

**MARYLAND STATE LOTTERY COMMISSION
FEBRUARY MINUTES**

DATE: February 27, 2008
TIME: 9:00 a.m.
PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Stanley S. Fine
Vice Chairman Matthew Thomas
Commissioner E. Randolph Marriner
Commissioner Bruce Reeder

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
Jill Baer, Director, Creative Services
Carole Everett, Director, Communications
Paul Dorsey, Director, Policy and Development
Robert Howells, Director of Procurement
Michael Eaton, Internal Auditor
Marie Torosino, Executive Associate

OTHERS

PRESENT: Jeff Hale, Scientific Games Online Entertainment Systems
Jody Zafrir, Trahan, Burden and Charles
David Blum, Gray, Kirk/VanSant
Alice March, Maryland Lottery Agents Association

CALL TO ORDER

There being a quorum present, Chairman Fine called the meeting of the Maryland Lottery Commission to order at 9:08 a.m.

APPROVAL OF MINUTES

Chairman Fine stated the January Minutes were sent to the Commission members for review and a copy is contained in their folders with redline changes. 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 Vice Chairman Thomas. The January Commission Minutes as modified were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Jeff Hale stated Scientific Games (SGI) is working on a software maintenance release that will be installed in the next few weeks. There are no major changes in functionality. He stated SGI is on course for the installation of the Player Activated Terminals (PATs). A question was asked if the Commission has seen a demonstration of the PAT. Mr. Gallagher responded yes, but it was not a fully functional PAT and only had the quick pick function. The PAT that SGI is working on now is fully functional for play slips and all on-line and instant games. Chairman Fine asked that the Commission see a demonstration of a fully functional PAT. Mr. Gallagher responded by the April meeting a fully functional PAT should be available for a demonstration. Mr. Gallagher also stated the Lottery will begin the pilot program on May 12, 2008. Ms. Smith stated the Lottery will roll-out a few PATs in the Baltimore area for testing and the Lottery is in the process of identifying the locations for the test program. The Commission would like to be kept informed of the pilot locations and the selection criteria when it is available.

Chairman Fine welcomed Ms. Alice March from the Lottery Agents Association. She stated her business and residence suffered a fire a few weeks ago. It will be three to four months before she is back in business.

TRAHAN, BURDEN & CHARLES

Ms. Jody Zafrir distributed to the Commission a FY2008 Outdoor Bulletins & Wallscape report. She stated there are nine billboards and one wallscape that have an annual cost of \$647,000, which is less than a \$3.00 cost per thousand. Costs for product specific promotions are \$645,000 in FY2008 for a combination of bus wraps, metro dioramas, metro rail posters, 30 sheet posters, bus shelters, mobile trucks and cinemas. The billboards are located across the State in Harford and Prince Georges Counties, the Eastern Shore, Hagerstown, Frederick and Baltimore. There are six billboards advertising the Mega

Millions jackpot. Three billboards and one wallscape (located on the outside wall at 1st Marriner Arena) advertise the Big Bucks Party Pack scratch-off game.

Vice Chairman Thomas asked if the Lottery is actively looking for other locations. Ms. Zafrir responded they are continually looking for more billboard locations.

Chairman Fine stated for the record he represented Clear Channel in the past and currently represents Clear Channel. Clear Channel owns some of the billboards used by the Lottery.

Commissioner Reeder asked if the Lottery has considered using mobile trucks to advertise. Ms. Zafrir responded mobile truck advertising has been used in the past to display Mega Millions jackpot. Commissioner Reeder asked if the Mega Millions billboard automatically changes the jackpot amounts. Ms. Zafrir responded the amount is automatically changed after each drawing.

Commissioner Reeder asked if the Maryland Stadium Authority sells advertising at Camden Yards. Mr. Roogow responded the Lottery does have a small Let Yourself Play sign. Advertising on the digital billboard is too costly.

Ms. Zafrir stated pictures of the billboard locations are contained in her report. Ms. Baer stated the Dubble Bubble scratch-off is next game to be featured on the 1st Marriner Arena wallscape and will appear in April.

GRAY KIRK/VANSANT

Mr. David Blum stated the third in the series of winner's spots was filmed, with more to follow. He showed the Commission the winner awareness spot currently running on television. Mr. Blum stated GKV is in production on a number of new things that he will present to the Commission next month.

