

**MARYLAND STATE LOTTERY COMMISSION  
JULY MINUTES**

DATE: July 25, 2007  
TIME: 9:00 a.m.  
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman E. Randolph Marriner  
Commissioner Bruce Reeder  
Commissioner George Wagner  
Commissioner Stanley Fine  
Commissioner Matthew Thomas

Gina Smith, Assistant Director, CFO  
Andrea Johnson, Principal Counsel  
John Gallagher, Chief Information Officer, Information Technology  
Tracey Cohen, Director, Product Development and Advertising  
Carole Everett, Director, Communications  
Jill Baer, Director, Creative Services  
Robert Howells, Director of Procurement  
Michael Eaton, Internal Auditor  
Marie Torosino, Executive Associate

OTHERS  
PRESENT: John Hadley, Scientific Games Online Entertainment Systems  
Lori Denton, Pollard Banknote

## **CALL TO ORDER**

There being a quorum present, Chairman Marriner called the meeting of the Maryland Lottery Commission to order at 9:09 a.m.

## **APPROVAL OF MINUTES**

Chairman Marriner asked if there were any changes to the June Commission Minutes. Hearing none, he requested a motion to approve the June Commission Minutes. Commissioner Thomas made a motion to approve the June Commission Minutes and the motion was seconded by Commissioner Wagner. The June Minutes were approved by unanimous vote of the Commission.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Mr. John Hadley stated Sean Athey has left as SGI's Account Manager for the Maryland Lottery and is now working in Virginia in Marketing. He stated SGI is working to find a replacement.

Mr. Hadley stated it is the start of a new sales year. Commissioner Wagner asked how the Maryland Hold'em game is performing. Mr. Hadley responded Maryland Hold'em is doing well, but it is too early to make any conclusions. Maryland Hold'em is currently in a test market. SGI will gather information and make some adjustments to the game before rolling it out on a large scale to the agent network.

Commissioner Wagner said that the Lottery indicated that it was going to introduce Player Activated Terminals (PATs) at the end of year to consumers. Mr. Gallagher stated that they are in the process of testing a PAT for use at the State Fair. Additional PATs will then roll out in September and will be installed in controlled environments. Commissioner Thomas asked if the State Fair will be the only test location. Mr. Gallagher responded yes and the PAT will have limited functionality.

Commissioner Wagner asked what is the average lead time for a newly approved agent to expect terminal installation. Mr. Hadley responded it depends on the type of communication used (satellite, DSL), but approximately three weeks. There is also hardware installation and agent training. Mr. Gallagher stated usually the agent is turned up in 20 to 25 business days.

Commissioner Wagner asked if the Instant Ticket Vending Machines were being phased out. Ms. Smith responded no they are being kept at agent locations. Commissioner Wagner asked will the PAT enable a customer to purchase both instant tickets and on-line tickets through the same machine. Mr. Gallagher responded the PAT will have 20 scratch-off games and all on-line games available. The machine is about the size of a large refrigerator and weighs 700 pounds. Commissioner Wagner asked if it is the Lottery's intent to have

PATs in all agent locations. Mr. Hadley responded it is a sophisticated piece of equipment and would be placed in high traffic areas where there is a larger population. Ms. Smith stated the Sales Division is working on criteria for placement of the PATs. Ms. Smith asked if it would be possible to have the machine available for the Commissioners to look at by the August Meeting. Mr. Gallagher stated it depends on when the PAT has to be delivered to the State Fair.

### **POLLARD BANKNOTE**

Ms. Lori Denton stated next month the Lottery will launch the Set for Life scratch-off ticket at the State Fair. Instant ticket sales finished strong this past fiscal year and Pollard Banknote is working on an aggressive schedule for the new fiscal year.

