

**MARYLAND STATE LOTTERY COMMISSION  
JUNE MINUTES**

DATE: June 22, 2005  
TIME: 9:00 a.m.  
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank C. Bonaventure  
Commissioner Osborne Payne  
Commissioner Bruce Reeder  
Commissioner George Wagner

Buddy Roogow, Director  
Gina Smith, Assistant Director and CFO  
Andrea Johnson, Principal Counsel  
Steve Meehan, Deputy Director, Sales  
Tracey Cohen, Director, Product Development and Advertising  
Jill Baer, Director, Creative Services  
Carole Everett, Assistant Director, Communications  
Zechariah Way, IT Systems and Program Director  
Robert Howells, Director of Procurement  
Paul Dorsey, Director of Policy and Development  
Ethan Powell, Intern, Office of the Attorney General  
Sameer Sidh, Intern, Office of the Attorney General  
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 9:00 a.m.

## **APPROVAL OF MINUTES**

Chairman Bonaventure requested that the Commission delay the approval of the Minutes for the May meeting until the July Commission meeting. Commissioner Payne moved that the approval of the May Minutes be held until the July Commission meeting and it was approved by unanimous vote of Commission.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Ms. Sean Athey stated that Scientific Games successfully downloaded the new Mega Millions software changes that allow California to join. There were less than 50 retailers to down pack

Ms. Athey stated the Racetrax monitor game is in its final phase. The best of the best lottery retailers are now selling the Racetrax game.

Ms. Athey stated Scientific Games is in the process of preparing the business requirement for multi-game easy win that would be replacing the Lotto game. At the next Commission meeting a presentation of new proposed game would be made.

## **EISNER COMMUNICATIONS**

Mr. David Blum, Senior Vice President stated that last month he presented the radio spot highlighting the crab series of scratch-off games. He stated the image promoting the crab family scratch offs would appear on billboards and buses throughout the State. He showed the Commission samples of the outdoor billboard and bus signs. The bus signs would appear either on the side or back of the buses. These would be seen over the next eight weeks. Signs would appear on buses in Baltimore metropolitan area and the Washington market.

Ms. Athey stated she wanted to add one more item to her report. She stated that Mr. Michael Chambrello is the Scientific Games new president and COO. He previously worked at GTECH.

## **COMMISSION BUSINESS**

Chairman Bonaventure stated the Commission is hosting a get together at the baseball game Monday night in the skybox. He stated various members of the Legislature have been invited. Ms. Smith would be representing the Lottery.

Chairman Bonaventure stated to follow up on Vice Chairman Marriner's comments last month, he requested that the Commission be kept updated on upcoming events so that there would be no surprises. He asked if there as any other Commission business to discuss. There was no other Commission business.

## **DIRECTOR'S REPORT**

Mr. Buddy Roogow stated the pre-proposal conference relating to the On-line Gaming System RFP was held on June 17, 2005. Three major vendors attended—GTECH, Scientific Games, and Intralott as well as a number of small contractors and MBEs. He congratulated the RFP team led by Mr. Howells on their outstanding job in putting together this RFP. Mr. Roogow also thanked the Commission for their comments. The Offerors have submitted approximately 166 questions on the RFP and the Lottery would be responding to these questions. Commissioner Reeder asked when the bids were due. Mr. Roogow responded the bids are due July 19, 2005. He will keep the Commission informed.

Mr. Roogow stated that as of Sunday, June 19, 2005, the Lottery already exceeded its goal for this fiscal year with sales of \$1.443 billion. He predicted sales should reach \$1.485 billion by June 30, 2005. Ms. Smith and Mr. Cover's most recent sales estimate that was sent to the Department of Budget and Management was \$1.486 billion. The Lottery's original revenue goal was \$461.9 million and as of June 19, 2005, the Lottery reached \$463.4 million in revenue. He stated the Lottery is expecting to reach \$475 million in revenue and that would result in a surplus of \$13 to \$14 million to the State.

