

**MARYLAND STATE LOTTERY COMMISSION  
JANUARY MINUTES**

DATE: January 23, 2008  
TIME: 9:00 a.m.  
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Stanley S. Fine  
Vice Chairman Matthew Thomas  
Commissioner E. Randolph Marriner  
Commissioner George Wagner

Buddy Roogow, Director  
Gina Smith, Assistant Director/CFO  
James Butler, Acting Principal Counsel  
John Gallagher, Chief Information Officer, Information Technology  
Tracey Cohen, Director, Product Development, Creative Services and  
Communications  
Carole Everett, Director, Communications  
Jill Baer, Director, Creative Services  
Paul Dorsey, Director, Policy and Development  
Robert Howells, Director of Procurement  
Michael Eaton, Internal Auditor  
Marie Torosino, Executive Associate

OTHERS  
PRESENT: Jerry Woods, Scientific Games Online Entertainment Systems  
Jody Zafrir, Trahan, Burden and Charles  
David Blum, Gray, Kirk/VanSant  
Lori Denton, Pollard Banknote

## **CALL TO ORDER**

There being a quorum present, Chairman Fine called the meeting of the Maryland Lottery Commission to order at 9:46 a.m.

## **APPROVAL OF MINUTES**

Chairman Fine stated the December Minutes were sent to the Commission members for review and a copy is contained in their folders with a redline change. Chairman Fine said he would entertain a motion to approve the Minutes. Commissioner Marriner made a motion that the Minutes as modified be approved and it was seconded by Commissioner Wagner. The December Commission Minutes as modified were approved by unanimous vote of the Commission.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS**

Mr. Jerry Woods stated SGI delivered a project plan and timeline to the Lottery regarding the roll-out of the Player Activated Terminals (PATs). He stated the roll-out of PATs will occur sometime in May 2008. Approximately 30 days prior to roll-out, SGI will turn the software over to the Lottery for User Acceptance Testing. The plan has the capacity built-in for the roll-out of 30 PATs per week.

Commissioner Wagner asked what are the criteria for installation of PATs at agent locations. Ms. Smith responded she is working with SGI to develop the best criteria. SGI has experience in placing PATs at locations in other states. The PAT set-up at the State Fair showed that Keno and Racetrax did very well with the players. The Lottery may target locations that have high Racetrax and Keno sales and other locations that the Lottery has not been able to gain access to. Instead of placing a second terminal in some locations, the Lottery may consider installing a PAT. Chairman Fine stated the Commission is interested in reviewing the criteria and the agent selection process when it is completed and asked that they be updated with the progress.

Commissioner Wagner asked what is the Keno sales volume per agent. Mr. Roogow responded there are approximately 2,100 Keno locations. Keno sales average approximately \$4,000 per week per agent.

## **TRAHAN, BURDEN & CHARLES**

Ms. Jody Zafirir stated on January 28, 2008, three new scratch-off tickets would launch. She stated the Pick 3 "Let It Snow" promotion runs from January 20, 2008 through February 24, 2008, with advertising on television, radio and outdoor posters. Lottery advertising would air on television during the Super Bowl and Pro Bowl. TBC is working with WBAL-TV and WIYY radio on a sponsorship contest for the Deal or No Deal scratch-off ticket.

Chairman Fine asked what time during the Super Bowl would Lottery advertising air. Ms. Zafrir responded advertising would air around the third quarter. Chairman Fine asked what is the cost for advertising during the Super Bowl. Ms. Zafrir responded this advertising was purchased as part of a larger advertising package that cost approximately \$35,000.

### **GRAY KIRK/VANSANT**

Mr. David Blum presented four television spots to the Commissioners. The first commercial is the Pick 3 “Let It Snow” promotion. This is the same commercial that was used last year for this promotion. The next two new spots are for the Thrill Seekers campaign. The last spot is the Big Bucks Party Pack Winner Awareness advertising highlighting the top tier winner.