### **COMMISSION BUSINESS**

Chairman Marriner asked if the Commissioners wanted to discuss the proposed legislation that has been presented by the Lottery. Commissioner Fine requested that this matter be tabled until the August Commission meeting. He requested that by the August meeting Mr. Dorsey amend his report and incorporate the four bills that were recommended by the Commission last year as well as the Agency's recommended legislation. Ms. Smith stated the proposed legislation was to give the Commission a heads up as to what the Lottery was proposing. A motion was made by Commissioner Reeder to delay any decisions on the proposed legislation until the August Commission Meeting. The motion was seconded by Commissioner Fine. The motion was carried by unanimous vote of the Commission.

Commissioner Fine suggested for the future that proposed legislation be submitted by the July meeting for discussion and then voted on at the August meeting. Chairman Marriner stated a Commission Legislative Subcommittee could be established to work with the Lottery on proposed legislation. In the Lottery law this is one of the areas in which the Commission has an active role. Commissioner Thomas asked if the Commission participated in legislative proposal in the past. Ms. Johnson responded it is the Commission's discretion to determine how active a role they would play in proposed legislation. Chairman Marriner stated last year the Commission developed bills and had a tremendous amount of participation.

Ms. Johnson stated a request for request for an appeal hearing was received concerning the revocation of the lottery license of Aqua Mart. She suggested a hearing date of September 26, 2007 or October 24, 2007. She suggested that the Commission meeting begin at 8:30 a.m., allow two hours for the meeting, then take a short break before beginning the hearing. It was the consensus of the Commission to schedule the appeal hearing on Wednesday, October 24, 2007. The appeal hearing would be held after adjournment of the monthly Commission meeting.

## **DIRECTOR'S REPORT/ADMINISTRATION, FINANCE & OPERATIONS AND SALES REPORT**

In Mr. Buddy Roogow's absence, Ms. Gina Smith presented the Director's report. She stated Mr. Paul Dorsey is out of the office until Monday and she will contact him after the meeting regarding the proposed legislation.

Ms. Smith stated the Lottery finished the fiscal year with \$1.577 billion in sales which is \$16.5 million ahead of the previous year's sales. The Lottery set a record in sales, prizes paid to winners and agent commissions. However, the Lottery did not set records in revenues. Revenues finished \$7.8 million behind last fiscal year. If you recall, the agents received a one-half percent increase in commissions. Had this not occurred, the Lottery would have set a record in revenues. She distributed to the Commission a copy of the sales and revenue chart reflecting the numbers for the end of the fiscal year. Chairman Marriner asked Ms. Smith to prepare a wallet size executive summary for the Commissioners' future reference. Ms. Smith stated she will supply the item to the Commission at the next meeting.

Ms. Smith stated the current fiscal year sales and revenue sheet shows total sales are \$16 million ahead of last year with revenue at \$2.5 million ahead. Some of the increase in sales is attributed to the Countdown to Millions raffle. All sales for the game were deferred until July when the drawing was held. Countdown to Millions experienced a sales boom in the last days prior to the drawing. The Lottery went past the breaking point and sold 64% of the tickets. Other lotteries such as New York, Georgia and Massachusetts have also been struggling with sales of their raffle games. The Maryland Lottery is not planning to run another raffle style game this fiscal year. She stated the four winners of the top prize of \$1 million have claimed their prizes.

Commissioner Fine asked if the Lottery broke even in terms of the number of tickets that needed to be sold. Ms. Cohen stated prize expenses were covered. Ms. Smith stated the Lottery has not done a final reconciliation with regards to advertising costs and she would have the numbers available next month. Commissioner Fine asked if the game does not break even, where does the Lottery get the prize money. Ms. Smith responded it is funded by the unclaimed prize fund. Commissioner Thomas asked how much is reverted into the unclaimed prize fund per year. Ms. Smith responded approximately \$12 to \$13 million. By law, this unclaimed money has to go back to players in the form of prizes and promotions and does not revert to the General Fund.

