

**MARYLAND STATE LOTTERY COMMISSION
OCTOBER MINUTES**

DATE: October 22, 2008

TIME: 9:00 a.m.

PLACE: Maryland Lottery Headquarters

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

Buddy Roogow, Director
Robert Fontaine, Principal Counsel
Gina Smith, Assistant Director/CFO
John Gallagher, Chief Information Officer, Information Technology
Tracey Cohen, Deputy Director, Creative Services and
Communications
Jill Baer, Director, Creative Services
Paul Dorsey, Director, Policy and Development
Robert Howells, Director, Procurement
Michael Eaton, Internal Auditor
Michael Hofferbert, Strategic Products Planner
Marie Torosino, Executive Associate

OTHERS

PRESENT: Steve Smith, Scientific Games Online Entertainment Systems
Jody Zafrir, Trahan, Burden and Charles
David Blum, Gray, Kirk/VanSant
Lori Denton, Pollard Banknote
Paul Shifrin, Stout, Causey & Horning

CALL TO ORDER

There being a quorum present, Chairman Fine called the meeting of the Maryland Lottery Commission to order at 9:07 a.m. Commissioners present were Stanley Fine, Matthew Thomas, and E. Randolph Marriner. Commissioners Reeder and Wagner participated by telephone.

STOUT, CAUSEY & HORNING

Mr. Paul Shifrin presented to the Commission a detailed review of the Generally Accepted Accounting Principals (GAAP) financial statement.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS

Mr. Steve Smith stated new software was installed for the Player Activated Terminals (PATs). There are 27 PATs in the field and they are operating well. There have been no issues with the software, and they can now execute more deployments of the PATs. Commissioner Marriner asked if there have been any additional problems where the PAT was not issuing the purchased ticket. Mr. Gallagher responded to date, there have not been any further problems. Vice Chairman Thomas asked what the schedule was for the installation of PATs. Mr. Roogow responded approximately 10 PATs would be installed per week. A PAT performance analysis would be available shortly.

TRAHAN, BURDEN & CHARLES GRAY, KIRK/VANSANT

Ms. Jody Zafrir stated the new Lottery's Winners spot would air during the World Series games. Mr. David Blum showed the new Winners' spot to the Commission.

Ms. Zafrir stated Fill Er Up is a new \$2.00 scratch-off ticket. This is the first time the Lottery has done a gas themed scratch-off ticket. There will be 225 gas stations throughout Maryland displaying toppers and hose attachments point-of sale advertising. Mr. Blum showed the Commission the sample pump toppers and hose attachments associated with this scratch-off ticket. A map was also distributed showing the locations throughout Maryland where this advertising would be displayed. The point of sale will be utilized for four weeks beginning November 17, 2008.

POLLARD BANKNOTE

Ms. Lori Denton stated scratch-off sales have slowed slightly over the summer and she is continuing to track and monitor sales. The \$1, \$5, and \$20 price point Holiday games have

launched. She distributed a sample ticket for the \$5.00 Nutcracker Cash scratch-off game. Holiday sales should stimulate scratch-off product sales.

Commissioner Marriner requested that Ms. Denton pass along to the Pollard Banknote team that the things they have done for the Lottery have been phenomenal.

APPROVAL OF MINUTES

Chairman Fine stated the September Minutes were sent to the Commissioners for review. Commissioner Marriner motioned that the Minutes be approved as presented and it was seconded by Vice Chairman Thomas. The September Commission Minutes were approved by unanimous vote of the Commission.

NASPL CONFERENCE

Chairman Fine stated both he and Vice Chairman Thomas attended the recent NASPL Conference in Philadelphia. On Friday afternoon there was a program that offered the Lotteries an opportunity to present their successful promotions. Ms. Cohen made a presentation on the Dubble Bubble scratch-off ticket and it was very impressive. He requested that she give the same presentation at today's meeting for the other Commissioners to view.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated total sales are down \$7 million as compared to last year. Mega Millions sales are \$8 million behind last year, but due to the fact that the jackpots have been lower than this time last year. The Mega Millions jackpot was hit last night at \$42 million in Georgia. Pick 3 sales are approximately \$400,000 behind last year, but sales are gaining each week. Pick 4 sales are ahead by \$2 million. Keno and Keno Bonus sales are slightly behind as compared to last year. Scratch-off sales are ahead by \$3 million. Bonus Match 5 sales are slightly ahead. Multi-Match sales are over \$1 million ahead. Race Trax sales are \$2 million ahead.

Mr. Roogow stated revenues are behind by \$18 million as compared to last year. Pick 3 and Pick 4 revenues are behind \$8 million each. Pick 3 payouts have been over 56% and Pick 4 payouts have been over 58%. Mega Millions revenue is behind because of lower jackpots being generated.

