

**MARYLAND STATE LOTTERY COMMISSION
DECEMBER MINUTES**

DATE: December 17, 2008

TIME: 9:00 a.m.

PLACE: Maryland Lottery Headquarters

PRESENT: Chairman Stanley S. Fine
Vice Chairman Matthew Thomas
Commissioner Bruce Reeder
Commissioner George Wagner
Commissioner F. Vernon Boozer
Commissioner Howard A. Denis
Commissioner W. Ray Presley
Commissioner Kimberly D. Robertson

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

OTHERS: Steve Smith, Scientific Games Online Entertainment Systems
Jeff Hale, Scientific Games Online Entertainment Systems
Jody Zafrir, Trahan, Burden and Charles
David Blum, Gray, Kirk/VanSant
Lori Denton, Pollard Banknote
Ed Kully, Crestwood Associates
Members of the Public

CALL TO ORDER

There being a quorum present, Chairman Fine called the meeting of the Maryland Lottery Commission to order at 9:09 a.m. Commissioners present were Stanley Fine, George Wagner, F. Vernon Boozer, Howard A. Denis, W. Ray Presley, and Kimberly D. Robertson. Commissioners Matthew Thomas and Bruce Reeder arrived shortly after the meeting was called to order.

Chairman Fine introduced the new members of the Commission to all of those present. They are Howard A. Denis, W. Ray Presley, and Kimberly D. Robertson.

POLLARD BANKNOTE

Mr. Roogow introduced Ms. Lori Denton, the representative from Pollard Banknote. For the past one and a half years Pollard has had the contract for the printing of the Lottery's instant tickets. Maryland has had the highest growth of scratch-off sales in the country at 22%. Currently, scratch-off sales are running even with last year.

Ms. Denton stated sales of holiday scratch-offs are doing well. She distributed sample holiday scratch-off tickets to the Commission—two \$1.00 tickets called Happy Holidays and Winner Wonderland; the \$2 Cashing Through the Snow ticket; the \$5.00 Nutcracker Cash Doubler ticket; and the \$20.00 ticket Merry Millions ticket.

Ms. Denton then distributed a sample of the recently launched \$2.00 Blackout Bingo scratch-off ticket, and gave an explanation of how to play the game. Bingo scratch-offs are very popular in Maryland. She stated sales are 41% ahead of the average \$2.00 bingo game.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS (SGI)

Mr. Roogow introduced Mr. Steve Smith, SGI General Manager and Mr. Jeff Hale, SGI Director of Operations. SGI is located on the first floor of the Montgomery Park Business Center. SGI handles the Lottery's on-line products.

Mr. Smith stated SGI is preparing for the implementation of Keno to Go. Testing is being completed and the game is on schedule for launch on January 26, 2009. Mr. Roogow provided the Commission with an explanation of Keno to Go.

SGI is also working on a number of other game promotions, which will be reviewed at future meetings.

TRAHAN, BURDEN & CHARLES (TBC)
GRAY, KIRK/VANSANT (GKV)

Mr. Roogow introduced Ms. Jody Zafrir of TBC. She stated TBC is responsible for placing media in all venues throughout the State and is also responsible for public relations. She stated every month she would inform the Commission of the advertising that is running.

Ms. Zafrir stated that holiday scratch-off commercials are currently running on television and radio in the Baltimore and Washington DC markets through December 24, 2008. These commercials were created by GKV.

Mr. Roogow introduced Mr. David Blum, Senior Vice President of GKV. GKV is responsible for the production of the creative portion of Lottery advertising.

Mr. Blum stated GKV created the commercial for the holiday scratch-off campaign. This advertising highlights the \$24 million in prize money available in the holiday scratch-offs. The Commission was shown the television commercial for the holiday scratch-offs. The radio commercial was also played.

Mr. Roogow stated the \$20 Merry Millions scratch-off ticket was pulled last year due to slow sales and re-launched this year. To date, over 60% of the tickets have been sold and there are still three \$1 million unclaimed prizes.

CRESTWOOD ASSOCIATES

Mr. Roogow introduced Mr. Ed Kully of Crestwood Associates. Mr. Kully stated Crestwood is a market research firm that has done lottery research for the past ten years. A research presentation will be made to the Commission in the future.

The vendors were wished a Happy Holiday by the Commissioners.

APPROVAL OF MINUTES

Chairman Fine stated the December 5, 2008 Minutes were previously sent to the Commissioners for review and a copy is contained in their folders with redline changes. Commissioner Wagner motioned that the Minutes as modified be approved and it was

seconded by Vice Chairman Thomas. The December 5, 2008 Commission Minutes as modified were approved by unanimous vote of the Commission.

DIRECTOR'S REPORT

Mr. Buddy Roogow introduced Lottery staff present at the meeting and they highlighted what their Division's responsibilities are.

Mr. Roogow stated last week he met with the House Ways and Means Committee to present an overview of the Lottery's current games and marketing activities. Over the years, the Administration and the Legislature have been very supportive of Lottery.

