

**MARYLAND STATE LOTTERY COMMISSION
OCTOBER MINUTES**

DATE: October 24, 2007
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Stanley Fine
Vice Chairman E. Randolph Marriner
Commissioner Bruce Reeder
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
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 9:00 a.m.

APPROVAL OF MINUTES

Chairman Fine stated the September Commission Minutes were sent to the Commission members for review. A copy with the redline comments are contained in the Commission's folders. Vice Chairman Marriner made a motion that the Commission approve the Minutes as modified. Commissioner Reeder seconded the motion. The modified September Commission Minutes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Jeff Hale stated testing continues on Phase II of the Player Activated Terminals (PATs). A soft roll out of the PATs will occur in early November 2007. Chairman Fine asked that the Commissioners be given an opportunity to see a demonstration of the PAT.

TRAHAN, BURDEN & CHARLES – Jody Zafrir
GRAY, KIRK/VANSANT – David Blum

Ms. Jody Zafrir of TBC stated advertising of the Pick 3 Bonus Match-Up promotion began on radio, billboards, bus sides and other forms of point-of-sale.

Mr. David Blum of GKV played for the Commission the Pick 3 Bonus Match-Up promotion radio advertising commercials.

Ms. Zafrir stated holiday scratch-off advertising is moving forward. Advertising will run on over 300 movie theater screens throughout Maryland. Advertising will begin Thanksgiving and run through New Year's Day.

Mr. Blum presented various pieces of point-of-sale for the holiday scratch-off games. He stated next month he would share other holiday advertising that is currently in production.

Chairman Fine asked how many tickets is the Lottery marketing this holiday season. Ms. Cohen responded holiday scratch-offs with prize points of \$1, \$2, \$5, and \$20 would be available.

Chairman Fine asked for an explanation of the Pick 3 Bonus Match-Up coupon, which was then provided by Ms. Cohen.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated total lottery sales are \$63 million ahead of last year. The Pick 3 Bonus Match-Up promotion is somewhat stemming the decline of Pick 3 sales. Pick 4 sales continue to see some gain and are \$1.7 million ahead of last year. Last month Keno sales were behind over \$4 million compared to the prior year. This month Keno sales are behind over \$2 million compared to last year. Keno sales have been gaining since the Sprinkler promotion began. Instant tickets sales are ahead by \$28 million over last year. Instant sales continue to grow every week.

Commissioner Reeder stated this is a tremendous increase in instant ticket sales and asked if the Lottery was doing anything different this year versus previous years. Ms. Cohen responded the Lottery lays out an instant ticket plan in the beginning of each year and also holds a quarterly review meeting with Pollard Banknote. Mr. Roogow believes people are responding to the improved graphic appearance of the scratch-off tickets. Mr. Roogow also stated the Lottery's website does a great job of advertising instant tickets. There have been at least 1 million hits a day to the website.

Mr. Roogow stated out of the 12 Mega Millions states, Maryland is the smallest in population and Maryland's per capita sales run third out of the 12 states. Maryland recently had two jackpot winners and received lots of publicity. Bunky Bartlett, recent Mega Millions jackpot winner, was interviewed on 98 Rock radio this morning.

Mr. Roogow stated Lottery revenues are up \$16 million. To reach the BRE estimate of \$504 million in revenue, the Lottery has to average \$30,810,269 in sales per week.

Mr. Roogow stated the MD Hold'em monitor game is now located at 33 agent locations. The plan is to keep expanding installation throughout agent locations in Maryland. There have been 100 agent locations identified, but installation will not begin until the time lapse between games is reduced from seven to six minutes and some type of promotion is in place.

Mr. Roogow stated a number of Lottery staff members attended the NASPL/WLA World Meet in Louisville, Kentucky recently. Various topics were discussed. Mr. Roogow stated he visited many vendors' booths at the Trade Show to look at their products. The Lottery's "Poodle" ad won a Batchy Award.

Mr. Roogow stated on November 5 and 6, 2007, he will be attending the La Fleur's 11th Annual Lottery Conclave in Miami, Florida. He will be giving a presentation on the MD Hold'em Poker Pilot Program.