Mr. Roogow stated last night the Pick 3 number "000" was drawn and the Lottery had a loss of \$273,000. This is not bad since the Lottery had a loss of \$7 million when the Pick 4 number "7777" was drawn. If a hit of this type would occur in the next ten days, it could impact revenues. Pick 3, Pick 4, Keno and Keno Bonus, and scratch-off sales are up. Mega Millions sales should hit \$100 million this year. Lotto is down slightly. Bonus Match 5 is coming back. The Racetrax pilot game will hit \$1.0 million in sales shortly.

Mr. Roogow stated the Lottery has been in contact with the Governor's Press Office about possibly doing a symbolic revenue check presentation to the Board of Public Works. This may occur on July 27, 2005, which is also the date of the next Commission Meeting. The date has not been confirmed by the Governor's Office. Chairman Bonaventure asked how far in advance does the notice of the Commission meeting have to be publicized. Ms. Johnson responded the date of the meeting must be publicized no later than one week

before the scheduled meeting date. Mr. Roogow stated would keep the Commission advised.

Mr. Roogow stated he met with the Legislative Auditors this morning and they expect to be leaving in the next few weeks. There are some findings. The most important finding concerns the Instant Ticket Vending Machines (ITVMs). The Lottery has not been appropriately monitoring the maintenance of the ITVMs. Mr. Roogow feels it is a reasonable and fair finding. The Lottery is addressing that finding and will take necessary action to correct it. The Lottery is waiting for the auditors' discussion notes. After the discussion notes are received an exit interview will be scheduled. Commissioner Wagner asked who is responsible for the maintenance service on the ITVMs. The response was the contract is with GTECH. The Lottery would determine if any refund is due the Lottery. Commissioner Wagner asked if the Lottery agreed with the audit finding. Ms. Smith responded yes. Commissioner Wagner asked how did the legislative auditors discover this. Ms. Smith responded the auditors pulled the contract and looked at the deliverables. The Lottery did not have records to show that the maintenance was performed. Chairman Bonaventure asked that he be notified when the discussion notes are received.

Mr. Roogow stated that the issues regarding California joining Mega Millions were resolved. Their Legislature was contesting California joining Mega Millions. Mr. Roogow stated he was contacted for interviews by various newspapers in California. California's Attorney General ruled that the California Lottery had a right to join Mega Millions. Tickets are currently on sale. With California joining, Mega Millions will have faster rising jackpots resulting in more sales and revenue for Maryland.

Mr. Roogow stated the Lotto game is not performing well and has been struggling for years. The Lottery is working on ways to correct that. A presentation will be made at next month's Commission meeting regarding the revised game. Lotto annuity jackpots currently start at \$1 million. The Lottery does not have funds to support a \$1 million annuity until the eighth or tenth drawing is reached. If the jackpot it hit earlier, the Lottery would have to use money from the unclaimed prize fund as a reserve. The jackpot was recently hit at \$1.1 million, and it cost one-quarter million dollars from the unclaimed prize fund.

Mr. Roogow stated the Lottery is planning to do another 30-minute television game show in 2006. Ms. Cohen will talk more about that in her report.

Mr. Roogow stated on Monday evening he visited Crabtowne in Glen Burnie. This lottery agent sells the Racetrax monitor game. They are a good retailer and there were a number of people playing the game. Commissioner Wagner asked how did you end up at Crabtowne. Mr. Roogow responded that last week this location did \$14,000 in Racetrax sales. Chairman Bonaventure asked if that had an impact on their Keno sales. Mr. Roogow responded he has not seen much impact on Keno sales. When the next phase is completed, a summary would be prepared and provided to the Commission.

Commissioner Reeder stated the unclaimed prize fund shows a balance of \$11 million. What happens to this money at the end of the fiscal year. Mr. Roogow responded it rolls to the next fiscal year. Mr. Roogow stated it goes back to the players in the form of prizes.

## **REPORTS**

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

Mr. Stephen Meehan stated Sales is the midst of their transition of the district territories. Corporate Accounts is being converted to Key Accounts. Ms. Valerie Blackwell was selected as the new Regional Manager. Interviews are being conducted for two positions at the District Manager level. Mr. Meehan stated he wants Sales to start off the fiscal year with a new and efficient Sales force.

