

**MARYLAND STATE LOTTERY COMMISSION
MARCH MINUTES**

DATE: March 19, 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 W. Ray Presley
Commissioner Kimberly D. Robertson

Gina Smith, Interim Director
Robert Fontaine, Principal Counsel
John Gallagher, Chief Information Officer, Information Technology
Paul Dorsey, Director, Policy and Development
Robert Howells, Director, Procurement
Michael Hofferbert, Strategic Products Planner
Michael Eaton, Internal Audit
Holly Knepper, Deputy Counsel
Marie Torosino, Executive Associate

OTHERS: Patrick McHugh, Scientific Games Online Entertainment Systems
Amy Hill, Scientific Games Online Entertainment Systems
Mark Hoffman, Scientific Games Online Entertainment Systems
Steve Smith, Scientific Games Online Entertainment Systems
Don Sawatzky, Pollard Banknote
Nancy Bettcher, Pollard Banknote
Julin Chwang, Pollard Banknote
Members of the Public

CALL TO ORDER

There being a quorum present, Chairman Fowler called the meeting of the Maryland Lottery Commission to order at 10:12 a.m. Commissioners present were J. Kirby Fowler, Jr., Matthew Thomas, F. Vernon Boozer, Howard A. Denis, Diane L. McGraw, W. Ray Presley, and Kimberly D. Robertson. Commissioners Bruce L. Reeder and George M. Wagner were absent.

APPROVAL OF MINUTES

Chairman Fowler stated the February 19, 2010 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 February 19, 2010 Commission Minutes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS (SGI)

Mr. Steve Smith said SGI is working on the development of the Mega Play multiplier for the Mega Millions game. The Mega Play multiplier is scheduled for June delivery. This multiplier is similar to the Power Play multiplier in the Powerball game. He said there were representatives present from corporate for a meeting later this afternoon with the Lottery to discuss revenue generating ideas. He introduced those present: Patrick McHugh, Executive Vice President; Amy Hill, Vice President of Marketing; and Mark Hoffman, Regional Director.

POLLARD BANKNOTE

Ms. Nancy Bettcher, Director of U.S. Marketing, introduced Mr. Don Sawatsky, Vice President of Marketing and Ms. Julin Chwang, who is located at the Lottery office. Ms. Lori Denton was on vacation and not available to attend the meeting. The instant game sales lost due to the recent snow storms have not yet recovered. Pollard will be meeting with the Lottery to discuss ideas to make up the loss.

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

Ms. Gina Smith said sales for all games have recovered somewhat from the recent snowstorms. It was the Lottery's best two week record of sales and the highest sales week for this fiscal year thus far. Total sales are \$1.7 million ahead compared to the same time last year. Mega Millions and Powerball sales have driven a majority of that. Racetrax sales continue to perform well. Pick 3 and Pick 4 sales are somewhat stagnant. Keno sales are rebounding and are about even compared to last year. A Keno Sprinkler promotion is currently running. Instant game sales are behind last year by \$10 million. The Lottery will be discussing some ideas with Pollard to gain some ground.

Powerball is bringing plus sales into the Lottery and there has been no cannibalization of other lottery products. The Lottery will launch the Mega Play multiplier in June. It should bring in plus sales, especially along the border states.

Total revenue is \$23.5 million ahead of last year. The Lottery is coming up against top revenue weeks from last year. The prior year there were weeks of \$11 million and \$12 million in revenue where lower game payouts were experienced and the Mega Millions jackpot was higher. Mega Millions and Powerball sales and revenues are both ahead compared to last year.

Chairman Thomas commented that the Bureau of Revenue Estimates (BRE) recently met and asked if the Lottery's revenue estimate was changed. Ms. Smith responded it was changed to \$525.7 million. The Lottery has to average approximately \$35 million weekly in sales through the next 32 weeks, and average \$10.6 million weekly in revenue to meet the BRE estimate.

The Lottery is working with SGI to develop an enhancement to the Racetrax game for next fiscal year. Also, the Lottery is working with Pollard to develop a Mega Millions/Powerball scratch-off ticket for cross promotion.

The Lottery's budget decision hearing with the Senate was this past week. There were no cuts taken. The budget decision hearing with the House is next week and the Lottery has heard of no cuts being taken on the House side.

The Lottery is working with GTECH on a continuous basis to get the VLT central system up and running. It is progressing well.

Vice Chairman Thomas asked who is filling in due to Ms. Cohen's leaving. Ms. Smith replied Ms. Baer will be overseeing the Creative Product Services/Communications Division. However, she was not available to attend this month's meeting due to vacation. Chairman Fowler asked if any recruitment has take place for a replacement. Ms. Smith responded not at this time.

