

**MARYLAND STATE LOTTERY COMMISSION  
JANUARY MINUTES**

DATE: January 15, 2010

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 Kimberly Robertson  
Commissioner George M. Wagner

Gina Smith, Interim Director  
Robert Fontaine, Principal Counsel  
John Gallagher, Chief Information Officer, Information Technology  
Tracey Cohen, Deputy Director, Creative Services & Product Development  
Paul Dorsey, Director, Policy and Development  
Robert Howells, Director, Procurement  
Jill Baer, Director, Creative Services  
Carole Everett, Director, Communications  
Michael Eaton, Internal Audit  
Holly Knepper, Deputy Counsel  
Marie Torosino, Executive Associate

OTHERS: Steve Smith, Scientific Games Online Entertainment Systems  
Jeff Hale, Scientific Games Online Entertainment Systems  
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 10:04 a.m. Commissioners present were J. Kirby Fowler, Jr., Matthew Thomas, F. Vernon Boozer, Howard A. Denis, Diane L. McGraw, Kimberly Robertson, and George M. Wagner. W. Ray Presley and Bruce L. Reeder were absent.

## **APPROVAL OF MINUTES**

Chairman Fowler stated the December 18, 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 December 18, 2009 Commission Minutes were approved by unanimous vote of the Commission.

## **SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS (SGI)**

Mr. Steve Smith said Powerball is on schedule for launch on January 31, 2010. SGI is working to resolve some minor testing issues that have been identified.

Commissioner Wagner said approximately a year ago, Player Activated Terminals (PATs) were placed in several retailer locations and he asked what is the status of this program. Mr. Smith responded there are approximately 250 PATs in the field. Commissioner Wagner asked if they are available to all retailers who request a PAT. Ms. Gina Smith responded they are available for retailers who are eligible and if the PAT has the potential to generate additional sales. Based upon data received thus far, sales of instant tickets through PATs are low. Players still tend to go to the agent operated terminal to purchase tickets. There have been some issues with the PATs and we are currently reviewing the sales history. At this point, the Lottery is not doing a big push to put them in the field until the issues are resolved. A meeting scheduled with SGI next week to review and resolve some of these issues. More information available will be available after that meeting. Commissioner Wagner asked if winning tickets can be cashed through the PAT. Ms. Smith responded players can validate winning on-line tickets through the PAT and receive a voucher which they then take to the retailer for payment. However, the PAT cannot issue a voucher for instant tickets because of the two step validation process which must be done through the agent terminal.

## **POLLARD BANKNOTE**

Ms. Lori Denton said sales of holiday scratch-off games are doing well. The \$1.00 and \$2.00 games are 90% sold and the higher price points are 60% sold.

The Cinema Cash scratch-off ticket has been a great success. As of January 12, 2010, 14,387 entries have been received for the second chance drawing. Entries for Cinema Cash have far exceeded the three recent second chance drawing entries.

The Ravens Cash Fantasy scratch-off ticket is 90% sold. The plan is to be sold out by Super Bowl. All prizes will be drawn and announced on February 8, 2010. The Lottery is doing a big push to get the word out so players can log their yardage on the website. Chairman Fowler asked if the Ravens advance to the Super Bowl, can the Lottery add an additional prize. Ms. Cohen responded the Lottery could develop something and promote it through Super Bowl weekend.

### **INTERIM DIRECTOR'S REPORT** **and Administration, Finance & Operations and Sales Reports**

Ms. Gina Smith said total sales are approximately \$9.9 million ahead of last year. Revenues are \$28 million ahead of last year. Pick 3 and Pick 4 sales combined are \$10 million behind last year. The on-line promotion Medal Madness will launch on January 25, 2010. Keno and Keno Bonus sales combined are behind last year. Racetrax and Racetrax Bonus sales combined are \$5.8 million ahead of last year. Instant games sales are approximately even as compared to last year. Mega Millions sales are approximately \$16 million ahead of last year. Multi-Match sales are \$3.6 million ahead of last year. The current jackpot is \$3 million.

