9.2 million.

Ms. Smith distributed a copy of the unaudited financial statement for April 2005 to the Commission. They were previously mailed the audited financial statement for March 2005.

Ms. Smith stated a follow-up letter was sent to the annuitants advising them of the veto of the assignment bill. Ms. Smith stated a letter had previously been sent to the annuitants regarding the assignment bill.

Ms. Smith stated she recently attended a meeting with the Department of Budget and Management regarding the possible elimination of positions and three Lottery positions were on this list. One position the Lottery had already given up, one position was filled and the other position was still open and the Lottery asked that it not be cut. She is waiting for their response. She stated that in the FY2006 budget, the Lottery received approval for three new permanent positions and one contractual position. She stated recruitment would begin shortly to fill these positions by the beginning of the fiscal year.

Ms. Smith stated the SAS 70 Audit that was being done on Scientific Games by Stout, Causey and Horning has been completed and will cover FY2004 through April 2005. She hopes to have a draft report in a few weeks.

The Legislative Auditors continue their work at the Lottery. She stated there are no items to report at this time.

Ms. Smith stated the upgrade to the accounting system should be completed by the end of June.

Ms. Smith stated the Accounting and Procurement Divisions are preparing for the fiscal year close out.

Information Technology – Sandra Johnson, Chief Information Officer

Ms. Sandra Johnson stated the “best of the best” retailers that would participate in the final phase of the Racetrax monitor program have been identified and communications lines have been ordered. The Retailers who would discontinue the game have been identified and their communications lines will be disconnected and the equipment removed.

Ms. Johnson stated IT continues to work on the Mega Millions software changes needed to add California. The Lottery is still testing the changes that Scientific Games completed and everything is going well.

Ms. Johnson stated she continues to work on the On-line Gaming System RFP with Mr. Howell. Various Lottery personnel are reviewing the draft RFP.

Ms. Johnson stated she met with the Chief Information Officer (CIO) for the State to brief him on the On-line Gaming System RFP and obtain his input and advice. The CIO decided that this was not an information technology project but a service project. The CIO also supported the Lottery’s renewal of the \$5 million Verizon contract. This contract provides dedicated service to the Lottery retailers. It is a Department of Budget and Management Telecommunications contract and was presented to the Board of Public Works by the State CIO.

Ms. Johnson stated IT recently completed its response to the IT audit report presented by Stout, Causey & Horning. The Legislative auditors are scheduled to begin the audit of the Lottery’s IT function in June.

Ms. Johnson stated IT is working on several hardware and software procurements.

Communications – Jimmy White, Director

Mr. Jimmy White stated it was a good month with a number of Lottery winners coming in to claim their prizes. The Communications Division participated in many events throughout the State.

Mr. White stated the Lottery's Promotional Partners Program received a promotional value of approximately \$78,400 in on air mentions of scratch-offs. He stated that Brian Johnson taped a one-minute resort video that can be seen on Channel 12 in Ocean City.

Mr. White stated the Communications Division is preparing for California to join the Mega Millions group next month.

Mr. White stated the \$205 million Mega Millions jackpot was won in Michigan. Maryland had four second tier \$175,000 winners.

Mr. White stated a VIP Club membership drive was held recently. This drive helped increase the membership by 1,908 members. The current VIP Club membership is 25,000. Giveaways of various prizes were done including baseball tickets and prize packs.

Mr. White stated his report also contains a list of upcoming events throughout the State. Also included in his report was a special retailers report promoting the Let Yourself Play promotion. To date, 12,000 entries have been received for that promotion.

Commissioner Wagner asked what is the VIP Club. Mr. White responded it is a type of players club and a person can become a member whether or not they have access to the Internet. However, there is a magnitude of benefits if the member has access to the Internet because through the Internet updates are provided on the jackpots, notices of upcoming promotions are provided and drawings are conducted for prize giveaways. The VIP Club has been in effect for five years.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated brand image and hit family television advertising would continue through May 22, 2005 with supplemental buy on WJZ through mid-June. She stated the website was successfully transitioned from bovineunite.com to letyourselfplay.com. She stated there were over 41,000 visitors through first ten days and they are developing strategies to continue this positive momentum.

