

**MARYLAND STATE LOTTERY COMMISSION
SEPTEMBER MINUTES**

DATE: September 26, 2007
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

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

Buddy Roogow, Director
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
Paul Dorsey, Director, Policy and Development
Jill Baer, Director, Creative Services
Robert Howells, Director of Procurement
Michael Eaton, Internal Auditor
James Butler, Assistant Attorney General
Marie Torosino, Executive Associate

OTHERS

PRESENT: Jeff Hale, Scientific Games Online Entertainment Systems
Lori Denton, Pollard Banknote
David Blum, Gary Kirk/VanSant
Jody Zafir, Trahan, Burden and Charles

CALL TO ORDER

There being a quorum present, Chairman Fine called the meeting of the Maryland Lottery Commission to order at 9:02 a.m.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Jeff Hale stated Scientific Games is working on the Player Activated Terminals (PATs) for installation in early November 2007.

Commissioner Reeder asked if Scientific Games purchased Oberthur Gaming Technologies. Mr. Hale responded the deal was closed in June 2007. Chairman Fine asked what services Oberthur Gaming Technologies provided. Mr. Hale responded they are an instant ticket manufacturer.

TRAHAN, BURDEN & CHARLES

Ms. Jody Zafrir stated the advertising for the Set for Life scratch-off game began on September 10, 2007 on radio and began on September 18, 2007 on television. Set for Life television advertising is to run in Baltimore on seven stations and in Washington area on six stations as well as the Eastern Shore area. Radio advertising would air throughout the State.

Ms. Zafrir stated Maryland Million television advertising starts September 24, 2007 and would run through October 13, 2007. The Lottery is running a promotion with MASN, the cable station that will be broadcasting the race. Four people will win a VIP day at race with MASN. Also, non-winning Maryland Million scratch-off tickets gain free admission to the race.

Ms. Zafrir stated TBC is working on the Pick 3 Bonus Match-Up promotion that will begin on October 15, 2007. Radio and outdoor advertising would run for four weeks.

GRAY, KIRK/VANSANT

Mr. David Blum stated the Commission was recently sent a copy of the DVD of new Lottery television advertising.

Mr. Blum stated GKV is working on the advertising for the Set for Life scratch-off game. GKV is also working on a new winners' campaign that would take advantage of stories of lottery winners. A television and print campaign template is being developed to use when winners come forward. Chairman Fine asked where this advertising would run. Mr. Blum responded it would run in 11 community newspapers throughout the State.

Mr. Blum stated the Pick 3 Bonus Match up promotion would begin on October 15, 2007 with advertising on radio, on billboards, on transit in the DC suburbs and Maryland, and on DC and Maryland metro subways.

Mr. Blum showed the Maryland Million television spot to the Commissioners. This spot urges people to come to the race and receive free admission with a non-winning Maryland Million scratch-off ticket.

Commissioner Thomas stated horseracing is a specific entity that the Lottery targets. Does the Lottery look at targeting ticket sales for other types of organizations or entities? Is the Lottery selective in what it does for specific entities or does horseracing receive extra consideration? Mr. Roogow responded the Lottery has tried to be a partner with horseracing in Maryland. He stated by law, Lottery revenues are deposited into the General Fund. If the Lottery earmarks Lottery revenue for specific entities, it could be unending. Commissioner Thomas stated he understands the relationship with horseracing, but wanted to know what was done with requests from other individual programs. Ms. Everett stated the Lottery does sponsorships with various organizations. Mr. Roogow stated when an organization asks the Lottery for support, the Lottery looks at various factors such as what will the Lottery receive in advertising, who it would reach and justifying participation by the Lottery from a sales perspective. Commissioner Thomas stated he has received phone calls from various organizations asking for lottery support and wanted to know how to answer their requests.

POLLARD BANKNOTE

Ms. Lori Denton stated Set for Life scratch-off ticket sales for last week were \$1 million. She wanted to thank everyone for their efforts at the State Fair for the launch of the Set for Life scratch-off ticket.

Ms. Denton stated work has begun on developing new scratch-off tickets. Pollard is in the processing of doing research where players fill out journals to see how scratch-off tickets affect their lives. As soon as the results are available, she will share them with the Commission.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated the Set for Life scratch-off game that launched at the State Fair did over \$1 million in sales last week which means over 210,000 tickets were sold.

Mr. Roogow stated a number of Lottery staff members would be attending the NASPL/WLA Conference in Louisville, Kentucky next week.

Mr. Roogow stated Maryland Million is October 13, 2007 and the Lottery will have a booth at the racetrack. He invited the Commission to attend. If interested, call Ms. Everett for tickets.