Commissioner Fine asked how the Bureau of Revenue Estimates (BRE) determined the \$520 million estimate. Ms. Smith responded the BRE does its own projections and bases it on the Lottery's history and what is needed to fund the State budget. The Lottery will start with the \$520 million estimate, then in December the BRE will come back and either increase or decrease the estimate based on projections. Commissioner Fine asked if the Lottery is in a position to give its own estimate each year. Ms. Smith responded she does not know how much control the Lottery has in changing the estimate. However, Mr. Roogow and Mr. David Roose, the BRE Director, are in frequent contact with each other.

Ms. Smith stated the Lottery plans to have from 30 to 33 Maryland Hold'em test sites. The Lottery is continually monitoring the game and obtaining feedback from consumers. Once all data is gathered, the Lottery would make recommendations to SGI on how the game could improve. Maryland Hold'em sales are also being monitored for any cannibalization of Keno or RaceTrax.

Ms. Smith then gave her report for the Administration, Finance and Operations (AFO) Division. She stated AFO is working on closing the books for the Fiscal Year 2007 and the Lottery will meet the deadline. She stated work is now beginning on the submission of the Fiscal Year 2009 budget that is due in August or September. The FY2009 budget will be the same as the budget submitted last year. If any additional funds are needed, the Lottery will have to submit justification.

Ms. Smith stated the audited financial statements for May were sent to the Commissioners. The unaudited June financial statement will not be available until August due to the year end closeout. GAAP financial statements are due to the State of Maryland by October 1, 2007.

Commissioner Thomas asked if the Lottery's Fiscal Year 2008 budget reflects requests for additional staff. Ms. Smith responded there are currently three existing PIN vacancies that the Lottery is working to fill. One new positional was requested for Fiscal Year 2008 and Romaine Williams, Assistant Attorney General, filled that position. Any requests for new positions would have to be submitted in the Fiscal Year 2009 budget.

Commissioner Fine stated the AFO report contains information of agents terminated due to low sales and asked who determines this termination. Ms. Smith responded the Lottery makes this determination. Probationary agents have sales goals set by the Lottery and if they do not meet these goals during the probationary period, they can be terminated.

Commissioner Fine stated the Fiscal Year 2008 Lottery budget was reduced by \$351,000 and asked why. Ms. Smith responded the Department of Budget and Management initially asked the Lottery to reduce its Fiscal Year 2008 budget by \$2.3 million. The Lottery negotiated with DBM and requested that the money come from the Fiscal Year 2007 budget, since excess money was available mainly due to more money in the scratch-off category then needed as well as communication costs when the Lottery converted to satellite communications. Ms. Smith stated DBM agreed to allow the Lottery to take the \$2.3 million cut in Fiscal Year 2007. However, the \$351,000 reduction was made to bring the on-line vendor fees in line with the projected sales for the year.

Ms. Smith said her report states that the Lottery is recruiting to fill four positions. Since then, another resignation in Sales was received and DBM gave the Lottery approval to fill the vacancy. The Lottery has to request permission from DBM before the hiring process begins to fill any vacant positions.

Ms. Smith stated aggressive sales goals have been set for the Sales force. Sales team will be charged with recruiting new lottery agents and they have been supplied with a recruitment

plan. Ms. Smith stated the Sales force is working with low volume agents to make over their store to be more lottery friendly and to help increase sales.

Ms. Smith stated work continues on the implementation of the Cole System. The design of the screens and capabilities are nearing completion. The project should be ready for full implementation in December. Chairman Marriner asked that the Commission be presented an overview on the Cole system in September or October. Ms. Smith responded she will make sure that the presentation takes place.

Commissioner Fine stated at the last Commission meeting it was stated that a group of Sales reps went to the Pollard plant in Michigan and asked if there was any feedback. Ms. Smith stated the reps found the tour of the Pollard Banknote plant very informative. They made a DVD of the trip and showed it to the Sales force at last week's Sales meeting. Commissioner Fine asked if any other trips are offered to Sales reps for performance and incentive. Ms. Smith responded there is a La Fleur's Conference held each spring in Washington, D.C. and NASPL conferences. Ms. Smith stated she is looking into other types of incentives and will review them with the Director.

