

**MARYLAND STATE LOTTERY COMMISSION  
NOVEMBER MINUTES**

DATE: November 22, 2006  
TIME: 9:00 a.m.  
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Frank Bonaventure  
Vice Chairman E. Randolph Marriner  
Commissioner Osborne Payne  
Commissioner Bruce Reeder  
Commissioner George Wagner

Buddy Roogow, Director  
Gina Smith, Assistant Director, CFO  
Andrea Johnson, Principal Counsel  
Tracey Cohen, Director, Product Development and Advertising  
Jimmy White, Director, Communications  
John Wood, Manager, Manager, IT On-line Gaming Systems  
Robert Howells, Director of Procurement  
Paul Dorsey, Director of Policy and Development  
Michael Eaton, Internal Auditor  
Marie Torosino, Executive Associate

OTHERS  
PRESENT: Jeff Hale, Scientific Games Online Entertainment Systems

## **CALL TO ORDER**

There being a quorum present, Chairman Bonaventure called the meeting of the Maryland Lottery Commission to order at 9:03 a.m.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Mr. Jeff Hale, Operations Manager, stated Scientific Games continues the installation of the Racetrax game throughout the State. The game is performing well.

## **DIRECTOR'S REPORT**

Mr. Buddy Roogow stated total sales are approximately \$21 million behind compared to last year. Pick 3 is down approximately \$580,000 as compared to last year, but the game is gaining in sales and doing quite well due to the ongoing promotions. Pick 4 is showing near record sales each week. Although behind in sales compared to last year, Keno seems to be gaining, and Keno Bonus is ahead of last year's sales. Scratch-offs sales are slightly ahead of last year. Mega Millions sales are down \$24 million compared to last year. He stated Mega Millions cannot seem to be able to generate big jackpots. Mr. Roogow stated he is heading a Mega Millions Committee which will look at the game to see what can be done. Some possibilities could be to change the game matrix or the price of the ticket.

Commissioner Wagner asked how would the game matrix be changed. Mr. Roogow stated the current game matrix is 5/56 and 1/46. It would be changed to a higher game matrix and could create higher prizes in other tiers. Usually a game matrix is not changed unless a new state joins the Mega Millions group. Commissioner Wagner asked if California affected Mega Millions when it joined. Mr. Roogow responded not too much. Players are winning the jackpot with less than a 10% combination coverage.

Mr. Roogow stated the Racetrax game has shown increased success. Last week sales were approximately \$900,000, and the Lottery is hoping to have its first million dollar week. There are currently over 400 Racetrax locations. Scientific Games has been installing the Racetrax game at approximately 50 locations per week. Chairman Bonaventure asked if an analysis had been done on the Racetrax game and its effect on Keno. Mr. Roogow responded there is a 9% cannibalization rate of Keno.

Mr. Roogow stated revenues are down \$13 million as compared to last year, of which approximately \$11 million is Mega Millions and the remainder is Keno. Also a factor in the revenue shortfall is the 0.5% increase in commissions paid to lottery agents, which is approximately \$3 million. The Keno Doubler/Tripler Sprinkler promotion is currently running and a new Pick 3 promotion is coming out in January 2007.

Mr. Roogow stated that yesterday he and Ms. Johnson met with the Board of Public Works staff regarding the Multiplier patent issue, the progress of negotiations between the Lottery and Scientific Games, and the status of lawsuit between Scientific Games and GTECH,

which the Lottery is not a party to. The result of the lawsuit may well determine what happens to the Multiplier.

Mr. Roogow stated on December 6, 2006 he would be attending the Board of Public Works hearing to brief them on the Eisner situation. By that time, the Lottery will have completed the emergency advertising procurement and have an advertising agency selected by the end of that week. In terms of advertising on television and radio, the Lottery is dark this week on all media except a minimal amount of advertising the Countdown to Millions on Channel 13. This is one time the Lottery is relying on the promotion and the point of sale. First day of sales for Countdown to Millions was approximately \$245,000 and yesterday sales were \$155,000. The Lottery would like to average \$200,000 a day in order to sell out the game in 40 days.

