

**MARYLAND STATE LOTTERY COMMISSION  
APRIL MINUTES**

DATE: April 23, 2010

TIME: 12:00 noon

PLACE: Maryland Lottery Headquarters

PRESENT: Chairman J. Kirby Fowler, Jr.  
Vice Chairman Matthew Thomas  
Commissioner F. Vernon Boozer  
Commissioner W. Ray Presley  
Commissioner Bruce L. Reeder  
Commissioner Kimberly D. Robertson  
Commissioner George M. Wagner

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  
Jill Baer, Director, Creative Services  
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  
Stephen Martino  
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 12:15 p.m. Commissioners present were J. Kirby Fowler, Jr., Matthew Thomas, F. Vernon Boozer, W. Ray Presley, Bruce L. Reeder, Kimberly D. Robertson, and George M. Wagner. Commissioner Diane L. McGraw was absent.

## **INTRODUCTION OF DIRECTOR**

Chairman Kirby said on behalf of the Commission he wanted to thank Ms. Smith for the great job she has done over the past several months in her capacity as Interim Director continuing to run the Lottery as a professional organization. He is also aware that Ms. Peggy Watson, Governor's Deputy Chief of Staff, is also appreciative of the job Ms. Smith has done.

Chairman Fowler then introduced Mr. Stephen Martino, the new Lottery Director. Mr. Martino said he was the Executive Director of the Kansas Racing and Gaming Commission and prior to that he was an attorney in private practice. He was involved with the first casino that opened in Kansas in December 2009. Prior to today, he had the opportunity to speak with Chairman Fowler, Ms. Smith, and the Governor. He said he looks forward to this new position and in bringing his casino experience. He and his family are currently residing in Ellicott City.

Ms. Smith stated a press release announcing the new Lottery Director will be issued by the Governor's Office today.

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

Mr. Steve Smith said the Mega Millions Megaplier will be implemented in mid-September. This is similar to Powerball's Power Play multiplier. SGI will be testing the Megaplier in the next few months.

## **POLLARD BANKNOTE**

Ms. Lori Denton distributed sample Aces High and Bucks Deluxe instant tickets to the Commission. Bucks Deluxe is a \$5.00 instant ticket with a top prize of \$50,000 with taxes paid. The symbol of a hat with "taxes paid" will be printed on all future types of these instant tickets. Aces High is a \$5.00 instant ticket with a top prize of \$50,000 and sales are 19% ahead of the average sales for a \$5.00 instant ticket.

Chairman Fowler asked if the Lottery will be doing another Ravens scratch-off ticket this year. Ms. Smith replied the Lottery is in negotiations with the Ravens organization to run another promotion this football season. Pollard Banknote is assisting with the ticket artwork. Ms. Baer, Director of Creative Services and Advertising, said she will have additional information to present next month. However, several meetings and phone calls have been held with the

Ravens over the past three weeks and they have expressed an interest in pursuing the partnership. She will keep the Commission updated.

At this point of the meeting, the Commission took a short break so that new Director to could be introduced to the Lottery employees. Meeting then reconvened at 12:52 p.m.

### **APPROVAL OF MINUTES**

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

### **REPORTS**

#### *Creative Product Services/Communications – Jill Baer, Director, Creative Services*

Ms. Baer stated the Reese's Peanut Butter Cup instant ticket will launch on May 17, 2010. She showed the Commission sample advertising materials. Television, radio, online and outdoor advertising is planned to support the ticket as well as pairing the ticket with a portion of the Oriole's sponsorship.

On April 19, 2010, the Racetrax monitor game was made available at all lottery agent locations. A 6 for \$5.00 Racetrax promotion will begin on April 26, 2010 and run through May 23, 2010. A Keno Sprinkler promotion is currently running through April 25, 2010. A Powerball Power Play 10X promotion will run nationwide during the month of May.

The Communications Division has been present at various community events. They were present at Oriole's opening day and will have similar set-ups at future games.

Ms. Baer said there are three new instant tickets to present to the Commission for approval: Game #832 *Super Bonus Crossword*, Game #829 *Jumbo Cash Doubler*, and Game #827 *Big Money Mega Play*. (See attached Exhibit #1.)

After discussion, Chairman Fowler requested a motion to approve the above instant games. Motion was made by Commissioner Wagner and seconded by Vice Chairman Thomas. The instant games were approved by unanimous vote of the Commission.

Ms. Baer said the Commission was provided with the final analysis of four instant games that were closed. (See attached Exhibit #2.) For the record, the four closed games were Game #619 *Doubling Star Crossword*, Game #743 *Cashing Through The Snow*, Game #751 *Triple Tripler*, and Game #752 *Fill'er Up*.