### **POLLARD BANKNOTE**

Ms. Lori Denton stated scratch-off sales are doing well. She will be submitting the FY2009 Instant Ticket Plan to the Lottery next week. She stated work continues on the next \$20 scratch-off ticket.

### **DIRECTOR’S REPORT**

Mr. Buddy Roogow stated sales are \$76 million ahead as compared to last year. Lottery revenues are approximately \$27 million ahead as compared to last year.

Mr. Roogow stated Pick 3 and Pick 4 show a decline in sales. However, Pick 3 and Pick 4 revenues are ahead of last year. Payouts this fiscal year for Pick 3 and Pick 4 have been unusually low. Part of the problem with lower Pick 3 and Pick 4 sales is the lower payouts that in turn reduce play. Keno sales are down slightly, but made up for by Racetrax sales. Instant sales are doing very well. Bonus Match 5 sales are similar to the previous year. Mega Millions sales are ahead as compared to last year. The current Mega Millions jackpot is \$61 million. Multi-Match sales have improved slightly and the jackpot is currently \$2.35 million.

Mr. Roogow stated Racetrax sales are approximately \$1.3 million per week. Currently, expansion of the MD Hold’em game to additional retailers is on hold. New MD Hold’em software is being developed to allow the Lottery to offer a higher jackpot. There is no implementation date as yet.

Mr. Roogow stated current revenues average \$10 million per week. The Lottery has completed its commitment to the Maryland Stadium Authority in the amount of \$21.5 million.

Mr. Roogow stated he would be attending a Legislative briefing with the House Ways and Means Committee. He will be showing the Committee the latest advertising spots as well as presenting a briefing on sales and plans for the future.

Mr. Roogow stated the Lottery's budget hearing with the Senate is scheduled for Friday, January 25, 2008. The budget hearing with the House is scheduled for Wednesday, January 30, 2008. Mr. Roogow and Ms. Smith will be attending these budget hearings.

Mr. Roogow stated the Fiscal Analyst from the Department of Legislative Services has made two recommendations to the Lottery's FY2009 budget. The first recommendation is to cut \$589,000 from the advertising budget which the Lottery will oppose. The second recommendation is to put language in the budget that requires the Lottery to inform the Budget Committees in advance if the Lottery is going to expand its current monitor games or add additional monitor games. The Lottery will oppose that also.

Chairman Fine requested that the Sales and Revenue sheet also show the sales and revenues for the past four weeks for the current year as well as the same time the previous year.

Mr. Roogow stated the Lottery's Legal team has been working on various matters. He is hoping by next month to be able to review with the Commission the proposed settlement on the multiplier issue. Commissioner Marriner asked who else is involved. Mr. Butler responded his office is working with the Attorney General's Contract Litigation Division.

Commissioner Marriner asked does the Lottery want to be available in all hospital locations. Mr. Roogow responded he would like to expand the availability of lottery products to hospitals and convention centers. He stated the Lottery recently negotiated a deal with the Convention Center in Ocean City. The Commission stated they would be happy to be involved using their contacts at any of these locations. Chairman Fine asked for a list of the hospitals the Lottery is interested in and the status with regards to the contacts already made.

## **REPORTS**

### ***Legal Division – James Butler, Acting Principal Counsel***

Mr. James Butler stated the Lottery had investigated two agents for fraudulent activity. Super Mart was terminated as an agent and the owner was prosecuted by the State Attorney's Office in Prince George's County for the fraudulent activity. The agent has made restitution. The other agent, Dennis Express, was removed from the Agent Plus program but remains an active agent. The Lottery is working with Super Mart's legal counsel in the investigation of Dennis Express for alleged involvement in the fraudulent activity. If involvement by Dennis Express can be proven, the Lottery will be able to recoup the cashing commissions wrongfully paid on these transactions to Dennis Express. The victims in this fraud case will be sent corrected W-2Gs.

Mr. Butler stated at the Lottery's request, the Standstill and Tolling Agreement regarding the multiplier issue has been extended for two ~~weeks~~months to continue negotiations with Scientific Games.