Ms. Smith stated the NASPL/World Lottery Association conference will be held in Louisville, Kentucky from October 3 to 6, 2007 and if any of the Commissioners are interested in attending, please contact Ms. Torosino.

## **REPORTS**

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

Ms. Andrea Johnson presented one revocation to the Commission. She stated Our Place is located at 4401 Annapolis Road, Baltimore, Maryland 21227. On May 15, 2007, the agent was sent a letter advising him of the Lottery Director's intent to recommend the revocation of his lottery license. The agent had eight insufficient fund transfers and four dishonored ACH transfers within a five month period. The agent owes the Lottery \$12,783.75 and a lien has been filed. The agent's terminal has been down for the past 10 months. The revocation letter was sent by certified and regular mail. The agent has not requested an appeal hearing. Ms. Johnson is requesting that the Commission uphold the Director's recommendation to revoke the lottery license of Our Place. Commissioner Fine asked if the terminal was removed after it was turned down. Ms. Smith responded she thinks the equipment was removed. Commissioner Fine requested for future revocations that the date that the terminal was removed be included in the report. There was further discussion regarding the equipment removal procedures.

There being no further discussion, Commissioner Fine made a motion to accept the revocation of the lottery license of Our Place and Commissioner Thomas seconded the motion. The lottery license of Our Place was revoked by unanimous vote of the Commission.

Ms. Johnson stated a former lottery agent maintains her husband and his business partner ran the business and had transferred the business several times before her husband's death in 2005. She maintains that her name was fraudulently used in order to obtain the license and that she is not liable for any indebtedness due to the Lottery. A lien was filed through the Central Collection Unit in the amount of \$1,558.22. The Stated had intercepted her state tax refund to satisfy the debt. A hearing was scheduled with the Office of Administrative Hearings but the former agent paid the State the lien and the matter has been resolved.

Ms. Johnson stated two types of instant ticket lawsuits have been filed against the New Mexico and South Carolina lotteries concerning scratch-off games. In New Mexico, three retailers allege unfair trade practices and negligent misrepresentation for discontinuing the sale of scratch-off tickets before the top prizes have been won. In South Carolina, the lawsuit concerns continuing to sell scratch-off tickets after the top prizes have been won. She stated she received copies of the lawsuits and will continue to monitor these matters.

Ms. Johnson stated three new petitions for assignment of lottery prizes have been filed. She stated the annuitant S. Waters is assigning four annual prize payments totaling \$161,500 in exchange for \$84,834.05. Annuitants L. and B. Howell jointly won \$8.9 million. They are assigning their next three annual prize payments totaling \$669,000 in exchange for \$510,328.04 per person.

Ms. Johnson stated Legal continues to support the various Divisions of the Lottery with general office matters.

Ms. Johnson needed to confer with the Commission regarding the litigation filed by Carrollton Bank against the Lottery, as a tentative hearing date was set for August 8, 2007. The Lottery had filed two motions which were pending, and the Lottery's Motion To Consolidate the Lottery's case with similar litigation filed against Morgan State University had been granted. Ms. Johnson felt that further discussion concerning such litigation was appropriate for closed session. The Commission agreed to the closed session to discuss this matter.

#### *Information Technology – John Gallagher, Chief Information Officer*

Mr. John Gallagher stated IT continues to work with Scientific Games on customer service in the field services area. There has been a significant improvement in the level of service.

Mr. Gallagher stated some recommendations have been made to SGI for the Maryland Hold'em monitor game. Changes were suggested in the graphics and to make the game easier for players to read and understand. SGI is currently reviewing the changes.

Mr. Gallagher stated work continues on the on Player Activated Terminals (PATs). SGI is working on adding additional functions for Phase I of the software that will be available at the State Fair. IT has begun testing the functionality of the PATs.