Chairman Fowler commented that several interviews were conducted for the Director's position and there were some excellent candidates. The process continues to move forward and no firm decision has been made as yet. He commented that Ms. Smith is doing a fantastic job as Interim Director.

REPORTS

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

Mr. Fontaine said he has no additional information to add to his report. He updated the Commission on the progress of the VLT litigation concerning Laurel Racing Association's challenge of the decision of the Location Commission to reject its application for the Anne Arundel County site and approve the operator license application for the Arundel Mills location, as well as the status of the Magna bankruptcy proceedings. He also updated the Commission on 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. He will continue to keep the Commission updated on these issues.

Creative Product Services/Communications – **Michael Hofferbert, Strategic Products Planner**

Mr. Hofferbert said there are five new instant tickets to present to the Commission for approval: Game #830 *Bingo Boxes*, Game #820 *Win It All*, Game #816 *Reese's*, Game #822 *Cash 2 Go*, and Game #821 *Roulette*. (See attached Exhibit #1.)

Mr. Hofferbert said the Reese's scratch-off ticket is a licensed game and Mr. Howells will be presenting the licensing agreement during this meeting. Vice Chairman Thomas noted that the Reese's scratch-off game is incurring advertising expenses of \$275,200 and the other new games are not. He asked if there is anything unusual about the Reese's scratch-off game. Mr. Hofferbert responded there are plans to incorporate this game with an advertising campaign with the Orioles this year.

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

Mr. Hofferbert said the Commission was provided with the final analysis of three instant games that were closed. (See attached Exhibit #2.) For the record, the three closed games were Game #717 *Winner Wonderland*, Game #707 *Super Crossword*, and Game #729 *Deuces are Wild*.

Procurement – **Robert Howells, Director**

Mr. Howells said the Reese's Licensing Contract (#2010-04) with MDI Entertainment, LLC is a license provision game. This is similar to past licensing contracts for Dubble Bubble, Deal or No Deal and Hershey Kiss. This is a two year contract with a Not to Exceed (NTE) amount of \$98,340. He is requesting the Commission's approval to enter into the agreement with MDI, a subsidiary of SGI. Chairman Fowler asked if the \$98,340 NTE is within the range of prior types of licensed games. Mr. Howells responded the rate is within the range of what is usually paid and it depends on number of the number of tickets printed.

With there being no further discussion by the Commission, Chairman Fowler said he would entertain a motion to approve the Reese's Licensing Contract (#2010-04) with MDI Entertainment, LLC. Motion made by Commissioner Denis and seconded by Commissioner Robertson. Motion passed by unanimous vote of Commission.

Mr. Howells said a Modification is necessary to the Instant Ticket Games and Related Services Contract (#2006-01) with Pollard Banknote Limited Partnership (Primary) and Scientific Games International, Inc. (Secondary). (Note: Originally there were two secondary contracts, one with SGI and one with OGT. OGT was acquired by SGI, leaving only SGI on the secondary contract for instant ticket printing.) There is a situation where the Not to Exceed

(NTE) amount for the base contract will run out before its expiration on June 30, 2010. The original contract amount was based on the percentage of net sales for instant tickets. Instant ticket sales were higher than what was anticipated when the contract began four years ago. When the contract expires in June, there will not be sufficient funds in the contract that was originally approved by the Board of Public Works. There are funds available in the Lottery's budget for this Modification. The Modification will be presented to the Board of Public Works. He requested the Commission's approval to increase the NTE on the overall contract by \$3.1 million for a total of \$24.3 million.

With there being no further discussion by the Commission, Chairman Fowler said he would entertain a motion to approve the Modification to the base contract to increase the NTE amount by \$3.1 million in the Instant Ticket Games and Related Services Contract (#2006-01) with Pollard Banknote Limited Partnership (Primary) and Scientific Games International, Inc. (Secondary). Motion made by Vice Chairman Thomas and seconded by Commissioner McGraw. Motion passed by unanimous vote of Commission.

Mr. Howells said the Instant Ticket Games and Related Services Contract (#2006-01) expires on June 30, 2010. The Lottery has reviewed Pollard's existing contract, surveyed market conditions and other rates around the country. Discussions have been held with Pollard and the Lottery has come to the conclusion that it is satisfied with what Pollard has provided thus far. He reviewed the reference chart that was included with his report showing what other states are paying for similar services. Based on the review and additional services that Pollard has agreed to provide at the same contract amount, the Lottery has determined that it is in the best interest of the State to exercise the three year renewal option.

With there being no further discussion by the Commission, Chairman Fowler said he would entertain a motion to approve the renewal option for an additional three year period on the primary contract for the Instant Ticket Games and Related Services Contract (#2006-01) with Pollard Banknote Limited Partnership (Primary) Motion made by Commissioner McGraw and seconded by Commissioner Presley. Motion passed by unanimous vote of Commission.