Mr. Butler stated there is a matter pending before the Maryland Human Relations Commission and Ms. Williams is working on resolving that matter. He will keep the Commission updated.

Mr. Butler stated the Eisner matter is continuing to proceed. In December 2007, the Lottery was served with two Writs of Garnishment of property by Eisner's former landlord. Mr. Butler informed the Judgment Creditor's Counsel that garnishments cannot be served on the State and the money is with the Court. Counsel for the Judgment Creditor withdrew the two Writs and this particular matter is closed.

Mr. Butler stated there are four lottery prize assignment matters pending.

Commissioner Wagner requested an update on Ms. Johnson. Mr. Butler responded Ms. Johnson is doing well.

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

Ms. Gina Smith stated the Mega Millions Agreed Upon Procedures Audit was previously mailed to the Commission. No deficiencies were found. The Lottery also receives copies of the other Mega Millions states' reports.

Ms. Smith stated the Comprehensive Annual Financial Report (CAFR) was received and is contained in the Commissioners' folders. The year-end GAP financial statement is contained in the report in addition to other items. This report is submitted to the Government Finance Officer's Association (GFOA) to obtain certification and in prior years the Lottery has received this certification. The report is posted on the Lottery's website and sent to the Bureau of Revenue Estimates, the Department of Legislative Services and the Governor's Office.

Ms. Smith stated the unaudited December financial statement was included in the Commissioners' folders.

Ms. Smith stated she is working on the FY2009 budget and responding to the Legislative Analyst's recommendations.

Chairman Fine asked if retail recruitment goals have been set for this fiscal year. Ms. Smith responded the overall goal is to add approximately 200 new lottery agents, not to include changes of ownership. However, each territory is not being designated a specific number to recruit because the Lottery is looking at concentrating recruitment in underserved areas. She stated the Lottery is also considering assigning a Director of Recruitment to manage the

recruitment process. Ms. Smith stated Sales reps goals for upgrade of agent locations have been set.

Vice Chairman Thomas thanked Ms. Smith for handling the matter at the 7-11 in Prince George's County regarding the scratch-off ticket dispenser and a security issue the store was experiencing. He asked if other agents were experiencing this same type of security issue. Ms. Smith responded not that she knows of at this time.

Commissioner Wagner asked if the Sales reps have a laptop presentation to show to potential new retailers with information about the Lottery. Ms. Smith responded currently the reps do not have a laptop; however, there is a printed recruitment package available with information about the Lottery in general which also gives a summary of the commissions that agents can earn. By the end of the fiscal year, the Sale reps will receive the Cole System OrderPad and this recruitment information will be available on it.

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

Mr. John Gallagher stated the Player Activated Terminal (PAT) specifications have been reviewed and are being finalized. Testing will begin in April 2008.

Mr. Gallagher stated new in-house mainframe hardware and software are in the process of being installed. It was less expensive to purchase new hardware and software then to add upgrades to the current system. There will be no impact to Lottery processing schedules.

Commissioner Marriner asked if there is a timeline for the implementation of the Cole System. Mr. Gallagher responded testing begins in February 2008 for the pilot program. Chairman Fine asked that the Commission be given a demonstration of the Cole System.

#### *Communications – Carole Everett, Director*

Ms. Carole Everett stated Communications has been promoting the Keno 15<sup>th</sup> Anniversary promotion by holding special Lottery parties at original Keno locations throughout the State. The Lottery received media coverage from both television and newspapers. Commissioner Wagner asked how the Keno 15th Anniversary promotion was doing. Mr. Roogow responded sales are up and the promotion runs until January 31, 2008.

Ms. Everett stated the Polar Bear Plunge will take place on January 26, 2008 at Sandy Point State Park. Mr. Roogow will be participating in the plunge as well as Mega Millions winner Bunky Bartlett. The Lottery will have a booth set up on site promoting the Deal or No Deal scratch-off game and the Mega Millions game.

Ms. Everett stated four second tier \$250,000 Mega Millions winners came in to claim their prizes. They were from Catonsville MD, Fallston MD, Temple Hills MD and Delaware.

