

**MARYLAND STATE LOTTERY COMMISSION
MAY MINUTES**

DATE: May 21, 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 Diane L. McGraw
Commissioner W. Ray Presley
Commissioner Bruce L. Reeder
Commissioner Kimberly D. Robertson
Commissioner George M. Wagner

Stephen Martino, Director
Gina Smith, Assistant Director/CFO
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: Jeff Hale, Scientific Games Online Entertainment Systems
Lori Denton, Pollard Banknote
Representatives from Penn National
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 10:04 a.m. Commissioners present were J. Kirby Fowler, Jr., Matthew Thomas, F. Vernon Boozer, Diane L. McGraw, W. Ray Presley, Bruce L. Reeder, Kimberly D. Robertson, and George M. Wagner.

APPROVAL OF MINUTES

Chairman Fowler stated the April 23, 2010 Minutes were previously sent to the Commissioners for review and asked if there were any corrections. There were none. Commissioner Wagner motioned that the Minutes be approved and it was seconded by Commissioner Robertson. The April 23, 2010 Commission Minutes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS (SGI)

Mr. Jeff Hale said on behalf of SGI, he would like to thank the Commission and the Board of Public Works for their approval of the on-line gaming contract extension. SGI is currently preparing for the necessary changes related to the contract extension. They are working on the Mega Millions Megaplier that is scheduled to launch in September 2010. The secondary instant ticket contract with SGI was used for first time with the launch of the Reese's instant game.

Commissioner Wagner asked for an explanation of the Megaplier. Mr. Hale responded it is based on the same principle as the Keno Bonus and Racetrax Bonus plays. Players pay an additional \$1.00 to participate in Megaplier. It only applies to lower tier prizes and not the top tier prize. For example, if the Megaplier is three times, then all tiers, except for the top tier, would have any winnings multiplied by three.

POLLARD BANKNOTE

Ms. Lori Denton said a second chance promotion call "Winning Hand" will run from June 28 to October 8, 2010, and an information sheet was provided to the Commission. Players that mail in \$10 worth of non-winning Trump Card, Blackjack Blowout or High Roller scratch-offs have a chance to win various prizes such as a poker table and chairs; poker chips with case; and a card shuffler.

Pollard is in the process of developing the holiday scratch-offs for this years. She will have additional information next month for the Commission's review.

DIRECTOR'S REPORT

Mr. Martino said Lottery sales continue to be strong and are \$9.7 million ahead of last year. If sales continue at this pace, the Lottery will have another record year. They are projecting \$1.7 billion in sales. Monitor games are performing well, Keno sales are slightly ahead, and Racetrax sales are significantly ahead as compared to last year. Powerball has brought in additional sales of \$19 million since its implementation. Multi-Match sales show a small increase compared to last year. There is some concern that Powerball is pulling sales away from Multi-Match and the Lottery will continue to monitor those sales. Pick 3 and Pick 4 sales are declining and that is being seen throughout the lottery industry. A Pick 3 promotion will be implemented to help stimulate sales and this also helps to stimulate sales in Pick 4. Scratch-off sales are running slightly behind last year. Next week the Reese's instant tickets will launch and the ticket is also tied into a sponsorship with the Orioles. The Lottery is currently working on the product plan for FY2011.

Lottery revenues are \$23 million ahead of last year. Powerball revenues are \$8.2 million since it began in January 2010. The Lottery does not project that it will reach the BRE estimate established for this year in the amount of \$525 million, but will probably be over the \$500 million mark. The economy and snow storms this year have a significant impact on sales and revenues. The Lottery is projecting revenues to reach \$502 to \$503 million, providing there are no large payouts in the Pick 3 and Pick 4 games. The Powerball jackpot is rolling and bringing in more sales and revenues for the Lottery. For FY2011, the Lottery has been being given an even more aggressive revenue estimate of \$546 million. However, there will be an opportunity to revisit that estimate with the Department of Budget and Management.

Commissioner Presley asked if the \$20 million total indicates what funds have been used in the Unclaimed Prize Fund (UCPF). Ms. Smith responded yes, that is what the Lottery has spent thus far, and the estimated balance is \$3.5 million. Vice Chairman Thomas commented that the UCPF balance of \$3.5 million is the lowest seen in quite some time, and the balance is usually around \$7 million. Commissioner Wagner asked if the Lottery is spending more of the UCPF because of the lack of advertising funds. Ms. Smith responded yes, it is spending more. The UCPF has been very useful in running promotions to keep sales up.