REPORTS

Legal Division – Andrea Johnson, Principal Counsel

Ms. Andrea Johnson stated many times agents do not advise the Lottery when changes of ownership occur and the new owners continue to operate the lottery terminal. Ms. Johnson stated proposed language has been written to hold the agent financially responsible for all lottery transactions that occur after transfer of the business. A copy of the proposed language was provided to the Commission.

Ms. Johnson stated the next proposed regulation concerns the Commission Vice Chairmanship. The Lottery has always had a Vice Chairman to carry out the duties in the absence of the Chairman. Ms. Johnson stated a sentence was added to the existing regulation that would address this issue. It reads, “The Commission may annually elect a Vice Chairman from among its members.” A copy of the proposed language was provided to the Commission.

Ms. Johnson stated proposed regulations concerning the Assignment of Lottery Prizes have been prepared. She stated the draft regulation references the process used by the Lottery to process prize assignments. A copy of the proposed language was provided to the Commission.

Chairman Fine stated the Commission will review the proposed regulations and they will be formally adopted at next month’s meeting.

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

Ms. Gina Smith stated she met with the Department of Budget and Management (DBM) last week to discuss the Lottery’s FY2009 budget. DBM is recommending a reallocation of \$557,350, moving \$325,000 in advertising as well as \$232,350 from other miscellaneous budget categories into the on-line vending fees. She will be meeting with the Legislative Budget Analyst tomorrow.

Ms. Smith stated her report contains information on the Sales Division’s goals for FY2008. The goal for FY2008 is to increase the number of new agent locations by 200, not including changes of ownership. At the end of September 2007, 90 applications with positive recommendations have been turned over to Agent Administration for processing.

Ms. Smith stated Sales reps are also working to upgrade agents to carry as many on-line or instant games as possible. As of September 30, 2007, 57 agents have been upgraded.

Chairman Fine asked that Ms. Smith expand the information in the subscriptions processed section of her report to include the total number of Mega Millions and Multi-Match subscriptions processed since July 2007 as well as those processed for the reporting month.

Chairman Fine asked Ms. Smith to include the number of agent locations as of July 1, 2007 as well as the number of new agents for the current reporting month.

Ms. Smith gave the Commission an explanation of the Mega Millions Jackpot Prize Settlement Report for the recent \$27 million jackpot that was won in Maryland. A copy of the settlement sheet was attached to her report.

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

Mr. John Gallagher stated work continues on testing the timing changes for the MD Hold'em monitor game. The change would shorten the time between games from seven minutes to six minutes.

Mr. Gallagher stated testing continues on the software requirements for Phase II for the Player Activated Terminals (PATs). At next month's meeting, the Commissioners would like to see a demonstration of the PATs terminal.

Chairman Fine asked Ms. Smith to comment on the GAAP financial statements. Ms. Smith stated the Lottery converts regular financial statements to GAAP before submitting them to the State of Maryland to be incorporated into the year-end financial statement. No irregularities or negative comments were contained in the GAAP statement.

Communications – **Carole Everett, Director**

Ms. Carole Everett stated on October 13, 2007, Lottery was on-site at the Maryland Million event at Laurel racetrack. Players with non-winning Maryland Million scratch-off tickets gained free admission to the racetrack plus received entry into a second chance contest.

Ms. Everett stated Maryland had another Mega Millions jackpot winner of \$27 million that was claimed on October 18, 2007. The Multi-Match jackpot of \$850,000 for the drawing of October 6, 2007 remains unclaimed and the Multi-Match winning ticket for the drawing of July 4, 2007 remains unclaimed.

Ms. Everett stated 74 articles appeared in various publications and the publicity value was \$633,915.51.

Chairman Fine asked Ms. Everett to include in the VIP Club report the total number of users in the database as of July 2007 as compared to current members. Ms. Everett was also requested to prepare a 12-month cumulative report for Promotional Partners at the end of the fiscal year.

Creative Services – Jill Baer, Director

Ms. Baer stated she is working with the advertising agencies on holiday television and radio advertising. She will have advertising to show to the Commission at next month's meeting.

Chairman Fine asked when does the Lottery begin advertising the Mega Millions jackpot. Ms. Baer responded when the jackpot reaches \$70 million, advertising begins on radio. When the jackpot reaches \$100 million, advertising begins on television. She stated market conditions are also considered.