Mr. Roogow reviewed in detail the Sales and Revenue report with the Commission. He stated Pick 3 sales are approximately \$660,000 ahead of last year. Pick 4 sales are \$4.5 million ahead of last year. Keno and Keno Bonus combined sales are approximately \$2.5 million behind compared to last year. Scratch-offs sales are just about even with last year. Last year the Lottery had a record year in scratch-off sales. Mr. Roogow stated the Mega Millions jackpot was hit at \$207 million and the ticket was sold in Ohio. With the recent jackpot roll in Mega Millions, the sales are fairly close to where they were last year. Bonus Match 5 sales are just about even with last year. Multi-Match sales are \$1.6 million ahead of last year. The Race Trax monitor game is increasing in popularity and sales are \$5 million ahead of last year. MD Hold'em, the Lottery's third monitor game, will be replaced in approximately a year with a different monitor game. To date, total games sales for this fiscal year are \$748 million compared to sales of \$746 million for last year.

Mr. Roogow stated combined revenues for the Pick 3 and Pick 4 games are down by approximately \$25 million. These two games have experienced higher than normal payouts. Other lottery game revenues are about even or ahead as compared to last year. Total revenue is approximately \$24 million behind as compared to last year. The Lottery has completed its commitment to the Maryland Stadium Authority by providing \$21,500,000 in revenue. This commitment is in accordance with the mandate by the Legislature. The revenue comes from the Mega Millions game. Additional revenue from Mega Millions now goes to the General Fund.

Mr. Roogow stated the Lottery's revenue goal for this fiscal year is \$516 million and is set by the Bureau of Revenue Estimates.

Mr. Roogow stated the Unclaimed Prize Fund is an important element for the Lottery. By law, the money must go back to the players in the form of prizes. The Unclaimed Prize Fund is used for ongoing game promotions.

Chairman Fine requested that Ms. Cohen hold an orientation session with the new Commissioners to learn about the Lottery's game products.

Mr. Roogow stated there is a chance that this fiscal year the Lottery may payout \$1 billion in prizes to Lottery players. The Lottery is currently working on a promotional concept if that occurs.

REPORTS

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

Ms. Gina Smith presented an overview of the statistical data contained in her report. She invited the new Commissioners to visit the Lottery's warehouse and view the Pick and Pack scratch-off operation.

Chairman Fine noted that the Multi-Match and Mega Millions subscriptions have experienced a decline in sales since July 1, 2008. Mr. Roogow stated the decline could be a result of the economy and the Lottery is continuing to track this.

Vice Chairman Thomas also suggested that the new Commissioners tour the WBAL-TV studio to view the televised lottery drawings.

Legal Division – Robert Fontaine, Principal Counsel

Mr. Robert Fontaine stated he has no additional information to add to his report. He stated a request for a hearing before the Commission on a denial of a lottery license has been received. He will speak with the Commission to schedule the hearing.

Chairman Fine said for the new Commissioners information, if an applicant's request for a lottery license is denied by the Director at the reconsideration hearing level, the applicant can request a hearing before the Lottery Commission.

Creative Services and Communications – Tracey Cohen, Deputy Director

Ms. Tracey Cohen highlighted the initiatives her Division is currently working on. She gave an overview of her report that included the instant and on-line products, media sponsorships with the Ravens, Orioles and Redskins, licensed products and Communications highlights. She distributed a packet of information to the new Commissioners that contained various sample scratch-off tickets.

Ms. Cohen gave a detailed explanation of the new game financial reports.

Ms. Cohen presented four new instant tickets to the Commission for approval: Game #755 *Crazy 8s Bingo*, Game #769 *Instant Keno*, Game #748 *Celebration*, and Game #758 *Living Lucky*. (See attached Exhibit #1.)

Chairman Fine asked if there were any further questions. Hearing none, he entertained a motion to approve the above instant games. Vice Chairman Thomas made a motion to approve the instant games and it was seconded by Commissioner Wagner. The instant games were approved by unanimous vote of the Commission.

Ms. Cohen explained the data on the financial reports for the closed instant games. These closed games are submitted to the Commission for information only and no action is needed. Chairman Fine stated the Commission was provided with information on the closed instant games. For the record the closed games were Game #632 *Cash-O-Rama*, Game #641 *Set for Life*, Game #644 *Casino Cash Out*, Game #658 *Quick 7's*, Game #665 *Cash Word*, and Game #669 *Poker Face*. (See Exhibit #2)

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

Mr. John Gallagher stated he has no additional information to add to his report. He stated testing continues for Keno to Go and the 15X Keno Bonus promotion.

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

Mr. Michael Eaton stated his report included the Lottery's Risks Assessment and Audit Plan for Fiscal Year 2009. Chairman Fine stated that Commissioner Robertson will review this and assist Mr. Eaton with development of the plan for next year.