Commissioner Wagner asked what the status is in obtaining another advertising agency. Mr. Roogow stated a pre-proposal conference was held yesterday and there were many companies present. Mr. Roogow stated Vice Chairman Marriner is serving on the evaluation/selection committee and cannot be a part of these discussions during the meeting. Vice Chairman Marriner left the room and the discussion continued. Mr. Howells stated the pre-proposal conference was held Tuesday, November 21, 2006. The proposals are due Friday, December 1, 2006. The Lottery has tentatively set the dates of December 6 and 7, 2006 to have the Offerors come in for a brief discussion and questions and answers. The Lottery expects to make a decision by December 8, 2006. This procurement is being done as an emergency procurement. The Lottery does not have to go to the Board of Public Works for this emergency procurement as defined in COMAR. Commissioner Reeder asked what would be the duration of the contract. Mr. Howells responded it would be for approximately six months, through June 2007. At this point, Vice Chairman Marriner re-entered the room.

Mr. Roogow stated the Governor's Transition Team would be visiting Lottery in the future. Mr. Dorsey would be putting together the documents. As soon as a date is scheduled, Mr. Roogow would notify the Commission.

## **REPORTS**

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

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

Ms. Johnson stated at the recent assignment hearing there were two petitions filed. She stated two lottery winners withdrew their petitions when they discovered the amount of money they were giving up to the finance companies. The Judge was concerned about the lottery winner's right and that they were not represented by counsel. She stated there could possibly be changes to the assignment legislation. There are several other assignments pending. The Comptroller's Office negotiated standard language for each of the assignments relating to State and federal withholdings from the lump sum payments.

Ms. Johnson stated the Legal Division has been working on several licensing agreements.

Ms. Johnson stated a small claims suit has been filed by Merjo Advertising for a \$3,600 assessment of liquidated damages. The Lottery has filed a Motion to Dismiss. She will keep the Commission updated on this matter.

Ms. Johnson stated her office is working with the Lottery regarding the default of Eisner in the Advertising Agency Services Contract. Notice of contract termination was sent to Eisner. She will keep the Commission updated.

Ms. Johnson stated she received a personnel matter decision of no probable cause in an alleged discrimination. It was reviewed by the Human Resources Commission and they found that no discrimination occurred. No appeal has yet been filed.

Ms. Johnson stated she and the Director met with to the Board of Public Works regarding the multiplier patent issue. The Lottery will respond back to them regarding its recommendation and the best option for the State. The Lottery is working with an outside patent attorney on this matter.

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

Ms. Gina Smith stated the July and August 2006 financial statements were sent to the Commission along with the Management Letters for the months ended July 31 to December 31, 2005 and January 31 through and June 30, 2006.

Ms. Smith stated that at last month's meeting Commissioner Reeder requested information regarding the Agent Plus claims processed and that information is now contained in her report. Most of the issues dealing with the W2Gs have been resolved but there are still some outstanding issues.

Ms. Smith stated the Sales Division continues with the expansion of the Racetrax game. Scientific Games installs the monitors and then the Sales team trains the agents. Over 400 agent locations have been installed and the goal is to have over 1,000 agents installed by the end of the year.

Vice Chairman Marriner asked if Ms. Smith is currently recruiting for the vacant Sales Director's position. Ms. Smith responded she is not actively recruiting for the vacant position at this time.

Ms. Smith stated last month the Lottery met with the Department of Budget and Management to review the Lottery's budget submission for FY2008. No changes were made to the budget and the Lottery is waiting for questions or recommendations from the Legislative Analyst.

Ms. Smith stated Human Resources is working to fill existing Agency vacancies. The IT Division is almost fully staffed with one additional vacancy to fill. The Lottery is recruiting for four additional vacancies located throughout the Agency.

Ms. Smith stated she continues to work with the Legal Division on assignments.

*Information Technology – John Wood, IT On-line Gaming Systems Management Manager*

Mr. John Wood presented Information Technology's report in Ms. Sandy Johnson's absence. He stated after successful testing by IT, Countdown to Millions was implemented on November 20, 2006. There was a slight problem with some retailers not receiving the software program download. Scientific Games personnel visited to those agent locations and rampacked the software. It is a quick process and the software can be loaded in five minutes.

Mr. Wood stated currently there are 45 agents still running on CDMA's (wireless) communications and work continues to move them to DSL's or VSAT's to improve their connection to the on-line system.

Mr. Wood stated IT completed their part of the Assignment Bill System and moved it to production for processing annuity payments.

Mr. Wood stated IT has filled three vacant positions. There is one vacancy remaining and recruitment is being conducted.

Mr. Wood stated the Lottery Storage Area Network has been installed and is running on basic function. Additional special features will be installed and completed by the end of December.