Mr. Howells said regarding the secondary contract with SGI, the Lottery is currently holding discussions with them to provide any price reductions or added value services before a decision is made on the three year renewal option. Their response is due by March 24, 2010.

Chairman Fowler requested that the Lottery insure that SGI and Pollard are meeting their MBE goals.

The On-Line Gaming System Contract (2005-11) with Scientific Games International, Inc. expires in June 2011. However, because of the nature of the contract and the lead time involved to re-solicit a contract, he is bringing this renewal option to the Commission earlier than normal. The Lottery has reviewed the contract, surveyed the market, and met with SGI. The contract price of .9500% of total net sales will continue, which is among the lowest rates in the country. In this renewal option, SGI has agreed to upgrade or replace the Extrema terminals in the field. In addition, they will provide the Lottery with Lottery in Motion Point-of-Sale Digital Advertising System at retailer locations, a retailer sales improvement program, and replace the Cole System Retailer Management computers.

The Lottery will reduce the required number of PATS to be provided by SGI from 2,000 to 500. The value over the renewal option period is approximately \$12.9 million and the off-set in value of the 1,500 eliminated PATs is approximately \$9.2 million. The net value to the Lottery is \$3.7 million. Mr. Howells requested the Commission's approval to exercise the five year renewal option for SGI. It will be presented to the Board of Public Works in April or May.

With there being no further discussion by the Commission, Chairman Fowler said he would entertain a motion to approve the renewal option for an additional five year period for the On-Line Gaming System Contract (#2005-11) with Scientific Games International, Inc. Motion made by Commissioner McGraw and seconded by Commissioner Boozer. Motion passed by unanimous vote of Commission.

Mr. Howells said last month he presented to the Commission the VLT Master Contract (#2009-12) in preliminary format so that it could be placed on the Board of Public Works agenda for March. The Lottery had ten Offerors and is in the process of having the contracts signed. However, one of the Offerors, WMS Games, refused to sign the State's contract and cited over 30 exceptions and conditions. Many of these exceptions and conditions are mandatory provisions in COMAR and cannot be changed. Several meetings were held with WMS, but the issues could not be resolved and WMS opted to withdraw from the process. The other nine Offerors signed their respective contracts. A sample contract was included with the information packet he provided to the Commission. The Lottery had a pre-BPW meeting on March 24, 2010 to discuss the nine contracts. He requested the Commission's approval to move forward with the Master Contract for the VLT machines.

With there being no further discussion by the Commission, Chairman Fowler said he would entertain a motion to approve the Video Lottery Terminals Master Contract (#2009-12) with the nine contractors. Motion made by Commissioner Presley and seconded by Commissioner Denis. Motion passed by unanimous vote of Commission to approve the contract.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said weekly meetings continue with GTECH on the VLT central system. GTECH will be occupying space at Montgomery Park and construction of the Data Center is underway with scheduled completion by April 1, 2010.

Vice Chairman Thomas asked for a status of the VLT facilities. Ms. Smith responded Ocean Downs is moving through their issues and the facility is scheduled to open in November or December 2010. The Penn-Cecil facility is scheduled to open on October 26, 2010.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Eaton said the Prize Claims Process Internal Audit has been completed and received a "mostly adequate" audit rating. A copy of the report will be provided to the Commission next month. He is currently working on the Fixed Assets Internal Audit and expects the audit to be completed by the end of March 2010. A report will be available in April or May 2010. He will be starting the Electronic Funds Transfers Internal Audit.

Chairman Fowler asked Commissioner Robertson if she had any additional comments as part of the Commission Audit Group. She responded things are moving along fine.

Policy and Development – Paul Dorsey, Director

The VLT law provides that, in order to protect the public interest, Commission regulations shall include provisions that limit the number and location of, and the maximum withdrawal amounts from, ATMs. In October 2009, the Commission approved as an emergency regulation COMAR 14.10.11.07.B, which included a provision pertaining to maximum withdrawal of ATM usage that established the withdrawal limit as what has already been established between the player and the financial institution where the player holds an account. This withdrawal amount limitation provision is reportedly stalled in the Administrative, Executive, and Legislative Review Committee (AELR).

Mr. Dorsey distributed to the Commission information on three options to resolve the ATM withdrawal limit issue in COMAR 14.01.11.07.B. As noted in the handout, option number one provides that the maximum amount a player may withdraw from an ATM in one day shall be subject to the terms and conditions of ATM usage as established between the player and the financial institution where the player holds an account. This is the option that the Commission approved as an emergency regulation in October 2009. Option number three provides that a player may use an ATM to withdraw no more than \$300 per transaction between 8:00 a.m. and 2:00 a.m. The Commission discussed this option at the February 2010 Commission Meeting. Option number two provides that a player may use an ATM to withdraw no more than \$500 from an account between the hours of 8:00 a.m. and 2:00 a.m. Mr. Dorsey is requesting the Commission's approval of option number two so that Lottery staff can work with AELR to finalize this regulation. He also requested that the Commission authorize Lottery staff to submit this as an emergency or proposed regulation. Commissioner Presley asked whether, in option number two, after midnight is considered the next day. Mr. Dorsey responded that a "day" is considered to be from 8:00 a.m. to 2:00 a.m.