Mr. Roogow stated there is currently a Pick 3 promotion running called Double Play for Box Play which ends this week. Starting December 1, 2008, a new Pick 3 promotion will begin with every boxed play win being increased by 25%. Keno sales may be behind because it has not been promoted this year and could be in part, because sales at restaurants and bars are down. Mr. Hofferbert stated Keno Everywhere sales per week are

approximately \$150,000, which is approximately \$123 per terminal. Approximately 85% to 90% of the sales are from retailers without monitors. Mr. Roogow stated a Keno promotion will be starting this week.

Vice Chairman Thomas asked if there has been any impact on Race Trax sales. Mr. Roogow stated sales continue to grow and the game is doing well. Mr. Roogow stated he has put together a team consisting of staff from the Lottery along with Scientific Games and Pollard Banknote to meet regularly to develop promotions that will have an impact on Lottery sales. A Keno Sprinkler promotion will begin this week. After the Keno Sprinkler promotion ends, then a 15 times Keno bonus promotion will begin. Mr. Hofferbert stated the Keno Happy Hour Sprinkler promotion will begin on Black Friday, the day after Thanksgiving, at 4:00 p.m. This promotion increases the amount of the Doubler and Tripler bonus.

Mr. Roogow stated a second game to supplement the Mega Millions game is being developed. The Mega Millions Directors will meet at the LaFleurs conference in November for further discussion.

Mr. Roogow stated he is looking at the possibility of introducing a Pick 5 game that plays like the Pick 3 and Pick 4 games and is similar to the game recently introduced in Pennsylvania. Mr. Roogow also stated the Lottery is developing a Super Keno Bonus Wheel promotion that would be available by the spring. Mr. Hofferbert gave an explanation of the promotion.

Mr. Roogow stated an incident occurred in Virginia this past Sunday morning regarding their Lottery's new instant on-line game, Super 7 and gave an explanation of the game. He stated on Sunday morning when the game came on-line the payout odds were reversed. The Virginia Lottery is reviewing this situation. Mr. Roogow stated as a result of this, he is setting up a meeting with Mr. Fontaine, Mr. Howells, Ms. Smith and Mr. Hofferbert to discuss how the Lottery could ensure that this would not happen in Maryland. Chairman Fine asked if it did occur in Maryland, what measures the Lottery and SGI have in place to avoid a situation like this. Mr. Roogow discussed the options in the SGI contract that would cover these situations. Chairman Fine requested that the Lottery see this through because it needs to be protected. Mr. Roogow stated the Lottery learns by other States' experiences. Mr. Gallagher stated the Lottery is looking at what it can put in place to verify a game before it is brought on-line.

Mr. Roogow stated a recent poll done by the Washington Post shows that the slots referendum is favored at 62% to 36%.

Mr. Roogow stated a budget hearing is scheduled on October 23, 2008 with the Department of Budget and Management (DBM) to discuss the Lottery's FY2010 budget. DBM is proposing a total of \$2.9 million in cuts in lottery advertising and vendors fees.

REPORTS

Legal Division – **Robert Fontaine, Principal Counsel**

Mr. Robert Fontaine stated he has no additional information to report other than what was contained in his report.

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

Ms. Gina Smith stated that Mr. Schifrin provided the GAAP overview and included with her report is a table showing the differences between the Special Purpose and GAAP financials.

Ms. Smith stated the Commission requested a breakdown of cashing of winning tickets at Agent Plus locations versus the Lottery's Claims Center. She stated page 10 of her report shows the breakdown and she reviewed the information with the Commission. Based on this information, she believes players know where to cash their winning tickets and suggested that the Agent Plus program not be expanded at this time.

Ms. Smith stated included with her report is an ITVM cost analysis. She gave an explanation that included ITVM costs, pay back period, cost maintenance, and revenues. Chairman Fine stated this information was requested to justify the contract amount for the purchase of the new ITVMs.

Ms. Smith stated her report contains the locations of the initial installation of the 17 PATs and the installation of the 10 additional PATs. Chairman Fine requested that Ms. Smith's monthly report include sales information for each PAT location.

Ms. Smith stated she has assigned the Sales Division the task to increase the number of instant ticket facings at retail locations by 1,000, which equates to 250 facings per territory. A facing is an instant ticket counter dispenser.

Ms. Smith stated Sales, SGI and Pollard are working together to develop a mystery shopper program to drive sales and promote specific products. The program would reward agents/clerks for asking a lottery sale and displaying proper point-of-sale.

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

Mr. John Gallagher stated PAT rollouts continue with new PAT software being installed and monitored by the Lottery and SGI. He stated development is underway for Keno-To-Go testing and implementation in January 2009. The Cole System training for the agent administration module and point-of sale ordering is scheduled for next month. Mr. Hofferbert gave an explanation to the Commission of the Keno-To-Go concept.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated included with his report was a copy of the Advertising Contract Internal Audit and the On-line Gaming System Contract Management Audit. Chairman Fine noted the On-line Gaming System Management Audit shows on page three that procedures and contracts are not fully adequate. Mr. Eaton reviewed the report with the Commission.