Commissioner Marriner stated an article appeared in the January/February 2008 issue of La Fleur's magazine titled "Evaluating Lottery Advertising". He stated the Commission is authorized to do surveys and studies and the Lottery should develop advertising information relevant to Maryland to present to the Legislature. Mr. Roogow stated that every year Ms. Baer does a study to submit to the Legislature that evaluates the number of impressions received from advertising and assigns a value. Ms. Baer gave the Commission an explanation of the research done each year to evaluate the advertising impressions.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated sales are \$92 million ahead as compared to last year. Revenue is \$40 million ahead as compared to last year. The current weekly sales average is \$32 million with current weekly revenue average of \$10.2 million. For the Lottery to reach the BRE

estimate of \$518 million, it will need to average \$29.4 million in weekly sales to generate \$9.37 million in weekly revenue.

Mr. Roogow stated Pick 3 sales are down approximately \$10.5 million as compared to last year. Pick 4 sales are down approximately \$2 million as compared to last year. However, Pick 3 revenue is ahead \$1 million as compared to last year and Pick 4 revenue is \$17 million ahead as compared to last year. Last year the Lottery experienced higher payouts as compared to the lower payouts this year.

Mr. Roogow stated the Lottery's research firm was requested to look at the Pick 3 and Pick 4 games. The full report is not yet available.

Mr. Roogow stated plans to help the Lottery grow next fiscal year include looking closely at the Pick 3 and Pick 4 game, moving forward with Keno to Go, and installation of PATs.

Mr. Roogow stated the Lottery's Legislative budget hearings were held in January 2008. The Lottery has not been notified of the decision hearing date as yet. He will keep the Commission updated.

Mr. Roogow stated articles recently appeared in the Washington Post and Baltimore Sun newspapers regarding the look alike slot machines in Southern Maryland and Western Maryland. These machines compete with the Lottery and have had an impact on Pick 3 and Pick 4 sales. Legislation introduced in the Senate would make the machines illegal including those in the Anne Arundel County. The bill may be introduced today, but a copy is not yet available. He will keep the Commission informed.

REPORTS

Legal Division – James Butler, Acting Principal Counsel

Mr. James Butler stated his office has been in contact with the attorney for Super Mart to determine their willingness to cooperate with the investigation of a former Agent Plus agent, Dennis Express who was allegedly involved in the fraudulent transactions. Mr. Butler stated he is awaiting the attorney's response. He will keep the Commission updated.

Mr. Butler stated negotiations continue with SGI on the Standstill and Tolling Agreement regarding the multiplier issue. SGI Counsel and the Lottery are continuing settlement discussions. The Lottery has requested an additional two months to continue the negotiations.

Mr. Butler stated regarding the litigation with Carrollton Bank, the Office of the Attorney General is drafting a proposed settlement agreement for the Lottery to present to Carrollton Bank to possibly settle both the Breach of Contract case and the Interpleader case. He will keep the Commission updated.

The Commission requested an update on Ms Johnson's condition. Mr. Butler responded she is still receiving treatments and is doing well.

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

Ms. Gina Smith stated the audited December and unaudited January Special Purpose Financial Statements as well as the Management Letter for the period ended December 31, 2007 were provided to the Commission.

Ms. Smith stated Accounting is working on reconciling the year-end tax information prior to submission to the IRS. She stated beginning next month and continuing through August, Accounting will be involved in the FY2008 budget closeout process.

Ms. Smith stated a demonstration of the Cole System will be presented to the Commission after today's meeting.

Ms. Smith stated within the next few months, the Sales team will make a presentation of the completed agent location makeovers. These makeovers redress stores with point-of-sale. It has been very successful and will continue into the next fiscal year.

Chairman Fine asked for an explanation of the Unclaimed Prize Fund (UCPF) and its use. Ms. Smith responded expenses for most game promotions are charged to the UCPF Fund. Chairman Fine requested that the UCPF balance as of July 1, 2007 be added to the Sales and Revenues report Mr. Roogow stated next month he will review with the Commission the monthly Unclaimed Prize Fund report.

Chairman Fine asked that the goals that the Lottery wishes to reach during the fiscal year be included to the Overall Network Information contained in Ms. Smith's report.

Chairman Fine asked when the Cole System would be activated. Mr. Gallagher responded the Lottery is waiting for the communication circuitry to be installed. It will be tested sometime in March. Chairman Fine asked how many Sales reps are in the pilot program. Mr. Gallagher responded 10 Sales reps will be in the pilot program for two weeks of testing in the field. If there are no problems after two weeks of testing, another group would be trained. There will be four training sessions held within a six week period. Training for the first group will begin in March 2008.