Mr. Wood stated IT is working with Verizon to terminate the telecommunications contract. Payment is still outstanding.

Mr. Wood stated the Keno Doubler/Tripler Sprinkler promotion will have a happy hour beginning at 4 p.m. tonight. Last night a message was sent to the agent network to advertise this promotion and the Countdown to Millions promotion.

Mr. Wood stated IT continues to work on the Agency Disaster Recovery Plan.

*Communications – Jimmy White, Director*

Mr. Jimmy White stated Communications has been busy this month dealing with the advertising challenge for Countdown to Millions. Ms. Everett will be doing something on television around the State as the gift guru again this year promoting a number of fun gift items with lottery tickets. She is booked on Channel 45 in Baltimore, a station in Salisbury

and Hagerstown. The Lottery is working with its Promotional Partners to promote Countdown to Millions.

Mr. White stated the Director was part of the 98 Rock radio show this morning at the Royal Farms Store in Glen Burnie promoting the Countdown to Millions game. The Lottery is also focusing Countdown to Millions promotion on the Lottery website and VIP Club. Lottery staff would be visiting retailer locations to talk to retailers and customers about the promotion.

Mr. White stated Lottery staff will be at various malls throughout the holiday season promoting lottery products. Lottery staff will also be at Lexington Market and the Inner Harbor area. Chairman Bonaventure requested that he be informed when the Lottery would be at the Inner Harbor.

Mr. White stated from 9:00 p.m. to midnight on New Year's Eve, the Lottery would broadcast six one-minute spots announcing the winning numbers for Countdown to Millions. Mr. Brian Johnson would be hosting the event.

Mr. White stated the Lottery is continuing with its appearances on Ravens Walk with the corporate display and selling lottery tickets.

Mr. White stated there is no information available this month on the value of the news articles.

### **APPROVAL OF MINUTES**

With Commissioner Payne now present at the meeting, Chairman Bonaventure requested a motion to approve the October Minutes. Commissioner Reeder made a motion to approve the October Minutes and Commissioner Wagner seconded the motion. The October Minutes were approved by unanimous vote of the Commission, with Chairman Bonaventure and Vice Chairman Marriner abstaining from the vote.

### **REPORTS (continued)**

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

Ms. Tracey Cohen stated the Countdown to Millions promotion began November 20, 2006. There is no mass media and the Lottery is doing what we can to promote it.

Ms. Cohen stated a Pick 3 winter themed promotion was approved by the Director. The promotion will run from January 30, 2007 through February 27, 2007.

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

Game #632 *Cash-O-Rama* is a \$5.00 ticket with a prize payout of 72.00% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$2,312,904. If 100% of the tickets are sold, the profit would be \$2,772,246.

Game #634 *Bubble Bucks Tripler* is a \$3.00 ticket with a prize payout of 66.98% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$1,145,719. If 100% of the tickets are sold, the profit would be \$1,386,781.

Game #636 *Lucky 4's* is a \$2.00 ticket with a prize payout of 63.96% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$818,802. If 100% of the tickets are sold, the profit would be \$999,666.

Game #638 *Joker's Wild* is a \$1.00 ticket with a prize payout of 58.06% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$711,510. If 100% of the tickets are sold, the profit would be \$870,575.

Game #640 *Lucky Times 20* is a \$5.00 ticket with a prize payout of 72.05% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$2,334,408. If 100% of the tickets are sold, the profit would be \$2,792,545.

Chairman Bonaventure made a motion to approve Game #632 *Cash-O-Rama*, Game #634 *Bubble Bucks Tripler*, Game # 636 *Lucky 4's*, Game #638 *Joker's Wild*, and Game #640 *Lucky Times 20*. Commissioner Wagner seconded the motion. Game #632 *Cash-O-Rama*, Game #634 *Bubble Bucks Tripler*, Game # 636 *Lucky 4's*, Game #638 *Joker's Wild*, and Game #640 *Lucky Times 20* were approved by unanimous vote of the Commission.

Mr. Roogow stated the above games were produced by Pollard Banknote. The payout percentage was reduced slightly on the \$1, \$3, and \$5 games, but not on the \$2 game. Chairman Bonaventure asked if players are sensitive to change in payout percentage. Ms. Cohen responded some players do notice it. Mr. Roogow stated the payout percentage is not listed on the scratch-off ticket. A question was raised as to who has the authority to change the payout percentages. Mr. Roogow responded the Lottery has the authority to change the payout percentages and the Commission approves all scratch-off games.