Commissioner Wagner notes that the 2008 Audit Plan Status Report shows some ratings as not adequate. Mr. Eaton responded this is an internal audit that he performed and he is following up the status of prior observations to insure they are addressed. His report included an Internal Audit Follow-Up Report.

Chairman Fine stated the Legislative Audit of the Lottery was completed in the Fall. The Lottery received a copy of the findings and submitted their responses. The final Legislative Audit report was issued today.

COMMISSION BUSINESS

Video Lottery

Chairman Fine reviewed the role of the Lottery Commission and the Video Lottery Facility Location Commission as it pertains to the recently passed referendum on Video Lottery. He stated the Video Lottery Operation License RFP would be issued at the end of this week if it is approved by the Video Lottery Facility Location Commission. Proposals are due by February 2, 2009. The Lottery Commission's role will be to qualify the prospective bidders. Once qualified, the proposals are turned over to the Video Lottery Facility Location

Commission for their review and to award the licenses. After the award, it will be Lottery Commission's responsibility to issue the licenses and regulate the licensed facilities.

Chairman Fine stated the Commissioners received a draft copy of Video Lottery Operation License RFP for their review. If the Commissioners have any questions, they should be directed to Mr. Howells and Mr. Dorsey. There was continued discussion of the Lottery Commission's responsibilities as it pertains to the RFP and what part the Lottery Commission plays in review of the proposals. When the Video Lottery Operation License RFP is issued, it will be available on the eMaryland Marketplace website.

Chairman Fine stated the Video Lottery Facility Location Commission will meet on December 18, 2008 at 4:00 p.m. in the Senate Budget and Taxation Hearing Room in Annapolis. Chairman Fine, Mr. Roogow, Mr. Howells, Mr. Fontaine and Mr. Dorsey as well as staff from the Department of Legislative Services will be attending this meeting. Lottery Commissioners are also welcome to attend any meetings of the Video Lottery Facility Location Commission and the Video Lottery Facility Location Commission is also welcome to attend any meetings of the Lottery Commission.

Chairman Fine stated the Commissioners received a draft copy of the rules and regulations with regards to Video Lottery Terminals. He is requesting approval of the rules and regulations so that they can be incorporated into the Video Lottery Operation License RFP. Mr. Fontaine stated a few revisions have been made since the last draft copy was sent to the Commission. He reviewed the revisions in Chapter 01 Introduction, Chapter 02 General Regulations, new Chapter 10 Video Lottery Terminals and Chapter 11 Video Lottery Facility Operation Licenses..

Mr. Roogow presented the supplemental FY2009 budget estimate to assist with the VLT operation.

Chairman Fine complimented the Lottery staff on the work done on the Video Lottery Operation License RFP and the revisions of the rules and regulations to include Video Lottery.

Chairman Fine asked if there were any further comments on the VLT rules and regulations. Hearing none, he entertained a motion to approve these rules and regulations. Commissioner Denis made the motion and it was seconded by Vice Chairman Thomas. The motion carried by unanimous vote of the Commission.

Chairman Fine reminded the Commissioners as this VLT process proceeds to be mindful of any relationships or potential conflicts that may arise.

Chairman Fine stated the Governor has appointed him to serve as the Lottery Commission liaison to the Racing Commission. The Governor has also appointed John Franzone to serve as the Racing Commission liaison to the Lottery Commission.

Lottery

Chairman Fine stated a Commission Chairman and Vice Chairman are elected on an annual basis. The Commission needs to elect a Chairman and Vice Chairman for the 2009 calendar year. Commissioner Wagner made a motion to elect Stanley Fine for the position of Chairman. Commissioner Reeder seconded the motion. The floor was open for discussion after which the vote was taken. The motion passed by unanimous vote of the Commission.

Chairman Fine made a motion to nominate Matthew Thomas for the position of Vice Chairman. Commissioner Wagner seconded the motion. The floor was open for discussion after which the vote was taken. The motion passed by unanimous vote of the Commission.

Commissioner Denis asked if the Lottery anticipates any legislation relative to the Lottery being filed for the next session. Mr. Roogow responded none that he is aware other than the incentive bill submitted by the Lottery. Chairman Fine requested the Commission receive an update each month on any lottery related legislation.

DATE AND TIME OF NEXT MEETING

Commissioner Boozer asked if it is possible to change the time of the meetings from 9:00 a.m. to 10:00 a.m. It was agreed to change the time of the meetings to 10:00 a.m. After further discussion it was agreed to schedule the next Commission Meeting for Friday, January 16, 2009 at 10:00 a.m. At the January meeting, the 2009 meeting schedule will be discussed further.

ADJOURNMENT

There being no further business to discuss, Chairman Fine requested a motion to adjourn. Commissioner Wagner motioned that the meeting be adjourned and it was seconded by Commissioner Boozer. The meeting adjourned at 11:25 a.m.

Respectfully submitted,

Buddy Roogow