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

Ms. Gina Smith said total sales of all games are \$7 million ahead of last year. Revenue is \$19.8 million ahead of last year. The Lottery experienced large Pick 4 payouts in March— #1220 paid out \$950,000, #1212 paid out \$6.6 million, and #1115 paid out \$2.0 million. Those three hits cost the Lottery approximately \$9 million in lost revenue.

The Racetrax monitor game is now available at all lottery agent locations and hopes this should result in increased sales. The Lottery had success with expanding Keno to all agent locations in the past. It does not cost the Lottery any funding to expand to all the locations. There are other promotions planned for Racetrax through this fiscal year and into the next fiscal year. More details will be available at a later date.

Chairman Fowler asked if the Lottery has met its revenue commitment to the Maryland Stadium Authority. Ms. Smith responded the Lottery has met its commitment. To meet the BRE estimate, the Lottery will need to average approximately \$11.1 million in revenue each week until the end of the fiscal year, and it is currently averaging \$9.7 million.

Due to questions raised at the March Board of Public Works (BPW) meeting regarding the approval of the Master Contract for the purchase of VLT machines, the Lottery returned to the BPW on April 7, 2010. The Lottery had requested \$800 million for the purchase or lease of the VLT machines. However, the BPW was concerned with this large amount of money and decreased it to a Not to Exceed (NTE) amount of \$200 million, which is sufficient for the first two facility openings. Also, whenever a facility opens, the Lottery will have to go back to the BPW with the initial order for the VLT machines to request approval to purchase the machines. This will occur sometime in June for the approval of machines for Penn National and Ocean Downs. Commissioner Presley asked what the reason was for that procedure. Ms. Smith responded it was due to the need for transparency in the procurement process.

On May 5, 2010 the Lottery will be going to the BPW for approval of the Extension of the Instant Ticket Game and Related Services Contract with Pollard Banknote. On May 19, 2010, The Lottery will be going to the BPW for approval of the Extension of the On-line Gaming System Contract with SGI.

Ms. Smith said the Legislative session has ended. The Lottery's budget was left intact and no cuts were made. The Lottery's budget is the same amount as this was this fiscal year.

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

Mr. Fontaine said he has no additional information to add to his report. The Commission has scheduled the lottery license revocation hearing for Freddie's Variety for 11:00 a.m. at the May 21, 2010 Commission meeting. This agent is also the subject of a ten-count indictment in Circuit Court for Montgomery County and that trial is scheduled for June 1, 2010.

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

Mr. Howells said the Commission approved at the March meeting the Renewal Option for the Primary Contract for the Instant Ticket Games and Related Services Contract (#2006-01) with Pollard Banknote. At that time, the Lottery was waiting for a response from SGI regarding the Renewal Option for the two Secondary Contracts. SGI has offered the Lottery discounts on the printing costs and price reductions on special printing processes that were part of the original contract but as an extra cost option. The Secondary Contract was recently used for the first time for the Reese's Peanut Butter Cup instant ticket. Based on the review and the additional services, the Lottery has determined that it is in the best interest of the State to exercise the renewal option for both Secondary Contracts with SGI.

With there being no further discussion by the Commission, Chairman Fowler said he would entertain a motion to approve the renewal options for the two secondary Instant Ticket Games and Related Services Contracts (#2006-01S1 and #2006-01S2). Motion to approve made by Commissioner Robertson and seconded by Commissioner Presley. Motion carried by unanimous vote of Commission.

The Professional Consulting Services Related to a Video Lottery Terminal Program Contract (#2009-01) with WhiteSand Consulting, Inc. was approved by the Board of Public Works in May 2009 for a two year term with three one-year renewal options. WhiteSand assisted the Lottery in reviewing the VLT programs, drafting RFPs, assisting in the procurement process and assisting in the installation and implementation. The services of WhiteSand have been utilized more than anticipated and will continue to be needed over the next few months. He is requesting the Commission's approval for a Modification to the Contract in the NTE amount of \$49,500. This Modification will be submitted to the Department of Budget and Management for approval.

With there being no further discussion by the Commission, Chairman Fowler said he would entertain a motion to approve the Modification to the Professional Consulting Services Related to a Video Lottery Terminal Program Contract (#2009-01) with WhiteSand Consulting, Inc., in the NTE amount of \$49,500 for the base Contract term. Motion made by Vice Chairman Thomas and seconded by Commissioner Robertson. Motion carried by unanimous vote of Commission.