Chairman Fine asked if Maryland ever sold the same scratch-off tickets as other states. Ms. Cohen responded Maryland did a joint scratch-off ticket with Virginia. Mr. Roogow stated the joint scratch-off ticket was the Price is Right and the ticket did quite well in Maryland.

Product Development and Advertising – Tracey Cohen, Director

Ms. Cohen presented two new instant tickets to the Commission for approval. They were Game #685 *Jewels of the Nile* and Game #686 *Extreme Green*. (See attached Exhibit #1.)

Vice Chairman Marriner asked if the copyright for *Jewels of the Nile* was researched. Ms. Johnson responded the instant ticket vendor is required to check for copyright issues for all the instant games.

Chairman Fine asked if there were any further questions. Hearing none he requested a motion to approve Game #685 *Jewels of the Nile* and Game #686 *Extreme Green* as presented. Vice Chairman Marriner made a motion to approve the instant games. Game #685 *Jewels of the Nile* and Game #686 *Extreme Green* were approved by unanimous vote of the Commission.

Ms. Cohen presented the final analysis of six instant games that were closed. (See attached Exhibit #2.) For the record, the six closed games were Game #559 *Haunted House Doubler*, Game 583 *Fortune Teller*, Game #586 *Money Storm*, Game #587 *Double Blackjack*, Game #588 *Deluxe 7-11-21*, and Game 593 *Double Doubler*.

Chairman Fine requested that scratch-off ticket launch dates be included on the closed scratch-off ticket report as well as on the new scratch-off ticket report.

Procurement – Robert Howells, Director

Mr. Robert Howells stated the bids for the Lottery VIP Club and Related Internet Based Services were received. He had e-mailed a copy of the contract to the Commission for their review. At this time, he would like to request the Commission's approval of the contract.

Chairman Fine requested a motion to approve the Lottery VIP Club and Related Internet Based Services Contract (#2008-14) with The Lottery Corporation. Vice Chairman Marriner made a motion to approve this Contract and it was seconded by Commissioner Thomas. Contract #2008-14 was approved by unanimous vote of the Commission.

Commissioner Thomas stated he would like the opportunity to meet the Lottery's MBE Coordinator and review the MBE data that is collected. Mr. Howells responded Ms. Roslyn Fuller is the Lottery's MBE Coordinator. He stated Ms. Fuller prepares a summary report of the collected data and it is forwarded to him. He would introduce Commissioner Thomas to Ms. Fuller after the meeting.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated Information Technology Contract Management Audit Review was completed and a copy of the report was included in his report. Chairman Fine asked if this had not been done now, when would have it been done. Ms. Smith responded the Lottery is continuously monitoring the on-line contract. She stated this is a more finalized method of what the Lottery is doing. Mr. Eaton stated this audit insures all procedures and documents are in place. Chairman Fine stated if management agrees with the recommendations, when do you follow up that a procedure is developed. Mr. Eaton responded he follows-up with management two to three months after the action plan date.

Mr. Eaton stated he began the Communications Process Audit Review in October 2007.

COMMISSION BUSINESS

Chairman Fine stated he and Vice Chairman Marriner, the Commission Audit Committee as well as and Ms. Smith met with Mr. Paul Shifrin, Managing Partner of Stout, Causey and Horning to discuss independent audits. Chairman Fine stated the Commission should do everything it can to insure that all controls are in place. There was continued discussion regarding independent audits. Ms. Smith provided the Commission with an excerpt from the GAO Government Auditing Standards.

Mr. Roogow stated a Special Legislative Session will begin in November, 2007. There is a hearing scheduled for November 2, 2007 at 11:00 a.m. in the joint hearing room with the Senate Budget and Taxation Committee and House Ways and Means Committee. Mr. Dorsey gave the Commission an update on the slots legislation. He will forward to the Commission a copy of the slots bill when it is available. Chairman Fine stated he and

Commissioner Thomas are the Commission Legislative Committee members and to contact them if their assistance is needed.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, November 28, 2007 at 9:00 a.m.

ADJOURNMENT

There being no further business to discuss, Commissioner Thomas motioned to adjourn the meeting and it was seconded by Vice Chairman Marriner. The Commission voted in favor to adjourn. The meeting adjourned at 10:35 a.m.

Respectfully submitted,

Buddy Roogow