Mr. Roogow stated sales of the Racetrax monitor game continues to expand. The Lottery's goal is to reach a \$2 to \$2.5 million level. Sales are now at \$1.3 to \$1.5 million level.

Mr. Roogow stated MD Hold'em is still in the test phase at 33 agent locations. Some changes made been made such as a better font and graphics. The Lottery is looking at reducing the time between games from seven to six minutes. The software should be developed by October 1, 2007. The Lottery is looking at incorporating larger prizes into the current prize structure. MD Hold'em does not provide larger prizes at the same level as Keno and players want to win some type of larger prize.

Mr. Roogow stated the Keno Sprinkler promotion started September 14, 2007. The Pick 3 Bonus Match Up promotion will run from October 15 to November 18, 2007.

Mr. Roogow stated the Connecticut and Pennsylvania Lotteries visited the Maryland Lottery over the last two weeks to view the SGI operation of the Lottery's on-line gaming system.

Mr. Roogow stated total sales are approximately \$47 million ahead of last year. Pick 3 sales are down \$1.8 million. Pick 4 sales are \$1.4 million ahead of last year. Keno sales are down \$4.7 million and Keno Bonus sales are down \$2.2 million as compared to last year. Racetrax sales are \$16 million ahead as compared to last year. Scratch-off sales are \$18 million ahead as compared to last year. Mega Millions sales have been a great success this year.

Mr. Roogow stated revenue is up by \$13 million as compared to last year. Last week the Bureau of Revenue Estimates (BRE) reduced the Lottery's revenue goal from \$520 million to \$504 million.

Mr. Roogow stated the estimated balance of the Unclaimed Prize Fund Usage is \$4.5 million. For the next several weeks the Lottery would be running the Keno Sprinkler Doubler/Tripler promotion and utilizing money from the Unclaimed Prize Fund. The Lottery manages the Unclaimed Prize Fund very carefully.

Commissioner Reeder asked how the Lottery is doing with distributing funds to the Maryland Stadium Authority this year versus last year. Mr. Roogow responded the Lottery is obligated to pay \$21 million each fiscal year. Once that goal is reached, the Lottery is finished for the fiscal year. Chairman Fine asked why did the Lottery chose Mega Millions revenue to be distributed to the Maryland Stadium Authority. Mr. Roogow responded originally each fiscal year the revenue from four sports-oriented scratch-off games were paid to the Maryland Stadium Authority. The scratch-off games did not generate the revenue needed. The Lottery requested the Legislature to let it choose what it thought was appropriate and the Lottery chose Mega Millions. Chairman Fine asked where did the figure \$21 million come from. Mr. Roogow said each year the revenue is estimated. It was \$32 million some years ago, but it is now \$21 million. Commissioner Wagner asked is that the Maryland Stadium Authority's only source of income. The response was that there are other funding sources.

REPORTS

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

Ms. Andrea Johnson stated a revocation hearing was scheduled for Aqua Mart on October 24, 2007. Additional facts have been received and the hearing may not go forward. The meeting was to begin at 8:30 a.m. with the hearing to follow. In event the hearing is cancelled, the meeting will move to 9:00 a.m. If the hearing is canceled, the Commission will be notified.

Ms. Johnson stated occasionally when an agent sells his business, they sometimes automatically include the transfer of the lottery license. This creates the question of who is financially responsible. The Legal Division worked with AFO to create a Financial Accountability Affidavit. This document would be signed by the new owner when the Lottery discovers that a transfer of business has occurred. This document requires the new business owner to take full responsibility for all liability until the new application is processed.

Ms. Johnson stated she is drafting regulations for the assignment of lottery prizes to finance companies. Draft regulations will be coordinated with Mr. Howells and sent to the Commission for their review.

Ms. Johnson stated in early 1999, the annuitant entered into an assignment agreement with a finance company for a lump sum payment in exchange for assignment of future annual payments. Last year a complaint was filed by the assignment company in Virginia against the Lottery annuitant and the Lottery because the annuitant did not forward the annual payments to the finance company. The Lottery has been served with a Writ of Garnishment for the annual lottery prize payment due to the annuitant in August 2007. An Answer to the Writ has been filed by the Lottery seeking its dismissal. Ms. Johnson will keep the Commission updated on this matter.

Ms. Johnson stated regarding the case of H. Hubbard vs. the State of Maryland, depositions of three of the four passengers and the Lottery employee were taken in June 2007. The deposition of the fourth passenger was scheduled for September 2007, but the person did not appear. The Lottery filed to have this individual removed as a Plaintiff in this action. The settlement conference is scheduled for December 3, 2007. She will keep the Commission updated on this matter.