Ms. Everett stated the first \$100,000 winner of the Big Bucks Party Pack scratch-off was claimed and the winner was from Fells Point.

Ms. Everett stated the Hugs and Kisses scratch-off pet photo contest runs January 14, 2008 through February 17, 2008. The Lottery has received 186 entries and the first semi-finalists are on the Lottery's website. People must be a VIP Club member to submit entries. There were 172 new VIP Club members enrolled in December 2007.

Ms. Everett stated the Lottery drawings at WBAL-TV Channel 11 have been going well.

Ms. Everett stated grand prizes for the Pick 3 Bonus Match-Up still remain unclaimed. There also remains an unclaimed top tier Multi-Match ticket from October 6, 2007 as well as an unclaimed second tier Mega Millions ticket from August 28, 2007.

Chairman Fine said there was a news article contained in Ms. Everett's report that referenced a Notice of Final Action for Agency Regulations and asked what regulations were approved and submitted. Mr. Howells responded that was part of the eight year review of the rules and regulations that the Lottery was required to perform. Four chapters were reviewed and this was done prior to the new members joining the Commission.

A question was asked about Trahan, Burden and Charles (TBC) new Public Relations group. Ms. Everett responded Jennifer Stein from TBC will be assigned to work full time at the Lottery. She will be involved with writing assignments and interviews. Ms. Everett meets frequently with the PR group.

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

Ms. Jill Baer stated work continues on the development of a Maryland Lottery channel on Comcast Video on Demand. The channel will contain such information as winners' comments, how to play the Racetrax game, etc. The target date to have the Lottery channel available is February 2008. She is working with Comcast on a promotion to direct viewers to go to the Lottery channel. The ability to have this service was negotiated as part of an added value package.

Ms. Baer stated with the Mega Millions jackpot growing, the Lottery will initiate the media advertising plan. The Virginia Lottery has contacted her regarding starting the joint Mega Millions advertising.

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

Chairman Fine asked about the sales of Big Bucks Party Pack scratch-off. Ms. Cohen responded the game has sold through over 10% of total printing since being launched four weeks ago. To date, one top prize has been claimed.

Ms. Cohen presented one new instant ticket to the Commission for approval. A sample of the ticket was also shown to the Commission. The new instant game was Game #699 *Instant Pick 4*. (See attached Exhibit #1.)

Chairman Fine asked that copies of the sample tickets be included with the New Game Financial Reports that are sent to the Commissioners prior to the monthly meetings.

Chairman Fine asked if there was any further discussion. Hearing none, he requested a motion to approve Game #699 *Instant Pick 4* as presented. Commissioner Wagner made a motion to approve the instant game and the motion was seconded by Vice Chairman Thomas. Game #699 *Instant Pick 4* was approved by unanimous vote of the Commission.

Ms. Cohen presented the final analysis of seven instant games that were closed. (See attached Exhibit #2.) For the record, the seven closed games were Game #590 *Maryland Million*, Game #552 *3 Bushels of Crabs*, Game #584 *Green Stuff*, Game #591 *Funky Monkey*, Game #592 *Quick Silver*, Game #603 *High Card*, and Game #621 *Cashing Through the Snow*.

Chairman Fine asked if there is a point in time when a scratch-off game is pulled from retail locations. Ms. Cohen responded when the top prizes are claimed or if the sales of the game are not doing as well as expected. The Lottery constantly monitors sales of the instant games.

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

Mr. Robert Howells stated he is requesting the Commission's approval of two contracts. The first contract is the three month extension of the Maintenance Services for Instant Ticket Vending Machines (ITVMs) Contract (#2005-08) with GTECH. This extension will coincide with the June 17, 2008 expiration date of the Lottery's other Contract with GTECH for ITVM Maintenance and Related Services Contract (#2003-01).

Mr. Howells stated the second contract is a modification to the On-Line Gaming System Contract (#2005-11) with Scientific Games. This modification is to expand Task V – Retailer Management to utilize the Cole System OrderPad system to provide additional quantities of equipment and services.