Mr. Martino said on May 5, 2010, the Board of Public Works (BPW) approved the extension of the primary contract with Pollard Banknote for instant ticket games and related services and also approved the extension of the secondary contract with SGI for instant ticket games and related services.

On May 19, 2010, the BPW approved the extension of the contract with SGI for the on-line gaming system for an additional five year period beginning June 27, 2011. As part of the contract extension, SGI will initiate some technical upgrades and refurbish the terminals. They will pull 100 terminals out of agent locations, refurbish them and then return them to agent locations. No retailer will be without a terminal during this transition. This project will be completed by June 2011. The Lottery also negotiated additional value added technical enhancements, one which is the Lottery in Motion (LIM). The LIM requires a 17-inch flat panel screen that will be installed at all retailer locations for point of sale marketing and

advertising. This has proven successful in helping retailers to encourage customers to purchase lottery products. SGI will hold training for retailers on how to improve their point of sale materials to maximize sales. Ms. Smith has additional information in her report.

The Lottery has completed negotiations with the Baltimore Ravens for another scratch-off ticket sponsorship this year. The Commission was shown a sample of the \$5.00 scratch-off ticket. Kick-off of the ticket is planned for August 10, 2010. Ms. Baer will discuss this further in her report. Maryland's ticket was the most successful NFL branded ticket in the country last year.

An in-house VLT Task Force has been formed consisting of John Gallagher, Gina Smith, Paul Dorsey, Robert Howells, Michael Eaton, George Currie, Robert Fontaine, Holly Knepper, and Ed Gordon. Weekly status meetings are being held to discuss the projects needing completion in order to successfully open Hollywood Casino in Perryville and Ocean Downs in Ocean City. An outline of tasks and timelines have been developed. The implementation of the central system is going well and weekly conference calls are being held with GTECH. The Request for Quotes (RFQs) for video lottery terminals was issued last week and responses are due by May 24, 2010. The Lottery will review those responses next week and present them to the BPW for approval at their June 9, 2010 meeting.

Chairman Fowler asked what is the Commission's role with regards to the VLT RFQ's. Mr. Howells responded the Commission approved the Master Contract and the RFQ is the secondary level of the Master Contract.

Mr. Martino said that representatives from Penn National are present today. The Lottery will be holding weekly conference calls with Penn National every Tuesday at 10:00 a.m. to monitor the progress and discuss any tasks. Also, conference calls are being held biweekly on Tuesdays with Ocean Downs to discuss their progress and discuss any tasks.

Next week, the Governor will visit Hollywood Casino for a tour of the facility and Mr. Martino will also be joining him for that tour. Chairman Fowler asked what is the status for the opening of Ocean Downs. Mr. Martino responded they are looking at a November/December timeframe. Chairman Fowler thanked Commissioner McGraw for forwarding photos to the Commission of the progress at that facility. Chairman Fowler asked what is the status with regards to the other sites. Mr. Martino responded the Facility Location Commission plans to hold a meeting by the end of June to discuss the Rocky Gap and Baltimore City facilities.

Chairman Fowler asked for the status of the appeal filed by Baltimore City Entertainment Group (BCEG) challenging the Location Commission's rejection of their proposal for a video lottery operator license. Mr. Fontaine responded the hearing before the Maryland State Board of Contract Appeals is scheduled for June 21, 2010.

Chairman Fowler asked for the status of the Arundel Mills VLT facility. Mr. Fontaine responded that the trial begins next week on the referendum. Cordish is not authorized to proceed with any further construction until after this litigation concludes or the November election.

Mr. Martino said he received a very warm welcome from Lottery staff and has been meeting individually with staff to become familiar with the functions of the Lottery. Also, weekly executive staff meetings are held. This is an outstanding staff from top to bottom. It has been a pleasure getting to know everyone and working with them. He also wants to reach out to each Commissioner to discuss things going on at the Lottery and obtaining any input from them. There was discussion concerning changing the monthly Commission meetings from Fridays to Thursdays. The Commission was polled and agreed to hold the meetings on the third Thursday of each month.