Pick 3 and Pick 4 revenues combined are \$23 million ahead of last year. Payouts have stabilized as compared to last year's higher than normal payouts. Mega Millions revenue is \$7 million ahead compared to last year. Weekly revenue averages are running behind where the Lottery needs to be to meet the BRE estimate. The Lottery needs \$10.8 million weekly and it is tracking at approximately \$10 million weekly. It will be a close year.

Commissioner Wagner asked for an explanation of how to play the Multi-Match game. Ms. Smith responded it is a jackpot game with drawings twice a week. The cost is \$2.00 for three lines of numbers. Players chose one line of numbers and the computer picks the other two lines. Players need to match all six numbers to win the jackpot and there are also various lower tier prizes. Ms. Smith said effective February 8, 2010, drawing days for the Multi-Match game will change from Wednesdays and Saturdays to Mondays and Thursdays. This change is due to the implementation of Powerball drawings that are held Wednesdays and Saturdays. There will now be jackpot drawings every night except Sunday—Monday and Thursday for Multi-Match, Tuesday and Thursday for Mega Millions, and Wednesday and Saturday for Powerball.

On January 6, 2010, the Board of Public Works approved the award of the contract to GTECH for the Central Monitor and Control System for a Video Lottery Terminal Program (#2009-11). Meetings have already been held with GTECH to review the business requirements and weekly meetings will continue to be held.

The Lottery's budget hearings are scheduled on January 26, 2010 at 1:00 p.m. with the Senate and February 1, 2010 at 3:00 p.m. with the House. She will keep the Commission updated if there are any further budget cuts.

The Department of Budget and Management has provided the Lottery with funding for the VLT Central Monitor and Control System as well as estimated funding for the VLT machines. The Lottery is currently in the process of reviewing the RFP for the VLT machines.

The FY2009 Comprehensive Annual Financial Report (CAFR) has been completed. This annual report is submitted to the Government Finance Officers Association (GFOA) for certification. Copies of the CAFR were provided to the Commission.

Sales of Powerball will begin on January 31, 2010. The Mega Millions Finance Committee recently completed the Agreed Upon Procedures. She asked Ms. Cohen to update the Commission on Powerball advertising and promotional activities. Ms. Cohen said the Commission was provided with a detailed report containing information on Lottery activities and advertising for the launch of Powerball. Ms. Cohen introduced Ms. Jill Baer who manages the Advertising Division and Ms. Carole Everett who manages the Communications Division.

Ms. Baer gave a detailed report on the advertising support planned for Powerball. Retailers will be supplied with a kit which will contain five or six pieces of point-of-sale. An animated television spot is being created featuring a red ball. The spot will be tagged with the message that "Powerball is coming on January 31, 2010" and then tagged with the message that "Powerball is here." The Commission was shown the rough cut commercial. Outdoor signs including billboards, posters and bus shelters signs will be seen throughout the State. She also discussed the attempts made for joint advertising of Powerball with the Virginia and DC Lotteries and partnering with other Mega Millions states.

Ms. Everett spoke on the activities leading up to the launch of Powerball. Someone dressed as the red Powerball will be riding around the State on public transportation and making stops at various locations. At the Polar Bear Plunge at Sandy Point State Park on January 30, 2010, the Lottery will be present with a booth and conduct on stage events. Media coverage will also be present. On January 31, 2010, a Powerball kick-off event will be held at Martin's West in Woodlawn. Guests receive free admission with non-winning scratch-offs tickets. Terminals will be on site for purchase of on-line tickets and buyers can receive a trailer ticket for chance to win up to \$10,000 during this event. Media coverage will be present.

Commissioner Robertson asked why there is a delay in receiving the financial statements each month. For example, October 2009's statement is being received in January 2010. Stout, Causey and Horning will not issue financial statements until the GAAP is completed and that is usually by October 1. They then catch up with issuing statements beginning with July. There have been no past issues. Commissioner McGraw said she noticed more VLT information is being reported in the statements. Ms. Smith responded the Commission will begin to see more VLT activity in the statements.

## **REPORTS**

### *Legal Unit* – **Robert Fontaine, Principal Counsel**

Mr. Fontaine said the Legal Unit has arranged for the law firm of Whiteford, Taylor and Preston to conduct training for Lottery staff on social media and intellectual property issues relevant to Lottery activities.