Ms. Baer stated she has received feedback on the Hot Family commercial and people seem to like it.

Ms. Baer stated advertising of the Mega Millions jackpot continues on television and radio.

Ms. Baer stated for the Pick 3 and Pick 4 Bonus Match Up promotions she is negotiating four-week statewide radio buys to begin June 6, 2005.

Ms. Baer stated she is currently evaluating the multi-year package with the Terps. She stated she also is currently in negotiations with the Ravens.

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated she is working with the Ravens on an anniversary scratch-off ticket. She will keep the Commission updated. The Let Yourself Play promotion is doing well and approximately 12,000 entries have been received.

Ms. Cohen stated she is currently handling some of the research responsibilities

Ms. Cohen stated she would have some closed scratch-off games to present to the Commission at next month's meeting. A question was asked as to how many active games are currently available. Ms. Cohen responded the Lottery prints 55 games a year, but not every retailer carries every game.

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

Game #562 *Quick 7's* is a \$1.00 ticket with a prize payout of 59.01% and a print run of 3.0 million tickets. The estimated profit is \$650,560.61.

Game #565 *Purple Passion* is a \$5.00 ticket with a prize payout of 73.27% and a print run of 2.0 million tickets. The estimated profit is \$1,127,497.25. This is the Ravens ticket and The Lottery would be spending advertising dollars on this scratch-off game.

Commissioner Wagner made a motion to approve Game #562 *Quick 7's* and Game #565 *Purple Passion*. Commissioner Payne seconded the motion. Game #562 *Quick 7's* and Game #565 *Purple Passion* were approved by unanimous vote of the Commission.

Vice Chairman Marriner asked Ms. Baer to further discuss the negotiation efforts concerning Lottery advertising with Terps. Vice Chairman Marriner stated to contact the Commission if they can offer any assistance in this matter. Ms. Baer stated she would keep the Commission updated on this.

Sales – Stephen Meehan, Deputy Director

Mr. Stephen Meehan stated he is reviewing the current district territory assignments for efficiency and reorganization. He stated he is also working on the conversion of Corporate Accounts to Key Accounts. He stated in the Regional Managers Report, Sales personnel have expressed concerns regarding time and mileage spent on non-sales support/ADA compliance enforcement.

PROCUREMENT

Mr. Robert Howells provided to the Commission a copy of the schedule for the On-line Gaming System RFP. He stated there is a slight difference regarding the issue date. The target date to release the RFP was May 31, 2005. The new target date for release of the RFP is June 7, 2005. Daily meetings have been held with Sandy Johnson, Andrea Johnson, and Gina Smith to review the RFP. It was requested that Ms. Andrea Johnson meet with Chairman Bonaventure for his input before the RFP is finalized. The change in the issue date does not effect the ending date. Mr. Howells stated he hopes to go before the Board of Public Works on October 5, 2005 for contract approval. This will give the Lottery a nine-month conversion period. Question was asked how many possible bidders could there be. Mr. Howells responded there are three possible bidders. There is a requirement in the RFP that the bidder have experience in operating an on-line gaming system in North American States or provincial lotteries. Commissioner Wagner asked is this what Scientific Games currently does for the Lottery. Mr. Howells responded yes and their contract end in July 2006 but the contract can be extended if necessary.

Commissioner Reeder stated in a recent issue of Lottery Insights magazine there was an article on racinos. He asked that the Lottery look into and let the Commission know the impact it could have on Maryland. There was also an article on tribal gambling regarding the purchase of racetracks in Pennsylvania and New York. Ms. Johnson stated Maryland does not recognize any Maryland tribes. The Indian Gaming Regulatory Act (IGRA) regulates this and she will review their latest report.

DATE AND TIME OF NEXT MEETING

The next Commission meeting is scheduled for Wednesday, June 22, 2005 at 9:00 a.m. at Lottery Headquarters.

ADJOURNMENT

There being no further business, Vice Chairman Marriner requested a motion to adjourn. Commissioner Payne motioned that the meeting be adjourned and Commissioner Wagner seconded the motion. The meeting was adjourned at 10:25 a.m.

Respectfully submitted,

Gina Smith