Commissioner Reeder stated that the Sales Division report shows that by September, only 13 of the 30 possible Food Lion locations would be brought on board. He asked why is Sales holding up the remaining locations. Mr. Meehan responded that the decision was made not to charge ahead. He wants to create a more positive feeling since the main reason retailers are not interested in selling lottery is the labor required. A training video has been produced to combat this problem.

### *Product Development and Advertising – Tracey Cohen, Director*

Chairman Bonaventure wanted to clarify a question that was asked at last month's Commission meeting. He had asked how many active games does the Lottery currently have outstanding. Ms. Cohen responded the Lottery prints 55 games per year. Chairman Bonaventure asked how many instant tickets are on sale at one time. Ms. Cohen responded that the retailers do not carry all available instant tickets. The system can hold up to 100 scratch-off games. Ms. Cohen stated next month she would inform the Commission as to how many instant games are in active status.

Ms. Cohen stated she is working with the Ravens on a 10<sup>th</sup> anniversary ticket/promotion and is close to closing a deal with the Ravens. The Lottery would print a \$5 scratch-off ticket called "Purple Passion" with a second chance component. Three trips would be awarded as prizes. Ms. Baer stated the Lottery has had media presence at M & T Bank stadium in the past.

Mr. Roogow stated to answer the Chairman's previous question regarding active instant tickets, there are currently 91 scratch-offs games on the system. However, some of those may only be a few books of tickets that the retailer has in inventory. A more accurate answer is that there are 59 games in the Lottery's warehouse inventory that can be shipped to retailer locations.

Ms. Cohen stated a \$10 scratch-off ticket called "Ancient Treasures" would be the entry vehicle to the next game show. The game show will air May or June 2006. There would be preliminary drawings to select contestants. Ms. Baer stated she is currently working on finding a location to tape the show.

Ms. Cohen stated in October 2005, the Lottery would launch a \$20 scratch-off ticket called "King Kong". This instant ticket requires the Lottery entering into a licensing agreement at a cost of \$50,000.

Ms. Cohen distributed to the Commission the Mega Millions subscription brochure containing the new game matrix.

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

Game #442 *Money, Money, Money* had a print run of 2,000,220 tickets and was 99.87% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$2,993,219.82. The profit before the administrative costs were adjusted was \$2,137,374 if 95% sold and \$2,249,867 if 100% sold.

Game #452 *Wild 7's Doubler* had a print run of 2,000,100 tickets and was 98.36% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$869,830.25. The profit before the administrative costs were adjusted was \$886,584 if 95% sold and \$933,247 if 100% sold.

Game #455 *Bonus 7's or 11's* had a print run of 2,000,100 tickets and was 97.35% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$447,664.35. The profit before the administrative costs were adjusted was \$544,474 if 95% sold and \$573,131 if 100% sold.

Game #456 *Treasure Island* had a print run of 2,000,100 tickets and was 97.72% sold. With the subtraction of the adjustment for the administrative allocation, the estimated profit is \$939,909.67. The profit before the administrative costs were adjusted was \$906,938 if 95% sold and \$954,672 if 100% sold.

Chairman Bonaventure asked if the percentage sold was minus the administrative costs. Ms. Cohen responded yes.

Commissioner Wagner asked if these four closed games included advertising costs. Ms. Cohen responded there was no advertising done on the four closed tickets.

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

Game #563 *Mucho Dinero* 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 \$1,623,738.57.

Game #564 *Super Slots* is a \$5.00 ticket with a prize payout of 73.04% and a print run of 2.0 million tickets. The estimated profit is \$1,647,457.28.

Game #567 *Maryland Cash* is a \$2.00 ticket with a prize payout of 64.04% and a print run of 2.0 million tickets. The estimated profit is \$904,985.25.

Game #568 *Ancient Treasures* is a \$10.00 ticket with a prize payout of 75.07% and a print run of 3.5 million tickets. The estimated profit is \$3,859,361.52. Ms. Cohen stated the *Ancient Treasures* scratch-off ticket has an advertising expenditure of \$1.7 million. Chairman Bonaventure asked if that included the game show costs. Ms. Cohen responded yes, that is the estimate for production and media. It does not include the prizes.

Ms. Cohen stated there is an advertising expense of \$54,000 associated with each of the next four instant tickets.