REPORTS

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

Ms. Smith said this year the General Assembly passed HB 1505 that will be implemented July 1, 2010. This bill requires the Lottery to intercept lottery winnings for debts owed to the State's Central Collection Unit (CCU). She is working with the General Accounting Division and CCU for implementation of this process.

The Accounting Division is preparing for close-out of the books for FY2010, distributing the FY2011 budget to each Division and working on the budget for FY2012.

The accounting system was upgraded to allow tracking of the VLT activity at each VLT facility. Testing of the system has been taking place and plans are for it to go live on July 1, 2010. Research is taking place on GASB 51, which is Accounting and Financial Report for Intangible Assets for patents and trademarks. At this time, she believes there will be little to no impact to the Lottery. Work will begin shortly on the GAAP.

As the Commission previously heard, the on-line gaming system contract has been extended with SGI. The LIM will enable the Lottery to advertise at the point of sale to encourage the customers to purchase lottery products. Commissioner McGraw asked if the LIM has any sound associated with it. Ms. Smith responded no, it is visual only.

Vice Chairman Thomas asked if Sales is on target with its project plan to bring more agents on board. Ms. Smith responded the FY2010 goal was 100 new agents and 229 agents were added by the end of April. Recruitment's goal was 100 new agents and 85 agents were added. These goals will be reviewed at the end of the year.

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

Ms. Baer said her report contains details on the Reese's scratch-off and the sponsorship promotion with the Oriole's and MASN. The game launched on May 17, 2010.

The new \$20.00 scratch-off ticket "Players Club" will launch on May 31, 2010 with three top prizes of \$1 million. The Livin' Lucky \$10 scratch-off ticket has been available at agent

locations for some time and is a very popular ticket. Second chance drawings continue to be held every two weeks to sustain player interest. Over 60% of the tickets have been sold.

The Racetrax 6 for \$5.00 promotion will run through May 23, 2010. Sales are up by 30%. The Pick 3 Triple Play promotion began May 17, 2010 and will run through June 20, 2010. The Powerball Power Play 10x Bonus promotion is being implemented for the month of May to increase awareness of the multiplier feature. The 10x multiple will stay in effect beyond May until it is hit.

The Communications Division continues to be present at various community events. They were recently at the Washington International Arts Festival at National Harbor. They also hosted a series of Racetrax parties at retailer locations. Additional information regarding Communications is contained in her report.

A copy of the Ravens Cash Fantasy ticket proof was shown to the Commission. Approximately \$12 million in additional cash prizes have been added. The ticket is played the same as last year's with the extra yardage whereby players go to the website and enter into drawings for the prizes. The Lottery negotiated a deal with the Ravens with decreased costs of 14% and increased value of 9%. Ms. Baer hopes to be able to use some of last year's advertising material to promote the ticket. The ticket will launch on August 9, 2010 at the start of Ravens training camp on media day.

Ms. Baer said there are five new instant tickets to present to the Commission for approval: Game #831 *Ravens Cash Fantasy*, Game #828 *Double Your Luck*, Game #826 *Super 6's*, Game #834 *Cash Lines*, and Game #833 *Fortune of \$50's*. (See attached Exhibit #1.)

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

Vice Chairman Thomas expressed his thanks for the Lottery's participation in Prince George's County, especially at the Arts Festival at National Harbor. He heard many good things about the Lottery's presence.

Legal Unit – Robert Fontaine, Principal Counsel

Mr. Fontaine said the appeal hearing for the lottery license revocation of Freddie's Variety was scheduled to be heard at today's meeting; however, the appeal request was withdrawn by the agent. As a matter of formality, the Commission's approval of the former Director's recommendation to revoke the license will be needed. Chairman Fowler said he would entertain a motion to confirm the former Director's recommendation to revoke the lottery license for Ms. Young Ok Valley, T/A Freddie's Variety, located in Silver Spring, Maryland. Motion was made by Commissioner Presley and seconded by Commissioner Reeder. The motion was carried by unanimous vote of Commission.

Internal Audit – Michael Eaton, Internal Auditor

Mr. Eaton said the Electronic Funds Transfer Internal Audit report has been issued and provided to the Commission. The audit rating was “mostly adequate”. Management is working on correcting the findings. Commissioner Wagner asked what was found to be inadequate. Mr. Eaton responded he found findings related to control issues and page 2 of the report gives a definition of each rating and page 3 of the report lists the findings.