Vice Chairman Thomas asked for the status of the RFP for video lottery facility in Baltimore. Mr. Howells responded no guidelines have been received as yet and it is the discretion of the Facility Location Commission to issue the RFP. The appeal filed by Baltimore City Entertainment Group challenging the Location Commission's rejection of their proposal for a video lottery operator license is currently pending before the Maryland State Board of Contract Appeals.

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

Mr. Gallagher said IT is currently testing the upcoming 6 for \$5.00 Racetrax promotion. Ongoing meetings are being held between the Lottery, GTECH and the two licensed VLT facilities. In mid-May, GTECH will begin accepting VLT machines from the manufacturers for testing.

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

Mr. Eaton said the Claims and Prize Payment Process Internal Audit Report was completed and received an “adequate” rating. The Fixed Asset and Inventory Controls Internal Audit Report was completed and received an “adequate” rating. Copies of both reports were provided to the Commission. He has begun work on the Electronic Funds Transfers Internal Audit and the Investments Internal Audit.

*Policy and Development* – **Paul Dorsey, Director**

Mr. Dorsey presented a proposed amendment to COMAR 14.01.10.02.B - Video Lottery Terminals - Definitions. This amendment would add the definition of “vendor” to the regulation at .02B(15). This definition describes entities that provide services to VLT operations that are not considered “essential” to VLT operations. Mr. Dorsey spoke further about this definition and its use in the regulation that will be proposed next, called “Vendor Registration.”

After further discussion, Chairman Fowler said he would entertain a motion to approve the amendment to COMAR 14.01.10.02.B. to add the new definition at .02B(15). The motion was made by Commissioner Robertson and seconded by Commissioner Presley, and the motion carried by unanimous vote of the Commission.

Mr. Dorsey presented new regulation COMAR 14.01.10.19 - Video Lottery Terminals - Vendor Registration. This regulation would require an individual or business that meets the definition of “vendor” (approved above as new 14.01.10.02B(15)) that conducts business with VLT operations to “register” with the Commission if the vendor provides non-gaming goods and services.

After further discussion, Chairman Fowler said he would entertain a motion to approve COMAR 14.01.10.19. The motion was made by Commissioner Robertson and seconded by Commissioner Presley, and the motion carried by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion to approve COMAR 14.01.10.19 - Video Lottery Terminals -Vendor Registration as an emergency regulation. The motion was made by Vice Chairman Thomas and seconded by Commissioner Robertson, and the motion carried by unanimous vote of the Commission.

Mr. Dorsey presented COMAR 14.01.15 - Video Lottery Technical Standards. This new chapter of regulations deals with the specific requirements and testing of the VLT machines. Mr. Dorsey spoke further about the testing regulations.

After further discussion, Chairman Fowler said he would entertain a motion to approve COMAR 14.01.15 - Video Lottery Technical Standards. The motion was made by Commissioner Reeder and seconded by Commissioner Wagner, and the motion carried by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion to approve COMAR 14.01.15 - Video Lottery Technical Standards as an emergency regulation. The motion was made by Vice Chairman Thomas and seconded by Commissioner Robertson, and the motion carried by unanimous vote of Commission.

Mr. Dorsey said the following four bills that affect the Lottery passed during the General Assembly session and his report contained synopses of those bills:

- SB 882 Gaming-Video Lottery Terminals
- HB535 Cecil County-Alcoholic Beverages-Entertainment Facility License
- HB 1032 Motor Fuel Suppliers-Games of Chance
- HB 1505 Central Collection Unit-Collection of Debts Owed to the State

Chairman Fowler asked for a status of the Arundel Mills VLT facility. Mr. Fontaine responded that the Anne Arundel County Executive informed the Anne Arundel County Zoning Board to stop processing Cordish's application until after the litigation concludes or the November election. A question was asked as to what happens if the referendum passes in the November election. Mr. Dorsey responded that the current zoning, which is the subject of the referendum, covered both Arundel Mills and Laurel Park. If the referendum passes, then no zoning will be in place for either site. The zoning issues would then go back to the Anne Arundel County Council for new zoning to be passed.

## **COMMISSION BUSINESS**

### *Video Lottery*

No further business to discuss.

### *Lottery*

No further business to discuss.

**PUBLIC COMMENTS**

There were no comments.

**DATE AND TIME OF NEXT MEETING**

The next Commission meeting will be held on Friday, May 21, 2010 at 10:00 a.m., to include the lottery license revocation hearing for Freddie's Variety.

**ADJOURNMENT**

There being no further business for discussion, Chairman Fowler requested a motion to adjourn. Commissioner Reeder 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 1:53 p.m.

Respectfully submitted,

Gina Smith