Mr. Gallagher stated IT recently completed an automatic update project on the instant ticket webpage. This will enable the Lottery to update daily the prizes remaining for each scratch-off ticket. This was formerly a manual process that required hours of work per week to complete.

*Communications – Carole Everett, Director*

Ms. Carole Everett stated Communications has been promoting the Lottery throughout the State. Communications staff is currently in Ocean City conducting lottery parties.

Ms. Everett stated the four Countdown to Millions \$1 million dollar top prize winners came in to claim their prizes as well as all but one of the \$50,000 winners. The Lottery received lots of publicity. She showed the Commission the tape of the winning numbers drawn for Countdown to Millions that was hosted by Roslyn Nelson. The winning numbers were aired on WBAL-TV Channel 11. The Commission thanked Ms. Everett for the tour last month of WBAL-TV Channel 11 studios.

Commissioner Reeder asked how lottery sales were doing at Orioles' games. Ms. Cohen responded sales have been average. The Lottery is trying to try to establish itself at the stadium. Commissioner Fine asked if the 7<sup>th</sup> Inning Stretch scratch-off ticket was successful. Ms. Cohen responded the ticket is 92% sold.

Ms. Everett stated the Maryland State Fair is August 24 to September 3, 2007. Maryland Lottery Day is scheduled for August 24, 2007. A remote drawing will take place that evening. On September 1, 2007, the \$25 Million Frenzy drawing will occur between noon and 3:00 p.m. If the Commissioners need tickets to the State Fair, please contact Ms. Everett.

Ms. Everett stated ten articles appeared in various publications and the media value was \$13,264.78 with a publicity value of \$43,094.34.

Ms. Everett stated 31 radio Promotional Partners were provided with \$7,913 worth of scratch-offs and the Lottery received a promotional value of \$201,840 in on air mentions.

Ms. Everett stated during the past month VIP Club members were contacted five times with Lottery information and ticket giveaways for various events. There are currently 35,699 VIP Club members.

Ms. Everett stated numerous winners came in to the Claims Center this past month. There was a \$1.1 million Multi-Match winner from Baltimore County and a \$600,000 Multi-Match winner from Prince George's County. There was a \$100,000 Fabulous Fortune scratch-off winner from Baltimore County and two \$77,777 Blazing 7s scratch-off winners from Washington DC and Baltimore City. There was also a \$1 million top prize winner in the Mega Bucks Jackpot scratch-off game from Silver Spring.

Ms. Everett stated the Maryland Association of Counties conference in Ocean City, Maryland is scheduled for August 15 to 18, 2007. The Lottery will have a booth there.

Commissioner Fine asked what is a lottery party. Ms. Everett responded Communications personnel visit lottery retail locations and hold lottery parties to talk to consumers about the various lottery on-line games and scratch-offs as well as giving the players chances win prizes.

*Product Development and Advertising – Tracey Cohen, Director*  
*Creative Services – Jill Baer, Director*

Ms. Jill Baer stated the new contract relationships have begun with the three new vendors-- Trahan, Burden and Charles, GKV and Crestwood Associates. Last week a group meeting was held to meet with each other and go through an overview of the Lottery. She stated the first joint promotion is the Set for Life scratch-off ticket. She showed the Commission the point-of sale created by Trahan, Burden and Charles (TBC). The ticket has a collect and win feature. Gray Kirk/VanSant is working on the broadcast element.

Chairman Marriner asked if TBC and GKV will be present at future Commission Meetings. Ms. Cohen responded they will be present at future meetings. Commissioner Thomas asked if the vendors are working with their MBE subcontractors. Ms. Baer responded TBC began working with their MBE subcontractors last week. GKV is more project-based and will begin working with their MBE subcontractors in August. Commissioner Thomas asked if there is any minimum MBE contract amount. Ms. Baer stated as part of the contract the vendors have MBE goals to meet.