Game #569 *Wreath of Franklins* is a \$1.00 ticket with a prize payout of 59.49% and a print run of 2.0 million tickets. The estimated profit is \$400,629.74.

Game #570 *Bah Humbucks* is a \$2.00 ticket with a prize payout of 63.95% and a print run of 2.0 million tickets. The estimated profit is \$854,526.43.

Game #571 *Holiday Package* is a \$3.00 ticket with a prize payout of 67.15% and a print run of 2.0 million tickets. The estimated profit is \$1,194,902.61.

Game #573 *Sleigh Bells* is a \$5.00 ticket with a prize payout of 73.03% and a print run of 2.0 million tickets. The estimated profit is \$1,564,078.34.

Chairman Bonaventure made a motion to approve Game #563 *Mucho Dinero*, Game #564 *Super Slots*, Game #567 *Maryland Cash*, Game #568 *Ancient Treasures*, Game #569 *Wreath of Franklins*, Game #570 *Bah Humbucks*, Game #571 *Holiday Package*, and Game #573 *Sleigh Bells*. Commissioner Wagner seconded the motion. Game #563 *Mucho Dinero*, Game #564 *Super Slots*, Game #567 *Maryland Cash*, Game #568 *Ancient Treasures*, Game #569 *Wreath of Franklins*, Game #570 *Bah Humbucks*, Game #571 *Holiday Package*, and Game #573 *Sleigh Bells* were approved by unanimous vote of the Commission.

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

Ms. Jill Baer stated she is currently evaluating the multi-year package that would position the Lottery as a premiere Terrapins sponsor. She stated the package is to point where she is happy with it. Ms. Baer stated that Vice Chairman Marriner had previously suggested the Commission would intervene on the Lottery's behalf with the University of Maryland. She stated she would be in touch if this becomes necessary.

Ms. Baer stated she is working on year-end advertising issues, advertising plans for next year and plans for the game show.

*Communications – Carole Everett, Assistant Director, Communications-Public Affairs*

In Mr. Jimmy White's absence, Ms. Carole Everett presented the Communications Division's report. She stated Mega Millions launched the new game with the addition of California. The Director participated in numerous interviews. Communications has been busy supporting various promotions. Communications participated at Zoomerang, the Chesapeake Bay Blues festival, and WHFStival. Mr. Roogow stated that Ms. Everett has been in her position for approximately four months and has done an outstanding job.

*Information Technology – Zechariah Way, IT Systems and Program Director*

In Ms. Sandra Johnson's absence, Mr. Way presented the Information Technology Division's report. He stated that the Mega Millions changes are in place. IT is in the process of testing the process to make any refinements. He stated the migration to the XP version of Microsoft Office Suites has been completed for in-house staff. He stated that the IT representatives from the Legislative Auditors' office are currently auditing IT Division procedures.

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

Ms. Gina Smith distributed to the Commission the May 2005 unaudited special-purpose financial statement. She stated there is nothing unusual in the statements. She stated the Commission was previously sent the IT General Controls Audit Report.

Ms. Smith stated the last legislative audit recommended a SAS 70 Audit be performed. Stout, Causey and Horning won the award to perform the SAS 70 Audit and she should be receiving a draft copy of the report shortly. This would place the Lottery in compliance with a previous audit finding. She would send a copy of the final audit report to the Commission as soon as it is available.

Ms. Smith stated she is working on the fiscal year-end close out. Various reports must be submitted to the State. The Lottery is ready to close out the books and convert the statements to GAAP. She stated the Lottery would be submitting another Comprehensive Audit Financial Report (CAFR) this year. She stated she has not heard from GFOA regarding the CAFR that was submitted last year and hopes to receive their comments prior to submitting this year's CAFR.

Ms. Smith stated she is starting to prepare the Lottery's fiscal year 2007 budget that is due to the Department of Budget and Management (DBM) in August.

Ms. Smith stated recruitment continues for various vacant positions at the Lottery.

Ms. Smith stating she is working with IT to ensure that Mega Millions goes up smoothly. The old Mega Millions subscriptions have been canceled and the Customer Resource Center is processing new Mega Millions subscriptions.