The two above items are tentatively scheduled on the Board of Public Works Agenda for February 13, 2008.

Chairman Fine asked if there was any further discussion. Hearing none, he entertained a motion to approve the Modification to Maintenance Services for Instant Ticket Vending Machines Contract (#2005-08) with GTECH Corporation and the Modification to the On-Line Gaming System Contract (#2005-11) with Scientific Games International, Inc. Commissioner Marriner made a motion to approve the two above named Contract

Modifications and the motion was seconded by Commissioner Wagner. The two Contract Modifications were approved by unanimous vote of the Commission.

Mr. Howells stated also included with his report is the Auditing and Accounting Services Contract Modification (#2003-03) with Stout, Causey and Horning in the amount of \$10,000 to assist the Lottery with the internal audit function. This Modification was discussed with the Commission at the November 28, 2007 meeting and was approved by the Department of Budget and Management on January 7, 2008. A copy of the Contract Modification was included with his report.

Chairman Fine asked what is the Preventive Maintenance and Repair Services to Lottery Drawing Machines and Equipment Contract (#2006-09) with Garron Lottery Products. Mr. Howells responded it is a two year renewal option to the current contract for the maintenance of the Lottery's drawing equipment. Mr. Howells stated this is a small procurement that requires no outside approval and this is for the Commission's information. Chairman Fine stated for the record that Garron Lottery Products is a client of his law firm and he would not participate in any approval involving Garron Lottery Products.

Commissioner Marriner asked Mr. Howells to review the Prime Contractors' MBE Participation goals. He noted that Gray, Kirk/VanSant has a 25% MBE goal and is currently at 4.9%. Mr. Howells responded the percentages listed in the report are based on reports received from the prime contractors. Mr. Howells said MBE regulations state that information must be received directly from the subcontractors before being included as part of the prime's MBE percentage goal. The Lottery lists the MBE payments only when the subcontractors submit a copy of their report to the Lottery as proof of payment by the prime contractor. Mr. Howells stated Ms. Fuller follows up monthly to obtain reports from the MBE subcontractors.

*Policy and Development – Paul Dorsey, Director*

Mr. Dorsey stated the Commission was sent an outline of the responsibilities for the Lottery Commission, other State Departments, Committees, Commissions, and local authorities as contained in Senate Bill 3, Slots Implementation.

Mr. Dorsey stated two other pieces of legislation are now being considered. One bill would require 25% of lottery revenues be used for public education. The second bill directs \$250,000 of lottery revenues to be distributed to problem gambling. The Lottery will not take any position on these two bill proposals.

Commissioner Wagner stated there was a recent newspaper article regarding slot machines in St. Mary's County and asked what laws governs this. Mr. Dorsey responded under law in St. Mary's County, charitable organizations are permitted to have the machines. Mr. Roogow stated he has been in contact with the Governor's Legislative Office regarding this matter.

Chairman Fine asked if there is any update on departmental legislation. Mr. Dorsey responded the two Attorney General bills have been introduced.

*Internal Audit – Michael Eaton, Internal Auditor*

Mr. Michael Eaton stated the Communications Division Process Review Audit has been completed and a copy was attached to his report. He stated the Internal Audit Follow-up Report has been updated and was attached to his report. He is working with management to ensure all observations are resolved.

Mr. Eaton stated the Lottery's Risk Assessment and Audit Plan has been completed and is being reviewed with management.

Chairman Fine stated he and Commissioner Marriner met with Mr. Eaton to discuss the Audit Work Plan.

**DATE AND TIME OF NEXT MEETING**

The next Commission Meeting is scheduled for Wednesday, February 27, 2008 at 9:00 a.m.

**ADJOURNMENT**

There being no further business to discuss, Commissioner Wagner motioned that the meeting be adjourned and it was seconded by Vice Chairman Thomas. The Commission voted in favor and the meeting was adjourned at 11:25 a.m.

Respectfully submitted,

Buddy Roogow