He is currently working on the Investments Internal Audit and the Internal Controls over Financial Reporting Internal Audit.

Chairman Fowler requested Mr. Eaton to schedule the Audit Committee’s quarterly conference call sometime in June with the Chairman, Commissioner Robertson and Mr. Eaton. He also noted that Mr. Martino and Ms. Smith were welcome to join in on the call.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said SGI is developing a schedule to prepare for the refurbishing of agent network terminals and he will share that with the Commission when it is made available. The VLT central system training will begin the first week of June. Testing of the central system by the Lottery will begin on June 16, 2010 and run for two to three weeks. They are beginning to receive VLT machines from the manufacturers for testing.

Procurement – Robert Howells, Director

Mr. Howells said a sponsorship agreement with the State Fair has been done for the past six to eight years. This year’s sole source agreement has a cost of \$42,250, which is less than last year’s cost of \$46,900. The State Fair contract will be sent to the Department of Budget and Management for approval. Chairman Fowler asked is the State Fair run by the State and if so, why is the Lottery being charged to participate. Mr. Howells responded a private entity runs the State Fair and that is why there is a cost.

Chairman Fowler said he would entertain a motion to approve Sponsorship Agreement (#2010-05) with SponsorSource, Inc. Motion was made by Vice Chairman Thomas and seconded by Commissioner Presley. Motion carried by unanimous vote of Commission.

He provided to the Commission a copy of the License Contract (#2010-06) with the Baltimore Ravens Limited Partnership. This contract is for an NTE amount of \$729,750 to use the Ravens NFL team marks and logo for the instant ticket and Ravens NFL football related prizes. The Ravens contract will be sent to the BPW for approval at the June 9, 2010 meeting.

Chairman Fowler said he would entertain a motion to approve Licensing Contract (#2010-06) with the Baltimore Ravens Limited Partnership. Motion was made by Commissioner Wagner and seconded by Commissioner McGraw. Motion carried by unanimous vote of Commission.

Regarding the Request for Quotes (RFQs), he wanted to put on the record that the Commission is aware of the process, and that the RFQs are being handled in accordance with the Master Contract that the Commission had previously approved. Chairman Fowler said he would entertain a motion that this procedure is consistent with the Commission's prior decision to delegate the authority to Lottery staff with regards to the handling of RFPs and RFQs. Motion made by Commissioner Reeder and seconded by Vice Chairman Thomas. Motion carried by unanimous vote of Commission.

Mr. Howells said Section 4.57.2 of the VLT Master Contract provides the Lottery with the ability to substitute VLT machines if they become obsolete or to add new products to the contract. The Lottery anticipates that during the five year term of the contract, some or all of the VLT manufacturers will come up with new types of machines, and the Master Contract enables the manufacturers to add new products. Thus far, two Master Contractors, Aristocrat and IGT, both have submitted requests to add to their list of products offered. Another provision in the Master Contract allows the ability for the VLT manufacturers to subcontract.

Chairman Fowler asked if background checks are done for subcontractors. Mr. Howells responded subcontractors go through the normal background check. A number of Master Contractors ask if the Lottery would approve an arrangement whereby another VLT manufacturer is brought in as a subcontractor, which would enable them to offer that manufacturer's product line to the Lottery. Once the Master Contract was awarded, no new Master Contractors can be added. Currently there are nine VLT manufactures on the Master Contract. There is a situation where another manufacturer may possibly enter into an agreement with a Master Contractor as a subcontractor and offer to the Lottery additional product lines and machines. The request has been reviewed by the Office of the Attorney General, and the Lottery is working out the details with Spielo, the Master Contractor, who proposed this arrangement. Spielo is currently negotiating with WMS, the subcontractor. He wanted to bring this to the Commission's attention since WMS was one of the Offerors for the Master Contract who was disqualified because they would not agree to the State's terms and conditions in the Master Contract. This new arrangement is workable since WMS would be a subcontractor through Spielo and Spielo would be responsible for WMS honoring the terms and conditions of the contract. The State terms and conditions would be fulfilled and the Lottery would be able to obtain machines from WMS through Spielo. Mr. Howells mentioned that both facility operators, Penn National and Ocean Downs, have expressed their support of adding WMS machines in their facilities. The Commission was provided with copies of the letter from Spielo as well as letters from Penn National and Ocean Enterprises. Lottery staff is also in agreement and feels it would be in the State's best interest move forward. Mr. Howells said a formal written agreement from Spielo should be received shortly. Additional discussion continued regarding the Spielo/WMS arrangement.