Ms. Johnson stated the Legal Division worked on numerous other contractual matters for, Product Development, Creative Services, Communications, 7-11 retailer agreements and other agreements for the Lottery Agency.

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

Ms. Gina Smith stated the FY2009 budget was submitted to the Department of Budget and Management (DBM). The request was within the target amount of \$59.5 million. The Lottery has been assigned a new DBM budget analyst this year and she is meeting with him this week. At a later date, a formal meeting will be held at DBM, after which DBM submits the budget to the Legislature. The final appropriation for FY2008 is \$57.8 million. FY2007 budget spending has been closed out.

Ms. Smith stated the June and July unaudited GAAP financial statements were previously sent to the Commission. The audited financial statements will be sent to the Commission prior to the October Commission meeting.

Ms. Smith stated Sales continues to recruit new agents as well as increase Racetrax terminal locations. She stated there will be a Jeff Sinacori presentation on October 17, 2007 at the Best Western Hotel in Hagerstown and extended an invitation to the Commission.

Chairman Fine stated the FY2007 appropriation was \$58.4 million, but only \$51.8 million was spent and asked why the large difference. Ms. Smith responded the Lottery had to submit the FY2008 budget in FY2006. Additional funds were included for telecommunications because at that time the Lottery did not know where it would stand at conversion time with continuing with telco lines. However, the Lottery did not need the funds because it went to satellite communications. Also, there was a surplus in the scratch-off contract because the Lottery had to estimate the contract amount. The vendor is paid based on the percentage of revenue.

Chairman Fine asked if annual goals have been set for recruitment of sales agents and how would this be monitored. Ms. Smith responded the goal is to recruit 200 new agents, not including change of ownerships. She is working on setting territory goals for the Sales reps. She is setting up a monitoring system where reports would be received once a week with the number of contacts and the number of locations that are moving forward with the application process. She will provide a status report in her monthly report to the Commission.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated the new graphics for the MD Hold'em monitor game have been tested and implemented. He is working with Scientific Games (SGI) on testing the timing lapse between games.

Mr. Gallagher stated meetings are being held between Sales, IT, SGI and Cole Systems on the implementation of the OrderPad. The project is scheduled to be completed by the end of December 2007.

Mr. Gallagher stated IT and SGI continue to work on the software requirements for Phase II for the Player Activated Terminals (PATs). PATs will be tested in October 2007 with roll out in November 2007 of 15 to 30 PATs.

Mr. Gallagher stated work continues to develop software to post winning information on the website for the Racetrax and MD Hold'em games.

Mr. Gallagher stated work continues with Communications, Sales, and Product Development Divisions to set up software for the Set for Life page on the Lottery's website and implement inbound tracking to allow monitoring of how users get to the Set for Life website.

Communications – Carole Everett, Director

Ms. Carole Everett stated Communications has been busy during this peak time of the summer season. They have been present at 14 events including the State Fair, Merriweather concerts, Maryland Wine Festival in Carroll County and Ravens games. She stated the Set for Life scratch-off game and Player Activated Terminal demonstration went well at the State Fair.

Ms. Everett stated upcoming events include Crusin' in Ocean City from October 5-8, 2007, the Pam Shriver Tennis Challenge in Baltimore on October 9, 2007, Maryland Million in Laurel on October 13, 2007, the Susan G. Komen Race for the Cure in Hunt Valley on October 14, 2007 and Ravens football on October 14, 2007. Communications will also be doing eight to ten Keno parties in the Western Maryland area.

Ms. Everett stated the \$25 Million Frenzy Grand Prize event was held at the State Fair. Jose Mejia from Silver Spring won the \$2 million grand prize. He competed with four other contestants who also won cash prizes.

Ms. Everett stated 43 articles appeared in various publications and the publicity value was \$348,127.80.

Ms. Everett stated the Maryland Million is Saturday, October 13, 2007 at Laurel racetrack. Players who present non-winning Maryland Million scratch-off tickets receive free admission plus entry to win second chance prizes. If the Commission is interested in attending, please contact Ms. Everett.

Ms. Everett stated 14 radio Promotional Partners were provided with \$5,995 worth of scratch-offs and the Lottery received a promotional value of \$570,020 in on air mentions.

Ms. Everett stated during the past month VIP Club members were contacted nine times with Lottery information, and ticket giveaways for concerts, baseball games, and the State Fair. There are currently 35,452 VIP Club members.

Ms. Everett stated the lottery drawings on WBAL-TV Channel 11 are going well. She has received positive feedback from lottery players.

