

**MARYLAND STATE LOTTERY COMMISSION
JUNE MINUTES**

DATE: June 19, 2009

TIME: 10:00 a.m.

PLACE: Maryland Lottery Headquarters

PRESENT: Chairman J. Kirby Fowler, Jr.
Vice Chairman Matthew Thomas
Commissioner F. Vernon Boozer
Commissioner Howard A. Denis
Commissioner Diane L. McGraw
Commissioner W. Ray Presley
Commissioner Kimberly D. Robertson
Commissioner George M. Wagner

Buddy Roogow, Director
Robert Fontaine, Principal Counsel
Gina Smith, Assistant Director/CFO
Paul Dorsey, Director, Policy and Development
Robert Howells, Director, Procurement
Holly Knepper, Deputy Counsel
Jill Baer, Director, Creative Services
Michael Hofferbert, Strategic Planning Manager
Marie Torosino, Executive Associate

OTHERS: Steve Smith, Scientific Games Online Entertainment Systems
Jeff Hale, Scientific Games Online Entertainment Systems
David Blum, Gray, Kirk/VanSant
Jody Zafrir, Trahan, Burden & Charles
Lori Denton, Pollard Banknote

CALL TO ORDER

There being a quorum present, Chairman Fowler called the meeting of the Maryland Lottery Commission to order at 10:05 a.m. Commissioners present were J. Kirby Fowler, Jr., Matthew Thomas, F. Vernon Boozer, Howard A. Denis, Diane L. McGraw, W. Ray Presley, Kimberly D. Robertson, and George M. Wagner.

APPROVAL OF MINUTES

Chairman Fowler stated the May 27, 2009 Minutes were previously sent to the Commissioners for review and asked if there were any corrections. There were none. Vice Chairman Thomas motioned that the Minutes be approved and it was seconded by Commissioner Robertson. The May 27, 2009 Commission Minutes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS (SGI)

Mr. Steve Smith stated Keno Super Bonus launched and sales are averaging \$410,000 per day. Commissioner Wagner asked what has been the payout percentage. Mr. Smith responded approximately 65%.

Mr. Smith stated the Green Ball Pick 3 Promotion will launch in July 2009 and will be followed sometime in August 2009 by the implementation of the Racetrax Bonus Wheel.

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

Ms. Jody Zafrir of TBC stated June 27, 2009 will be American Classics Night at Orioles Park at Camden Yards. The first 200 people bringing four non-winning American Classics tickets will receive free admission into the Lottery section at the park. After the Orioles game, the 20th Anniversary showing of the "Field of Dreams" movie will be shown on the Jumbotron. Ms. Zafrir said this is the first time a film is being shown on Jumbotron. The 200 winners will also receive prize packs, popcorn and sodas and a chance to win a trip to Fenway Park to watch the Orioles play Boston including \$2,500 in spending money. Mr. David Blum of GKV showed the television spot that promotes the American Classics movie night.

Ms. Zafrir said television and radio advertising for the Green Ball Double Draw Pick 3 promotion will air on WBAL-TV, WBAL radio, and CBS radio stations from July 20 through August 16, 2009. Mr. Blum stated the tagline paired with the promotion is "Green Ball Brings Good Fortune." A 30-second TV and radio spot is being created by WBAL that will explain the promotion to players. Mr. Hofferbert gave a detailed explanation as to how the promotion works.

Ms. Jill Baer said the Cash Extravaganza promotion will run during the month of June and thus far has been quite successful. There have been 400,000 entries received. A drawing will occur

at the end of the promotion to award the \$1 million grand prize. Taping of the drawing is planned for July 11, 2009 and it will air in four five-minute segments on WBAL-TV on July 16, 2009.

POLLARD BANKNOTE

Ms. Lori Denton stated Pollard is moving forward with the printing of the Ravens Cash Fantasy scratch-off ticket. The \$5 ticket with a \$1 million top prize will launch on August 10, 2009, in time for the first pre-season football game. She showed the artwork to the Commission and gave a detailed explanation of how to play the scratch-off ticket including the Extra Yards codes that players enter on the Lottery's website to win second chance prizes such as season tickets, game-day premium seats, and game-worn jerseys.

Commissioner Denis said a Washington Post article stated that the Redskins have the same arrangement with the Virginia Lottery. Mr. Roogow responded the Virginia Lottery is working with the Redskins to develop a \$20 Redskins-themed scratch-off ticket with a top prize of \$1 million. However, Virginia will not be able to sell their ticket at Redskins stadium since the stadium is located in Maryland. Maryland has an agreement in principle with the Redskins not to sell its Raven's ticket at Redskins Stadium.

DIRECTOR'S REPORT

Mr. Buddy Roogow stated total sales are \$24 million ahead of last year. Pick 3 sales continue to grow and are \$2.8 million ahead of last year. Keno sales are slightly ahead compared to last year while Keno Bonus sales are slightly behind last year. Super Keno Bonus was recently implemented and sales to date are \$5.8 million. Scratch-off sales are \$4.5 million behind as compared to last year. Mega Millions sales are slightly behind as compared to last year. Racetrax sales continue to show growth and are \$15 million ahead of last year.

Mr. Roogow stated revenue is \$38.7 million behind as compared to last year. Combined Pick 3 and Pick 4 revenue is \$40 million behind last year. The Lottery's Bureau of Revenue Estimates (BRE) goal is \$475 million. The Lottery's year to date revenue is \$468 million and it should be able to meet the BRE estimate by the end of the fiscal year.