Ms. Cohen stated last month Mr. Dorsey spoke about the Deal or No Deal licensing agreement. The Lottery was going to launch a Deal or No Deal scratch-off ticket but for various reasons decided not to launch the game. The Lottery is now considering launching the game again. Mr. Dorsey is working with MDI on the licensing agreement. She will have more information for the Commission next month. Commissioner Wagner asked what is the cost of the licensing agreement. Mr. Howells responded the cost is \$100,000.

Ms. Cohen stated Maryland Million Day is October 13, 2007. The Maryland Horse Breeders Association requested the support of the Maryland Lottery again this year. The Lottery is producing a \$2.00 horse racing themed scratch-off ticket that will promote the Maryland Million. She is currently working out the details.

Ms. Cohen stated there are two new tickets to present to the Commission this month.

Game #655 *Big Money Bingo* is a \$5.00 ticket with a prize payout of 72.00% and a print run of 2.8 million tickets. If 85% of the tickets are sold, the profit would be \$2,141,186. If 100% of the tickets are sold, the profit would be \$2,545,956.

Game #682 *Maryland Million* is a \$2.00 ticket with a prize payout of 63.99% and a print run of 1.9 million tickets. If 85% of the tickets are sold, the profit would be \$575,310. If 100% of the tickets are sold, the profit would be \$730,219.

Chairman Marriner requested a motion to approve Game #655 *Big Money Bingo*, and Game #682 *Maryland Million*. Commissioner Wagner made a motion to approve these two instant games and it was seconded by Commissioner Fine. Game #655 *Big Money Bingo* and Game #682 *Maryland Million* were approved by unanimous vote of the Commission.

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

Game #519 *Lucky 3's Tripler* was 99.83% sold with a net profit of \$1,304,442.26.

Game #538 *Loads of Money* was 99.23% sold with a net profit of \$891,916.74.

Game #544 *Red Hot & Blue 7's* was 99.71% sold with a net profit of \$2,461,539.59.

Game #562 *Quick 7's* was 96.54% sold with a net profit of \$767,637.70.

Game #577 *Fast Cash* was 96.96% sold with a net profit of \$782,137.46.

Game #578 *Aces & 8's* was 98.89% sold with a net profit of \$773,743.72.

Commissioner Thomas asked approximately how many games are available for sale. Ms. Cohen responded not every lottery location sells every game that is available. It depends on where the location is. Some agents carry more while others carry less. Soda Pop Shop has every scratch-off ticket on sale and is the Lottery's number one agent.

#### *Internal Audit – Michael Eaton, Internal Auditor*

Mr. Michael Eaton stated he will have the Sales Process Review completed by the first week of August. After testing, he will issue a report to Management to give them a chance to respond. He should have that report available for the Commission at the September meeting.

#### *Procurement – Robert Howells, Director*

Mr. Robert Howells presented to the Commission the Maryland Million License Agreement (#2008-11). This is a new sole source contract for two years beginning August 1, 2007. The contract authorizes the Lottery to use the Maryland Million name and characters for the instant ticket that it is producing. This contract is similar to the contract approved last year for Maryland Million.

Chairman Marriner asked who owns the name Maryland Million. Mr. Howells responded the Maryland Horse Breeders Association owns the name.

Mr. Howells requested the Commission's approval of Maryland Million License Agreement (#2008-11) with Maryland Million, Ltd. Commissioner Reeder made a motion to accept the licensing agreement and it was seconded by Commissioner Wagner. The licensing agreement was approved by unanimous vote of the Commission.

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

The next Commission Meeting is scheduled for Wednesday, August 22, 2007 at 9:00 a.m. at Lottery Headquarters.

### **ADJOURNMENT**

Chairman Marriner asked if there was any further business to discuss during the open meeting. There being none, the Commissioners voted in favor to adjourn the open public meeting at 10:58 a.m. However, a matter that needed discussion by the Commission with Legal Counsel concerning the litigation filed by Carrollton Bank 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).

Respectfully submitted,

Gina Smith