Mr. Fontaine discussed the appeal filed with the Maryland State Board of Contract Appeals (MSBCA) by Baltimore City Entertainment Group (BCEG) challenging the Location Commission's rejection of BCEG's proposal for a video lottery operator license. The State is urging the MSBCA to dismiss the appeal because the attorney who filed it is not authorized to practice law in Maryland, and because it was filed 20 days late.

Mr. Fontaine discussed the status of the appeals that have been filed by Laurel Racing Association challenging the decision of the Location Commission rejecting its application for the Anne Arundel County site and approving the operator license application for the Arundel Mills location. He also discussed the status of the Magna bankruptcy proceedings. A Commission member asked whether a decision has been made on the auction of Laurel and Pimlico racetracks, and Mr. Fontaine responded that the auction is scheduled for January 21, 2010. (Reporter's note: the auction has been rescheduled and will likely be held February 23, 2010.)

Mr. Fontaine said that Mr. Dorsey has one VLT regulation to present to the Commission. Mr. Dorsey presented staff's proposal on COMAR 14.01.10.18 - Video Lottery Terminals - Hearings. Commission members received a draft of the proposal in advance of the meeting. This regulation sets forth requirements for the Commission to conduct hearings on VLT licenses and on complaints regarding civil violations of the VLT law, and to follow certain procedural standards. The regulation contains the same procedural standards that the Commission now follows for hearings on Lottery licenses. After discussion, Commissioner Robertson moved to address this as an emergency regulation. Commissioner Denis seconded the motion, and it passed unanimously. Vice Chairman Thomas moved to approve COMAR 14.01.10.18. The motion was seconded by Commissioner Robertson, and it passed unanimously.

### *Creative Product Services/Communications* – **Tracey Cohen, Deputy Director, Creative Services & Product Development**

Ms. Cohen said there were six new instant tickets to present to the Commission for approval: Game #808 *Winning in 3's*, Game #815 *Chips & Salsa*, Game #814 *Black Cherry Doubler*, Game #811 *Mad Money*, Game #812 *Xtreme Winnings*, and Game #782 *Lucky Casino*. (See attached Exhibit #1.)

There being no further discussion, Chairman Fowler requested a motion to approve the above instant games. Motion was made by Commissioner Denis and seconded by Commissioner Wagner. The instant games were approved by unanimous vote of the Commission.

Ms. Cohen said the Commission was provided with the final analysis of five instant games that were closed. (See attached Exhibit #2.) For the record, the five closed games were Game #686 *Extreme Green*, Game #650 *Blazing 7's*, Game #705 *Dream for the Gold*, Game #728 *Happy Holidays*, and Game #737 *Lucky Coins*.

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

Mr. Howells said in regards to the delay in the award of the VLT Central Monitor and Control System contract, the Comptroller's objection was the legality of the Board of Public Works (BPW) approving any contract where funds are not yet appropriated. An Opinion issued in 1991 by the Attorney General's Office stated there was no issue with approving a contract prior to funds being appropriated. Also, a Memorandum to the BPW from the Attorney General's Office dated January 3, 2010 responds to questions raised concerning the legality of approving a contract before funds are appropriated. A copy of the 1991 Opinion and the 2010 Memorandum were provided to the Commission.

Mr. Howells provided the Commission with the Register of Proposals for the Video Lottery Terminal Machines RFP and gave them an update on the status of the evaluation. He intends to present the contract to the Commission for their review and approval at the February 19, 2010 meeting. However, since the next Board of Public works meeting is the following week, February 24, 2010, he is requesting the Commission's permission to move forward with the administrative process prior to their approval of the contract. In order to be placed on the BPW agenda, the contract will have to be submitted three to four weeks prior to their February meeting. If any issues arise with the contract he can pull it from the agenda or make the modifications.

Chairman Fowler asked if the Commission had any issue with granting permission to move forward with this. The consensus of the Commission was to move forward.

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

Mr. Gallagher said IT has begun testing of the SGI software to support Powerball as well as working to resolve minor issues that have been identified. IT is working with SGI on the changes identified in the MUSL audit. IT is working on the notification to the Multi-Match subscribers regarding the change to the drawing days.

*Internal Audit – Michael Eaton, Internal Auditor*

Chairman Fowler thanked Commissioner Robertson, Commission Audit Committee member, for working with Mr. Eaton on the Calendar Year 2010 Audit Plan and Risk Assessment Plan.