Chairman Fine asked what is the life expectancy of the Instant Ticket Vending Machines (ITVMs) and how many ITVMs are located at agent locations. Mr. Dorsey responded the life expectancy is 8 to 12 years and there are 960 ITVMs with 8, 12, 16 or 24 bins. The ITVMs are maintained by GTECH. Chairman Fine asked if the Lottery will switch the ITVMs for PATs. Mr. Roogow responded they will co-exist. An ITVM is better at selling instant games because it shows the tickets available. PATs will sell both on-line and instant games. Vice Chairman Thomas asked what is the cost of an ITVM. The response was the unit cost \$10,000.

Chairman Fine stated at the November 2007 Commission meeting, the Commission approved changes to the regulations and asked why they were not submitted for publication until March 2008. Mr. Howells responded the Legislature requested that new regulations not be submitted until after February 11, 2008. The Lottery submitted the regulations on February 13 or 14, 2008, to the Administration, Executive and Legislative Review (AELR) Committee. After a 15 day waiting period, the AELR would contact the Lottery if there are any issues. If there are no issues, the regulations are submitted to the Division of State Documents for publication and then there is a 30 day waiting period for public review. After that period expires, it is approximately 60 days before the final notice is published in the Maryland Register.

Information Technology – John Gallagher, Chief Information Officer

Mr. John Gallagher stated discussions continue on a weekly basis with SGI regarding PATs. PAT specifications have been finalized. SGI is scheduled to begin testing in March with testing by the Lottery to begin in April 2008.

Communications – Carole Everett, Director

Ms. Carole Everett stated Vice Chairman Thomas and Mr. Roogow participated in the Polar Bear Plunge on January 26, 2008 at Sandy Point State Park. There is a video on the Lottery's website. She stated past Communications events included the 1-2-3 Promotion held at various agent locations, and other Keno parties. Future events include the Lacrosse Face-Off on March 1, 2008 at M & T Bank, Orioles Fan Fest on March 29, 2008 at Camden Yards, and Orioles Opening Day at Camden Yards on March 31, 2008 where the Lottery will be promoting the Deal or No Deal scratch-off ticket.

Ms. Everett stated four Mega Millions second tier winners, six Bonus Match 5 top tier winners, numerous scratch-off winners and a \$100,000 Keno winner came to the Lottery's Claim Center.

Ms. Everett stated 35 articles have appeared in various publications and the publicity value is \$132,225.09.

Ms. Everett stated since the start of the VIP Club Pet Photo Contest, 932 new VIP Club members have joined. A question was asked if a person can join the VIP Club if they are not allowed to purchase lottery tickets. Ms. Everett responded yes, as long as the person does not participate in the VIP Club promotions.

Commissioner Reeder asked where the Lottery booth will be set up at Camden Yards on Orioles opening day. Ms. Everett responded she would let the Commission know the location of the Lottery's booth.

Ms. Everett stated a Multi-Match top tier winning ticket from October 6, 2007, the prizes from the Pick 3 Bonus Match-Up Grand Prize Drawing of November 19, 2007, and a Mega Millions \$250,000 second tier prize from August 28, 2007 still remain unclaimed.

Creative Services – Jill Baer, Director

Ms. Jill Baer stated the advertising update is contained her report. She is working with the Baltimore Orioles organization on the sponsorship element for this year. She will have additional information at next month's meeting.

Product Development and Advertising – Tracey Cohen, Director

Ms. Cohen stated Mr. Gary Smith, the Instant Ticket Product Manager, has left the Lottery to join GTECH.

Chairman Fine said the report shows that the Keno 15th Anniversary promotion had a sales increase of 4%, and asked how much in additional Unclaimed Prize Funds (UCPF) were spent to achieve this increase. Mr. Roogow stated the cost to the Lottery was \$250,000.

Ms. Cohen stated Comcast Video on Demand featuring the Lottery went live yesterday. If you are interested in viewing it, go to channel 888, click on Entertainment.

Ms. Cohen presented the final analysis of seven instant games that were closed. (See attached Exhibit #1.) For the record, the seven closed games were Game #553 *5 Bushels of Crabs*, Game #596 *10 Times the Money*, Game #602 *Chasing the 8's*, Game #604 *Wild Cherries*, Game #613 *\$10,000 Jacks*, Game #614 *Tic Tac Turkey*, and Game #616 *Wild Winnings*.