Commissioner Wagner stated on page two under Liabilities and Net Assets in the May 2005 unaudited financial statement, Taxes Payable and Other Liabilities show a \$1 million difference between April and May. Why is there such a large difference? Ms. Smith responded she would look into this and get an answer for him.

Chairman Bonaventure stated last month a resolution was made to move forward with a dual track recommendation to hire a new internal auditor. He requested that a meeting be set up next week with Ms. Smith to begin that process.

Ms. Smith stated one of the vacancies to be filled was for a cost accounting person. She stated she is working on filling the other accounting supervisory positions first before recruiting for that position.

Commissioner Reeder stated that Ms. Smith's report shows a low number of claims processed at the Lanham Claims Center and asked is that normal. Ms. Smith responded there are two people working there five days a week processing claims for any customers who come in. The facility does not cost the State any money because it is Scientific Games backup facility. In addition to processing claims, the personnel also enter agent plus claims information into the system and issues W2Gs.

*Legal Division – Andrea Johnson, Principal Counsel*

Ms. Johnson stated there are two interns, Mr. Ethan Powell and Mr. Sameer Sidh working in her office. Mr. Powell recently completed his first year as a student at the University of Maryland Law School. Mr. Sidh recently completed his first year at University of Baltimore Law School. They will be working on assignment legislation issues, new federal and state laws that relate to disposal of personal and confidential information and state procurement issues. The Commission welcomed Mr. Powell and Mr. Sidh.

Ms. Johnson stated there were no revocations to present to the Commission this month. However, a request for an appeal hearing has been received from Bobby B's Tavern. The agent was revoked due to low sales. The average weekly agent sales requirement is \$5,000. This agent is doing \$915 per week in sales. Ms. Johnson asked the Commission to consider scheduling a hearing date. The hearing should not take more than two hours. It was the consensus of the Commission to set the appeal hearing for Wednesday, September 28, 2005 at 11:00 a.m. after the Commission meeting. The Commission meeting will begin at 8:30 on September 28, 2005.

Ms. Johnson stated she has been assisting the Procurement Officer with answers to the questions submitted by Offerers regarding the On-line RFP. Mr. Howells has done an excellent job.

Ms. Johnson stated that on June 15, 2005, the Attorney General's Office successfully prosecuted a lottery winner that failed to pay income taxes on his Lottery winnings. He had filed claims forms for over 131 Keno tickets. The sentencing date has been scheduled for September.

Ms. Johnson stated her office has been working on procurements and contracts, Public Information requests, and gaming issues.

Ms. Johnson stated her office is looking into the second instance where a customer was injured by a falling Keno monitor at an agent location. The Contractor is required notify everyone and a full investigation is being done.

A question was asked if Bobby B's would be represented by legal counsel at the appeal hearing in September. Ms. Johnson responded she would find out if legal counsel would represent the agent.

Ms. Johnson stated that Commissioner Reeder had requested information on tribal gaming issues. She stated she would have a response for him at next month's meeting.

Ms. Smith stated to answer Commissioner Wagner's previous question regarding Taxes Payable and Other Liabilities, the Lottery makes annuity payments in May and in June pays the State taxes withheld from those annuity payments. The amount for May includes these taxes and those taxes will be paid in June.

## **PROCUREMENT**

Mr. Robert Howells stated next month he would be presenting for the Commission's review the Extension to Televised Lottery Drawings of the Lottery's On-line Games and Related Services Contract. This was a five year contract with a one year renewal option. The Lottery would be executing the renewal effective in November 2005. The extension would be presented to the Board of Public Works for approval. A question was asked if the Commission needs to approve this extension. Mr. Howells responded the Commission approved the original contract. The Lottery just needs to notify the vendor and the Commission of this extension.

## **DATE AND TIME OF NEXT MEETING**

The next Commission meeting is scheduled for Wednesday, July 27, 2005 at 9:00 a.m. at Lottery Headquarters.

**ADJOURNMENT**

There being no further business, Chairman Bonaventure made a motion to adjourn. Commissioner Wagner seconded the motion. The meeting was adjourned at 10:15 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Buddy Roogow". The signature is written in black ink and is positioned above the printed name.

Buddy Roogow