Mr. Eaton said his report contains the Audit Plan for Calendar Year 2010. The first scheduled audit is the Prize Claims Process. He has been meeting with Commissioner Robertson regarding the internal audit note, Risk Assessment Plan and Audit Plan. The Internal Audit Charter has been submitted to Commission Audit Committee for approval and a copy was included with his report.

Mr. Eaton reviewed the Internal Audit Charter with the Commission, including the scope of work; authority; responsibility and accountability; objectivity and independence; operating principles; and reporting. He also discussed the Auditor's Annual Independence Statement

Mr. Eaton said he continues to follow-up on the status of prior Internal Audit observations with management to ensure they are being addressed.

Chairman Fowler thanked Mr. Eaton for his report and asked that he continue to work with Commissioner Robertson.

Chairman Fowler requested a motion to approve the Internal Audit Charter. Motion was made by Commissioner Denis and seconded by Commissioner McGraw. The motion passed by unanimous vote.

*Policy and Development – Paul Dorsey, Director*

Maryland law allows the Commission to establish an abbreviated process for issuing a non-operator VLT license to an applicant who holds a valid license in another state. If the Commission finds that the licensing standards of the other state are comprehensive, thorough, and provide similar safeguards to Maryland's standards, it may waive for an applicant some or all of Maryland's licensing standards.

Mr. Dorsey said he had previously provided Commission members with seven versions of *Waiver Eligibility Determination - Comparison of Maryland Licensing Standards*. Each of the seven versions of this document compare Maryland's VLT licensing standards with the VLT licensing standards of Arkansas, Illinois, Louisiana, Mississippi, Missouri, Nevada or Pennsylvania. He stated that the checklists in the documents compare Maryland's VLT licensing standards to the VLT licensing standards of the seven jurisdictions, and show that the other states' licensing requirements are sufficiently comparable to Maryland's so as to provide the basis for a waiver. He reviewed in detail each jurisdiction's checklists with the Commission, and the Commission discussed the comparisons at length. The Commission noted that there are instances where another state did not require as much information as Maryland requires, so staff may need to obtain any lacking information before the Commission

issues a license. Mr. Dorsey also answered Commission members' questions, and stated that he would make the organizational updates to the documents that they suggested.

Based on the Commission's finding that that the licensing standards of each of the seven states are comprehensive, thorough, and provide similar safeguards to those found in Maryland law, Chairman Fowler asked for a motion to approve an abbreviated licensing process whereby an applicant for a Maryland VLT license who holds a similar valid license in one of the seven identified states may be granted for purposes of granting a waiver of some or all of Maryland's standards. The motion was made by Commissioner McGraw and seconded by Commissioner Wagner, and passed unanimously.

Mr. Dorsey said the Legislative session has begun. He will keep the Commission updated on any bills submitted that pertain to the Lottery

Mr. Dorsey said the Administrative, Executive, and Legislative Regulations Committee (AELR) reviews all regulations. They have raised a question regarding the video lottery regulation for the placement of ATMs at slots facilities. He will be having further discussion with them and will keep the Commission updated.

## **PUBLIC COMMENTS**

There were no members of the public present.

## **COMMISSION BUSINESS**

### Lottery

Chairman Fowler 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 2010 calendar year. Commissioner Wagner made a motion to elect Kirby Fowler for the position of Chairman. Vice Chairman Thomas 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 Fowler 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.

### Video Lottery

There was discussion regarding the funding for compulsive gaming with regards to slots. The Department of Health and Mental Hygiene will be handling the program.

The Commission was updated on the proposed opening dates for the Ocean Downs and Arundel Mills slots facilities.

**DATE AND TIME OF NEXT MEETING**

The next Commission meeting will be held on Friday, February 19, 2010 at 10:00 a.m.

**ADJOURNMENT**

There being no further business for discussion, Chairman Fowler requested a motion to adjourn. Commissioner Boozer motioned that the meeting be adjourned and it was seconded by Commissioner Wagner. Motion carried by unanimous vote of Commission. The meeting adjourned at 12:00 noon.

Respectfully submitted,

Gina Smith