Policy and Development – Paul Dorsey, Director

Mr. Dorsey said the Commission was provided with drafts of several proposed regulations earlier this week for review and approval at today's meeting.

He presented a proposed amendment to COMAR 14.01.10.03E – Video Lottery Terminals – Process. The amendment to § .03E would authorize the Commission to consider whether an

applicant's past or present conduct, if publicized, would put the State in a negative light if the Commission granted that individual a video lottery employee license. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.10.03E, but delete the requirement that an individual's conduct be publicized in order for it to be a basis for denying a license. The motion was made by Commissioner Presley and seconded by Vice Chairman Thomas, and the motion carried by unanimous vote of the Commission.

Mr. Dorsey presented several proposed amendments to COMAR 14.01.10.13 – Video Lottery Employee Licenses which, together, would authorize the Commission to issue a license, called a “sponsored license,” to a video lottery employee for whom the background investigation has not yet been completed. New § .13I describes the sponsored license. In § .13A, the reference to “video lottery operation licensee” is deleted and replaced with “licensed facility operator, manufacturer or contractor.” New § C(7) clarifies that a sponsored license for a gaming employee is available only for an individual who has “received at least a conditional offer of employment from a licensed facility operator, manufacturer or contractor.” Section D(5) establishes the same employment requirement for a non-gaming employee. New § H(2)(b) provides that an individual must maintain employment as a video lottery employee in order to be eligible for license renewal.

Other amendments to § .13 are unrelated to sponsored licenses. In § E the phrase “at any video lottery destination location” is being deleted as unnecessary. The license term for video lottery employees is adjusted in § H(1) from one to three years to reflect Senate Bill 882, which took effect June 1, 2010. After discussion, Chairman Fowler said he would entertain a motion to approve the amendments to COMAR 14.01.10.13. The motion was made by Commissioner Presley and seconded by Vice Chairman Thomas, and the motion carried by unanimous vote of the Commission.

Mr. Dorsey presented a proposed amendment to COMAR 14.01.10.16 Video Lottery Terminals – Principal Employee Licenses to allow for sponsored licenses for principal employees, just as with gaming and non-gaming employees, as described in new § .16H. As with § .13, other amendments to § .16 clarify that continued employment is necessary for license renewal, and adjusts the license term from one to three years pursuant to SB 882. After discussion, Chairman Fowler said he would entertain a motion to approve the amendments to COMAR 14.01.10.16. The motion was made by Vice Chairman Thomas and seconded by Commissioner Reeder, and the motion carried by unanimous vote of the Commission.

Mr. Dorsey presented COMAR 14.01.16 - Voluntary Exclusion and Responsible Gaming, which is a new chapter in the VLT regulations. This chapter establishes a mechanism by which an individual with a gambling problem may request placement on a list of individuals, maintained by the Commission, who are voluntarily excluded from VLT facilities in Maryland. This chapter also establishes a responsible gaming program that is designed to address problem gaming in Maryland. After discussion, Chairman Fowler said he would entertain a motion to approve the adoption of new COMAR 14.01.16. The motion was made by Commissioner Presley and seconded by Commissioner McGraw, and motion carried by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion to permit Lottery staff to submit these regulations on both an emergency and regular basis. Motion was made by Vice Chairman Thomas and seconded by Commissioner Robertson, and motion carried by unanimous vote of the Commission.

COMMISSION BUSINESS

Chairman Fowler introduced Mr. Tom Auriemma, Vice President, Penn National, and Mr. Himbert Sinopoli, General Manager/Vice President and Mr. John Sanchez, Vice President of Operations of Hollywood Casino in Perryville. Mr. Auriemma spoke about the company and what they are currently involved in.

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 Thursday, June 17, 2010 at 10:00 a.m. (NOTE: this date was subsequently changed to June 18, 2010.)

ADJOURNMENT

There being no further business for discussion, Chairman Fowler said he would entertain a motion to adjourn. Motion was made by Commissioner Reeder and seconded by Vice Chairman Thomas. Motion carried by unanimous vote of the Commission. The meeting adjourned at 11:56 a.m.

Respectfully submitted,

Stephen L. Martino