Mr. Roogow stated the Department of Budget and Management (DBM) has advised the Lottery to be prepared to cut an additional \$2 million from its FY2010 budget. Most of this will come from the advertising budget. The Lottery's budget was already reduced by \$3.3 million. A letter was sent to the Department of Budget and Management opposing this additional budget cut and the Lottery is waiting for their response. The Commission asked if a letter from them would be helpful. Commissioner Wagner made a motion to send a letter to DBM under Chairman Fowler's signature regarding the additional budget cut. It was seconded by Commissioner Presley. Motion passed by unanimous vote of the Commission.

The Commission continued to discuss the FY2010 budget including vendor payments, salaries, vacancies and the VLT program.

Mr. Roogow stated the Lottery retailer sales commission will be reduced from 5.5% to 5.0% effective July 1, 2009.

Mr. Roogow stated the Video Lottery Facility Location Commission made a site visit to Dover, Delaware and Chester, Pennsylvania on June 17, 2009. The Commission was accompanied by Lottery staff as well as staff from the Department of Legislative Services. The background investigations of the four proposed locations are being conducted by Spectrum and MDBI and being overseen by Mr. Dorsey. The Facility Location Commission continues to review the proposals submitted by the four bidders.

REPORTS

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

Ms. Gina Smith said the April 2009 Audited Special Purpose Financial Statement was provided to the Commission and there are no significant issues to report. The audit report for May 2009 will show more information about the VLT program, including enhanced footnotes.

Ms. Smith stated the Lottery is preparing for the year-end close out for FY2009. Construction has begun to renovate areas of the Agency to accommodate the VLT program.

Legal Division – Robert Fontaine, Principal Counsel

Mr. Robert Fontaine stated a revocation hearing is scheduled for July 23, 2009 with Express Deli Mart.

Mr. Fontaine stated in December 2008 provisional emergency regulations for the Video Lottery Program were prepared. These regulations have not as yet been processed as final regulations. The emergency regulations expire on July 22, 2009. Authorization is needed to extend the emergency regulations for an additional six months. During that time, these emergency regulations will rule until the final regulations are processed and finalized. Mr. Fontaine said the Commission will be provided with those regulations next month including some changes. Commissioner Boozer made motion to extend the emergency regulations. Motion was seconded by Commissioner Presley. Motion passed by unanimous vote of the Commission.

Creative Product Services/Communications – Michael Hofferbert, Strategic Planning Manager

In Ms. Cohen's absence, Mr. Michael Hofferbert presented the report. He stated there were four new instant tickets to present to the Commission for approval: Game #781 *Tic Tac Turkey*, Game #791 *Ringo*, Game #786 *Winner Weather*, and Game #794 *Extreme Cash Explosion*. (See attached Exhibit #1.)

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

Mr. Hofferbert stated there were no closed games to present to the Commission this month.

Question asked as to who develops the various names of the scratch-off games. Mr. Hofferbert responded Pollard plays a big part in the instant game names and the Lottery also develops game names. Also, with permission from other lottery states, the Lottery may use their instant game names.

Question asked what the VIP Club is. Mr. Hofferbert responded players sign up on the Lottery's website and are notified by e-mail with information such as jackpot announcements, contests for giveaways of tickets for Merriweather concerts and Orioles games. There are a total of 22,570 VIP Club members.

Procurement – **Robert Howells, Director**

Mr. Robert Howells said at the May 27, 2009 meeting, the Commission approved the modification to the Advertising Contract regarding the re-design of the Lottery's website which was being submitted to the Board of Public Works for approval at its June meeting. The Department of Budget and Management requested that the item be withdrawn due to budget issues and be resubmitted to the Board of Public Works for approval at the August 5, 2009 meeting.

Mr. Howells stated the Lottery along with WhiteSand Consulting continues to work on the RFPs for the VLT central system and VLT machines. Mr. Dorsey said the Lottery will attempt to get a first draft of the RFP for the VLT central system to the Commission by the July meeting.

Mr. Howells stated Lottery personnel made a site visit to the Pennsylvania and Delaware Lotteries gaming facilities. They met with the CEOs of the gaming facilities and asked questions about the machines and other issues.

Commissioner Wagner asked what is the status of the Player Activated Terminals (PATs). Ms. Smith responded currently there are 184 PATs at various locations throughout the State. PATs are showing they are more successful at selling on-line games than scratch-off tickets. The Lottery is working with SGI to create better graphic enhancements for the scratch-off icon. The Lottery is doing a slow roll-out of the PATs at this time.

Vice Chairman Thomas asked is 300 the maximum number of PATs that will be installed. Ms. Smith responded the Lottery can install up to 2,000 PATs. Initially 300 PATs will be placed in the field so that an analysis of their performance can be completed. The Lottery is still working on the criteria for placement of PATs at agent locations.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Michael Eaton stated his report also included an Instant Ticket Security Review of Pollard Banknote. This audit was done by the North American Association of State and Provincial Lotteries (NASPL). The audit is similar to the SAS-70 that the Lottery does on SGI for the on-line games. The audit report was provided to Pollard for comment within 60 days. The Lottery will monitor any implementation plan that Pollard may propose.

DATE AND TIME OF NEXT MEETING

The next Commission meeting will be held on Thursday, July 23, 2009 at 10:00 a.m., followed by an Agent Revocation hearing at 12:30 p.m.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler requested a motion to adjourn. Commissioner Wagner motioned that the meeting be adjourned and it was seconded by Commissioner McGraw. The meeting adjourned at 11:32 a.m.

Respectfully submitted,

Buddy Roogow