Ms. Everett stated numerous winners have been coming into the Lottery's Claims Center this past month, including Mega Millions, Multi-Match, Bonus Match 5 and scratch-off winners.

Mr. Roogow stated he has asked Ms. Everett to prepare a press release to be issued in October 2007 regarding first quarter Lottery sales.

Commissioner Reeder asked if the Promotional Partners newsletter is sent to members of the Legislature. Ms. Everett responded the Legislature is sent a copy of the Winning Ways newsletter. Chairman Fine asked that the Commissioners be placed on the mailing list to receive all the Lottery newsletters.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated she has been spending time going through the work process with both advertising agencies. Everything is going well.

Product Development and Advertising – Tracey Cohen, Director

Ms. Tracey Cohen stated a copy of her report was previously provided to the Commissioners.

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

Game #661 *World Championship Poker* 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 \$2,294,199. If 100% of the tickets are sold, the profit would be \$2,725,970.

Game #671 *Year of the Rat* is a \$2.00 ticket with a prize payout of 64.00% and a print run of 1.9 million tickets. If 85% of the tickets are sold, the profit would be \$724,985. If 100% of the tickets are sold, the profit would be \$879,837.

Ms. Cohen stated this ticket is tied into Summer Olympics in China and the Chinese New Year. Chairman Fine asked what kind of advertising will be done to support this scratch-off game. Ms. Cohen responded no advertising will be done.

Game #677 *3 Times Lucky* is a \$3.00 ticket with a prize payout of 67.02% and a print run of 2.1 million tickets. If 85% of the tickets are sold, the profit would be \$1,162,841. If 100% of the tickets are sold, the profit would be \$1,394,962.

Game #678 *Silver & Gold* is a \$1.00 ticket with a prize payout of 58.20% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$705,317. If 100% of the tickets are sold, the profit would be \$856,698.

Game #681 *High – Low* is a \$1.00 ticket with a prize payout of 58.42% and a print run of 2.8 million tickets. If 85% of the tickets are sold, the profit would be \$629,016. If 100% of the tickets are sold, the profit would be \$766,932.

Game #683 *Hugs & Kisses* is a \$2.00 ticket with a prize payout of 62.45% and a print run of 1.9 million tickets. If 85% of the tickets are sold, the profit would be \$752,705. If 100% of the tickets are sold, the profit would be \$912,449.

Game #684 *Spicy Hot 7's* is a \$5.00 ticket with a prize payout of 72.01% and a print run of 3.1 million tickets. If 85% of the tickets are sold, the profit would be \$2,286,485. If 100% of the tickets are sold, the profit would be \$2,716,896.

Chairman Fine asked if there were any further questions. Hearing none he made a motion to approve Game #661 *World Championship Poker*, Game #671 *Year of the Rat*, Game #677 *3 Times Lucky*, Game #678 *Silver & Gold*, Game #681 *High – Low*, Game #683 *Hugs & Kisses*, and Game #684 *Spicy Hot 7's* as presented. Commissioner Wagner seconded the motion to approve these seven instant games. Game #661 *World Championship Poker*, Game #671 *Year of the Rat*, Game #677 *3 Times Lucky*, Game #678 *Silver & Gold*, Game #681 *High – Low*, Game #683 *Hugs & Kisses*, and Game #684 *Spicy Hot 7's* were approved by unanimous vote of the Commission.

Ms. Cohen stated she has the final analysis of four instant games that were closed. Chairman Fine requested the Commission dispense with reading each game analysis since the Commission was provided with copies of the information. For the record, the four closed games were Game #526 *Hot \$777*, Game #560 *Love That Loot*, Game #566 *Blackout Bingo*, and Game #567 *Maryland Cash*.

Procurement – Robert Howells, Director

Mr. Robert Howells stated the Commission requested the MBE Participation Summary for FY2007. The report shows the percentage participation achieved by prime contractors on each of the Lottery's large contracts and the overall percentage for the Lottery. The prime contractors met or exceeded their goals with the exception of Pollard Banknote. They achieved 6.8% of their 15% goal. This matter is being discussed with Pollard Banknote. Mr. Howell reviewed the report with the Commission. There was continued discussion by the Commission regarding Pollard Banknote's failing to meet the 15% MBE goal.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated since the last meeting the Audit Report for Sales has been completed and a copy was included with his report. Chairman Fine asked how do you follow-up with management that the recommendations are implemented. Mr. Eaton responded he has developed an audit follow-up schedule where to check in a few months to see if the changes were made.