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

Game #479 *King Size Bingo* was 99.91% sold with a net profit of \$2,567,885.32.

Game #509 *Crossword Double Bonus* was 99.73% sold with a net profit of \$2,833,150.97.

Game #540 *Sapphire Blue 7's* was 99.40% sold with a net profit of \$956,301.06.

Game #555 *Triple Money* was 97.65% sold with a net profit of \$704,697.26.

Game #558 *Go Maryland* was 96.48% sold with a net profit of \$646,210.68.

Game #570 *Bah Humbucks* was 93.78% sold with a net profit of \$810,097.09.

*Internal Audit – Michael Eaton, Internal Auditor*

Mr. Michael Eaton stated work continues on the Internal Control over Financial Reporting Review. He is finalizing the process flowchart and narrative documentation and once the data is validated, he can ensure that controls are operating effectively.

Chairman Bonaventure asked Mr. Eaton if he feels that he has sufficient staff to perform this work. Mr. Eaton responded it takes time for him to obtain the information and an additional staff person would be helpful. Chairman Bonaventure asked Mr. Eaton to prepare a justification for an additional staff person.

*Policy and Development – Paul Dorsey, Director*

Mr. Paul Dorsey stated Pennsylvania has opened one casino and two additional casinos should be open by the end of November 2006. There are eight non-track licenses available and hearings are being held. This should be completed by December 20, 2006.

*Procurement – Robert Howells, Director*

Mr. Howells stated information on the emergency advertising agency RFP was previously discussed.

Mr. Howells stated COMAR Chapter 5 – Consumer Regulations, was provided to the Commission for review. He stated at the December Commission meeting he would be requesting the Commission's approval of COMAR Chapters 5, 7 and 8. Changes were made to these chapters as part of the eight year review process that the agency was required to do. This submission would fulfill the Lottery's obligation to AELR for the eight year review.

Mr. Howells stated Chapter 5 would be updated again at a later date once the information on assignments is available.

Commissioner Wagner asked if all State agencies are required to do the eight year review and who is the information submitted to. Mr. Howells responded the information is submitted to the AELR Committee for review and then the regulations are submitted to the Maryland Register for publication. The Lottery periodically updates the regulations as new legislative is passed. All State agencies are required to comply.

Chairman Bonaventure asked whether an entity other than individual can claim winning tickets, specifically corporations. Ms. Johnson responded the 1973 regulations were directed to towards individual winners. She stated it may be advisable to review those regulations in light of the assignment legislation.

Mr. Howells stated an Emergency Contract for Advertising Sponsorship with Baltimore Ravens Limited Partnership was prepared to continue Lottery advertising and activities with the Baltimore Ravens at M & T Bank Stadium. The cost of the contract is \$96,000 and it is a sole source contract. The Lottery needs to inform the Board of Public Works and Department of Budget and Management that this emergency contract was done. Mr. Dorsey stated once a new advertising agency is hired, they will either into new contract through the rest of season. The Lottery hopes to have a new advertising agency chosen by December 8, 2006. Mr. Howells is requesting the Commission's approval of the Emergency Contract for Advertising Sponsorship with Baltimore Ravens Limited Partnership.

Chairman Bonaventure made a motion to approve the Emergency Contract for Advertising Sponsorship with Baltimore Ravens Limited Partnership pending legal review. The motion was seconded by Commissioner Wagner. The Emergency Contract was approved by unanimous vote of the Commission.

Mr. Reeder stated he saw the articles in Public Gaming and La Fleur's magazines regarding Mr. Roogow's ten years as Director of the Maryland State Lottery. The Commission offered their congratulations to the Director.

A matter that needed discussion by the Commission concerning the current procurement matter of the Televised Drawings Request for Proposals warranted a closed session of the Commission. All Commissioners agreed to close the session. See attached **Statement for Closed Meeting**, pursuant to State Government Article §10-508(a).

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

The next Commission Meeting is scheduled for Tuesday, December 19, 2006 at 9:00 a.m. at Lottery Headquarters.

#### **ADJOURNMENT**

After discussion concerning the current procurement matter of the Televised Drawings Request for Proposals, Chairman Bonaventure brought the meeting to open session. After Chairman Bonaventure asked if there was any further business of the Commission to discuss, Vice Chairman Marriner moved that the meeting be adjourned and it was seconded by Chairman Bonaventure. The meeting adjourned at 10:49 a.m.

Respectfully submitted,



Buddy Roogow