Ms. Cohen presented five new instant tickets to the Commission for approval. Samples of the tickets were also shown to the Commission. The new instant games were Game #692 *Cash Fiesta*, Game #701 *Queen of Hearts*, Game #702 *Ultimate Payday*, Game #708 *Super 7's*, and Game #663 *White Ice 8's*. (See attached Exhibit #2.)

Chairman Fine asked if there was any further discussion. Hearing none, he requested a motion to approve Game #692 *Cash Fiesta*, Game #701 *Queen of Hearts*, Game #702 *Ultimate Payday*, Game #708 *Super 7's*, and Game #663 *White Ice 8's* as presented. Commissioner Reeder made a motion to approve the instant games and the motion was seconded by Vice Chairman Thomas. Game #692 *Cash Fiesta*, Game #701 *Queen of Hearts*, Game #702 *Ultimate Payday*, Game #708 *Super 7's*, and Game #663 *White Ice 8's* were approved by unanimous vote of the Commission.

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

It was stated that in the January/February 2008 issue of La Fleur's Magazine, there was an article regarding the use of text messaging in connection with the Maryland Lottery's Deal or No Deal instant game. Ms. Cohen gave a detailed explanation of the partnership promotion with WBAL TV and Radio and WIYY Radio and the use of text messaging and the website. At the conclusion of the promotion, she will report on the results.

Procurement – **Robert Howells, Director**

Mr. Robert Howells stated to follow up on the MBE Participation report from last month, Gray Kirk/VanSant Communications (GKV) MBE participation increased from 4.9% to 5.6%. When additional invoices are received, they should meet their goal.

Mr. Howells stated the MBE Participation report shows Crestwood Associates, the research firm, with 0% MBE participation. This is due to the fact that they have not submitted their invoices for the past few months. The invoices have now been received and their MBE Participation will be reflected on next month's report.

Policy and Development – **Paul Dorsey, Director**

Mr. Paul Dorsey stated a list of Lottery/Governor introduced legislation was provided to the Commission. He stated SB 199 Crimes-State Lottery-Theft of Tickets, Equipment or Products received an unfavorable reading and will not move further this year. He stated SB 180 State Lottery-Purchasing, Selling or Cashing Lottery Tickets or Prizes passed the Senate and is currently in the House. He stated HB 1488 State Lottery - Performance Incentive Program for Employees is currently with the Rules Committee and no hearing date has been scheduled.

Vice Chairman Thomas asked what was the reason why SB 199 received an unfavorable vote. Mr. Dorsey responded the Vice Chairman of the Judicial Committee did not believe it was necessary to have a special law for the theft of lottery tickets since it is covered under civil law.

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

Mr. Michael Eaton stated he met with Chairman Fine and Commissioner Marriner to review the Internal Audit Risk Assessment and Audit Plan for FY2008.

Mr. Eaton stated follow-up of the Legislative Audit report issued in October 2005 has been completed. The final report will be provided to the Commission in March 2008.

Mr. Eaton stated the Agency Contract Management Process Audit is currently in process and he will have more details at a later date.

Chairman Fine asked if the Office of Legislative Audits has scheduled an audit date for the Lottery. Ms. Smith responded the date has not been set as yet.

Chairman Fine stated he and Commissioner Marriner met with Mr. Eaton and Mr. Freiburger from Stout, Causey and Horning to review the FY2008 Audit Plan. A work plan for FY2008 will be presented next month.

COMMISSION BUSINESS

Chairman Fine stated last week he, Mr. Roogow and Mr. Dorsey visited the Delaware Lottery to observe their VLT operations. It is very similar to what is done system-wise in Maryland with the lottery operations. If the slots referendum passes, the Lottery will be overseeing the VLT operation as assigned by the Legislature.

At last month's meeting Chairman Fine mentioned the possibility of moving the May Commission Meeting from May 27, 2008 to another day. It was the consensus of the Commission to change the May Commission Meeting to Tuesday, May 13, 2008.

DATE AND TIME OF NEXT MEETING

The next Commission Meeting is scheduled for Wednesday, March 26, 2008 at 9:00 a.m.

ADJOURNMENT

There being no further business to discuss, Chairman Fine asked for a motion to adjourn. Vice Chairman Thomas motioned that the meeting be adjourned and it was seconded by Commissioner Reeder. The Commission voted in favor and the meeting was adjourned at 11:05 a.m.

Respectfully submitted,

Buddy Roogow