Chairman Fowler asked who makes the decision on which ATM companies are located at the VLT facilities. Mr. Dorsey responded the facility operators choose the ATM operators and the Lottery performs a background check on those operators. Both Ocean Downs and Penn Cecil facilities are using Global Cash, a worldwide company with over 1,100 locations.

After further discussion by the Commission, Chairman Fowler said he would entertain a motion to grant Lottery staff the ability to negotiate with AELR, from the three options, the ATM withdrawal limit. Motion was made by Commissioner Denis and seconded by Vice Chairman Thomas. Motion passed by unanimous vote of Commission.

Mr. Howells said when regulations are approved as emergency regulations, they are only valid for six months. The Lottery then has to follow up later to promulgate the emergency regulations as "regular," permanent regulations before the emergency version of the regulations expires.

Mr. Fontaine said the ATM regulation the Commission just discussed was part of a group of emergency regulations that was still at AELR but had not yet been published since their

approval in October 2009. Mr. Fontaine pointed out that all regulations that the Commission has approved since October 2009 were submitted as emergency regulations. He suggested that the Commission may want to vote today to approve all the regulations that were approved as emergency after October 2009 to move forward as “regular” regulations.

Chairman Fowler said he would entertain a motion to give initial approval of those emergency regulations submitted from October 2009 forwards, so that those regulations can begin the process to be promulgated as “regular” regulations. Motion was made by Commissioner Denis and seconded by Commissioner Presley. Motion passed by unanimous vote of Commission.

Mr. Dorsey said that he had previously provided the Commission with seven versions of Waiver Eligibility Determinations forms for the states of Wisconsin, Arkansas, Illinois, Kansas, New Jersey, Rhode Island, and New York. The Commission previously deemed acceptable the VLT licensing standards of these states for purposes of granting waivers to VLT licensee applicants who were licensed in one of those states and were now applying for a VLT license in Maryland. The Commission approved each waiver form, with qualifications. Mr. Dorsey said that he is requesting the Commission’s approval, with the recommendations listed on page seven of each waiver.

Commissioner McGraw noted that on page seven for the Arkansas and Illinois waiver forms the section numbers for the recommendations were omitted. Mr. Dorsey responded these were done in the old format and he would make the corrections.

After further discussion by the Commission, Chairman Fowler said he would entertain 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 above identified states may be granted a waiver of some or all of Maryland’s standards. Motion was made by Vice Chairman Thomas and seconded by Commissioner Presley. Motion passed by unanimous vote of Commission

Mr. Dorsey said next month he will have new regulations to present to the Commission regarding VLT machine and testing standards and contractor registration.

Mr. Dorsey provided the Commission with an outline of bills that he has been tracking during the 2010 session of the General Assembly. Most of the bills deal with the expansion of the VLT program: authorizing table games; allowing bars, taverns and restaurants to have VLTs; and increasing the number of VLT licenses offered to destination locations. Other bills were submitted to authorize slot machines at service clubs in certain counties and statewide, and to allow certain counties the right to offer casino-style games at charitable events. He will keep the Commission updated.

Mr. Dorsey said the Commission needs to schedule qualification hearings for the nine VLT manufacturers and suggested that these hearings be held the same day as the April Commission Meeting. The Commission agreed to hold the hearings at the April meeting.

Mr. Fontaine said the hearing for the license revocation of Freddie’s Variety Store needs to be scheduled in April or May. The Commission agreed to schedule the hearing for the May meeting.

COMMISSION BUSINESS

Lottery

Commissioner Denis said he is resigning as a Commission board member and provided a copy of his resignation letter to the Commissioners. He expressed his gratitude to the Governor for the appointment. He said it was a pleasure to have the opportunity to serve with the Commission and to work with Lottery staff. After comments by members of the Commission, Chairman Fowler said on behalf of the Commission they would like to thank him for his service as a board member.

PUBLIC COMMENTS

There were no comments.

DATE AND TIME OF NEXT MEETING

The next Commission meeting in April will be held in conjunction with the Qualification Hearings for the VLT manufacturers. The Commission will be contacted with the meeting date and time.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler requested a motion to adjourn. Vice Chairman Thomas motioned that the meeting be adjourned and it was seconded by Commissioner Presley. Motion carried by unanimous vote of the Commission. The meeting adjourned at 11:47 a.m.

Respectfully submitted,

Gina Smith