Chairman Fine stated on page 12 it references an ITVM and asked what does that stand for. Mr. Eaton responded an ITVM is an instant ticket vending machine. Chairman Fine asked what does ADA compliant mean. Mr. Eaton responded agents must have certain things in place to be accessible for handicapped individuals. The agent is evaluated to insure the changes are in place for accessibility. Ms. Johnson gave the Commission a briefing on an ADA lawsuit. The Lottery is now in compliance. Commissioner Thomas stated the Prince George's County area should be revisited regarding ADA compliance. Ms. Smith stated existing agents are not included. However, if a change of ownership occurs, the agent has a set period of time to become ADA compliant. New locations also have to be ADA compliant to obtain a lottery license.

Mr. Eaton stated the IT Contract Management Review has been completed. A report is being drafted and it should be available next month. Coming up next quarter is the Communications Process Review and the Creative Services Process Review.

Mr. Eaton stated he will be in Jacksonville, Florida the week of October 29, 2007 attending the NASPL Audit Subcommittee meeting.

COMMISSION BUSINESS

Chairman Fine stated at the last Commission meeting Commissioner Marriner stepped down as Chairman. Chairman Fine stated in the past there has been a Commission Vice Chairman and he wanted to continue that tradition. He would also like to have that formally promulgated into the rules and regulations.

Chairman Fine nominated Commissioner Marriner to serve as Vice Chairman for the remainder of the 2007 calendar year. After further discussion, Commissioner Marriner accepted the nomination. Hearing no further questions, Commissioner Wagner seconded the nomination. The Commission voted unanimously to elect Commissioner Marriner as Vice Chairman for the remainder of the 2007 calendar year.

Chairman Fine stated he wanted to create two Commission subcommittees. One Subcommittee would be the Audit Subcommittee which will consist of Chairman Fine and Vice Chairman Marriner. The other Subcommittee would be the Legislative Subcommittee which will consist of Chairman Fine and Commissioner Thomas.

Chairman Fine stated the August Commission Minutes were sent to the Commission members for review. The Commission has a copy in their folder with the redline comments. Chairman Fine made a motion that the Commission approve the Minutes as modified. Commission Wagner seconded the motion. The August Commission Minutes as modified were approved by unanimous vote of the Commission.

Chairman Fine understands that in past when a Commission member left the Commission that a plaque or some type of certificate was sent to the former member thanking them for their service. Mr. Roogow stated that can be done. Plaques could be obtained for Mr. Bonaventure and Mr. Payne.

Chairman Fine stated Commissioners Thomas and Reeder had the opportunity to visit the Pollard Banknote plant in Michigan and asked them for a brief summary of their visit. Commissioner Thomas stated the trip give them the opportunity to view the Pollard plant in operation. They met Doug Pollard and other staff members. They were given an explanation of plant operations and functions. Commissioner Reeder stated he was impressed with Pollard's capability to make quick changes from the printing of one ticket to the printing of another ticket. Commissioner Thomas stated he was impressed with the backup system in place. They had the opportunity to meet Tom Weber, the Acting Commissioner of the Michigan Lottery.

Chairman Fine requested the Commission be given an update on the slots issue. Mr. Dorsey distributed to the Commission information on the surrounding states with slots—Delaware, West Virginia, Pennsylvania and New York. He also distributed information regarding Commission/Agency responsibilities, etc. for a slots program. The Commission was briefed by Mr. Dorsey on the status of slots. Chairman Fine requested Mr. Dorsey to give the Commission an update each month.

Chairman Fine conducted a discussion with the Commission regarding internal auditing.

Mr. Dorsey stated last month the Commission deferred the bill proposal entitled State Lottery – Procurement – Small Business Reserve pending obtaining further information. Mr. Dorsey briefed the Commission further on this bill proposal. After further discussion by the Commission, it was the consensus of the Commission to move forward with this bill proposal.

Mr. James Butler, Assistant Attorney General presented to the Commission a Bill proposing to modify Criminal Law Article, Subsection 12-213 Theft of Lottery Ticket, Equipment or Product that will be submitted by the Attorney General's Office to the Governor. Previously there was no criminal statute to be able to prosecute. This statute will enable the Lottery the ability go after Agent plus program agents that commit fraud. After discussion, Commission gave their approval.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, October 24, 2007 at 8:30 a.m. If the revocation hearing is cancelled, the Commission will be notified and the time of the meeting will be changed to 9:00 a.m. Commissioner Wagner stated he will not be present at the October 24, 2007 Commission Meeting.

ADJOURNMENT

There being no further business to discuss, Commissioner Thomas motioned to adjourn the meeting and it was seconded by Commissioner Wagner. The Commission voted in favor to adjourn. The meeting adjourned at 12:10 p.m.

Respectfully submitted,

Buddy Roogow