Mr. Eaton stated he would be following-up on the recommendations made in the audit reports. Chairman Fine requested that Mr. Eaton begin developing an Audit Plan for 2009.

Creative Services and Communications – Tracey Cohen, Deputy Director

Ms. Tracey Cohen stated Big Bucks Party Pack will be relaunched on November 17, 2008 to all agents who accept \$10 instant tickets. Approximately 60% of the lottery agents sell the \$10.00 scratch-off tickets. She stated a second chance prize promotion is being developed where players send in \$6.00 worth of non-winning tickets from the Big Bucks Party Pack scratch-off for a chance to win an “Ultimate Super Bowl Party” including such prizes as a large flat panel TV, deluxe grill, and Tailgate Patrol premium items.

Ms. Cohen distributed to the Commission sample new game financial reports showing line items descriptions of each expense. Mr. Hofferbert gave a further explanation of the financials and how payment is calculated for Pollard Banknote.

Ms. Cohen stated there was a question regarding the taxes paid ticket disclaimer if someone wins \$50,000 and ends up in a higher tax bracket. Ms. Smith responded the Lottery withholds at its rate and each winner is treated uniformly. Chairman Fine asked how the winner is paid. Ms. Cohen responded the winner is paid the tax paid amount plus the prize amount. Research shows that people like the taxes paid prize.

Chairman Fine requested an explanation of how to play the scratch-off game Lucky Lines. Commissioners were given sample tickets and Ms. Cohen then walked them through the play process.

Ms. Cohen presented four new instant tickets to the Commission for approval. The four new instant games were Game #745 *Stacks of Cash*, Game #747 *Lucky Lines*, Game #744 *Kisses & Cash*, and Game #734 *Fantasy Fortune*. (See attached Exhibit #1.)

Vice Chairman Thomas made a motion to approve the instant games and it was seconded by Commissioner Marriner. The instant games were approved by unanimous vote of the Commission.

Chairman Fine stated the Commission was provided with information on the closed instant games. For the record the closed games were Game #607 *Super Red Hot Crossword*, Game

#623 *Home for the Holidays*, and Game #645 *Blackjack Doubler*, Game #662 *Wild Turkeys*, Game #651 *Ruby Red 7's*, and Game #676 *Holiday Cheer*. (See Exhibit #2)

Procurement – Robert Howells, Director

Mr. Robert Howells stated the Commission was previously sent a copy of the Instant Ticket Vending Machines & Related Services Contract (#2008-26) with GTECH Corporation which included background information and cost analysis. He is requesting the Commission's approval of this Contract. Chairman Fine noted in the Procurement report that the request to exercise Renewal Option #1 of the Replacement Parts, Maintenance & Related Services for Instant Ticket Vending Machines (ITVMs) (#2008-21) was submitted to the Department of Budget and Management and covers the period November 1 to 30, 2008. He noted that the Commission is now being asked to approve a five-year contract for new ITVMs beginning November 10, 2008 and asked why there is an overlap of maintenance coverage. Mr. Howells responded there are five more one month renewal options for the maintenance contract for the existing ITVMs. The new contract is for the purchase and maintenance of the new ITVMs.

Commissioner Marriner made a motion to approve the Instant Ticket Vending Machines & Related Services Contract (#2008-26) and it was seconded by Vice Chairman Thomas. The Contract was approved by unanimous vote of the Commission.

Mr. Howells stated one of the new ITVMs is on display in the studio if the Commission would like to view it.

COMMISSION BUSINESS

Chairman Fine stated he and Vice Chairman Thomas attended the recent NASPL Conference in Philadelphia. Vice Chairman Thomas gave a summary of the conference. He stated the presentations and panel discussion were very interesting. He complimented the Lottery personnel on its presentation.

Chairman Fine stated Commissioner Marriner has submitted his resignation as a member of the Lottery Commission effective with the close of this meeting. Chairman Fine noted Commissioner Marriner's contributions in the areas of auditing and his recent assistance with the Advertising RFP. Chairman Fine stated on behalf of the Maryland Lottery Commission and the Lottery Agency he wanted to thank him for his contributions to the Lottery and presented him with a plaque for his years of service to the Commission. The Commissioners expressed their pleasure working with him for the past five years, for his leadership and wished him success in his future endeavors.

DATE AND TIME OF NEXT MEETING

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

ADJOURNMENT

There being no further business to discuss, Chairman Fine requested a motion to adjourn. Commissioner Marriner motioned that the meeting be adjourned and it was seconded by Vice Chairman Thomas. The meeting adjourned at 11:08 a.m.

Respectfully submitted,

Buddy Roogow