

**MARYLAND STATE LOTTERY COMMISSION
JUNE MINUTES**

DATE: June 18, 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 George M. Wagner

Stephen Martino, 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
Lori Denton, Pollard Banknote
Jody Sprinkle, Department of Legislative Services
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 10:06 a.m. Commissioners present were J. Kirby Fowler, Jr., Matthew Thomas, F. Vernon Boozer, Diane L. McGraw, W. Ray Presley, Bruce L. Reeder, and George M. Wagner. Kimberly D. Robertson was absent.

APPROVAL OF MINUTES

Chairman Fowler stated the May 21, 2010, minutes were provided 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 McGraw. The May 21, 2010, Commission minutes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS (SGI)

Mr. Steve Smith said the project plan for the refurbishment of the agent network terminals is being developed and should be available the first week of July 2010. He will keep the Commission updated on the progress of the project.

POLLARD BANKNOTE

Ms. Lori Denton distributed to the Commission sample \$20 instant tickets--*Extreme Cash Blast, Gold Bar Bonus, Lucky Times 20* and *Player's Club* as well as a ticket sales chart. Last summer, it was felt the \$20 instant product needed a boost. They changed their strategy and instead of launching one to two \$20 instant games at a time, it was decided to increase that to four \$20 games while decreasing the number of tickets printed per game. She further discussed the \$20 sales chart. Since July, sales have shown an increase, so the adjustment has paid off.

Question asked if any particular part of the state purchases more \$20 instant tickets than the other. Ms. Denton responded she will provide this additional information to the Commission.

DIRECTOR'S REPORT

Mr. Stephen Martino said last week the Lottery appeared before the Board of Public Works (BPW) seeking approval for the first purchase of VLTs for Hollywood Casino in Cecil County. The Lottery received approval for the purchase of 1,062 machines at an approximate cost of \$49 million. Mr. Martino reviewed the report provided to the Commission regarding the machine costs and maintenance. Mr. Martino said on June 23, 2010, the Lottery will appear before the BPW requesting approval for the final 438 VLTs for Hollywood Casino in Cecil County.

Commissioner Wagner asked why is the Lottery, and not the casino operators, purchasing the machines? Mr. Martino responded it is required by law. The General Assembly believes that if the State purchased or leased the machines through the Lottery, it would add integrity and transparency to the gaming process. There was also discussion of the payout percentages of the machines and the procedures and authority to make changes to the payout percentages.

Question asked when will Maryland realize a profit once the Perryville facility opens. Mr. Martino replied he will be having further discussions with Penn National and obtain the information by the next meeting. The Commission was provided with reports from Stifel Nicolaus of Baltimore and Union Gaming Research of Las Vegas. He was pleased to see the gaming analysis about the Lottery's procurement by these analysts. In their opinion, they believe the Lottery was close to the average and negotiated the best deal for Maryland regarding the purchase of the VLTs.

Mr. Martino said he did several television, radio and newspaper interviews, including the Baltimore Business Journal, Daily Record, and WBAL-TV, on the recent BPW approval to purchase/lease the VLTs. He is drafting a letter to the editor of the Baltimore Sun in response to an editorial that appeared. The Lottery also will be issuing a press release. It was suggested that if the Commissioners are contacted by the media that they refer them to the Lottery Director for response.

Mr. Martino said the Commission will begin receiving news clippings on a regular basis via e-mail, rather than monthly, to keep them informed on what is going on. The Lottery also is using social media such as Facebook and Twitter to keep the public informed.

Mr. Martino said as of June 13, 2010, total sales were \$1.632 billion. If the Lottery continues at this rate, sales should reach \$1.7 billion by the end of the fiscal year. This would set a new sales record for the Lottery. Sales of Keno Super Bonus have been successful. Pick 3 and Pick 4 sales are behind but are ahead in revenue. Current total game revenues are \$489.3 million and should reach over \$500 million this fiscal year. However, given the economy and the two weeks of snow earlier this year, these are great numbers, and the Lottery should be proud of them. Thus far this fiscal year, \$21.2 million has been utilized from the Unclaimed Prize Fund for game promotions, leaving a current balance of \$3.5 million.

The Lottery will continue to review the sales decline of the Multi-Match game, which may be tied to the introduction of Powerball. The Lottery will be working with SGI to determine whether to continue the game.

The Board of Public Works approved the Licensing Agreement with the Ravens for another scratch-off ticket sponsorship this year.

A Lottery Task Force has been formed between the Lottery and SGI in relation to the extension of the on-line gaming system contract. This contract includes refurbishment of 6,000 terminals and installation of Lottery in Motion (LIMs) with the 17" flat panel screen televisions to increase point-of-sale marketing and advertising.

Mr. Martino said he was scheduled to attend the NASPL Directors Conference in Idaho but cancelled those plans so he would be available to attend the BPW meeting on June 23, 2010.

REPORTS

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

Mr. Fontaine said Ms. Knepper will present regulations to the Commission later in the meeting. He said he has no additional information to add to his report, but updated the Commission on litigation involving the Baltimore City Entertainment Group (BCEG): The Lottery filed an Agency Report with the Board of Contract Appeals regarding BCEG's appeal of the Location Commission's rejection of BCEG's proposal for a video lottery operator license. The Board has not yet scheduled a hearing. Vice Chairman Thomas asked when the RFP for the Baltimore City facility would be re-issued. The response was that it would be the Video Lottery Facility Location Commission's decision to re-issue the RFP.

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

Ms. Baer said a Lottery product plan is being developed to cover the next six to nine months. There were some difficult choices to be made with cutbacks of some long term advertisers. We may start to see the impact on sales due to the lower advertising budget. She will keep the Commission updated.

Ms. Baer said the BPW approved the Ravens Licensing Agreement. She is moving forward with developing a comprehensive marketing and advertising plan. Tickets will be printed on July 2 and 3, 2010, and will launch on August 9, 2010, before first pre-season game. She will have more details available at next month's meeting.

Sales of the Reese's instant ticket have been strong, and it is currently the best selling \$2 ticket for FY2010. This ticket is tied into a promotion with the Orioles.

The "Winning Hand" promotion began June 28, 2010. The \$5 *Trump Card*, \$5 *Black Jack Blowout* and \$10 *High Roller* are instant tickets being utilized as entries for the second chance contest. Players mail in \$10 worth of non-winning tickets for a chance to win various poker-related prizes.

Regarding the Powerball Power Play 10x Bonus, a couple from Glen Burnie won \$2 million on this promotion by having five winning numbers with the 10x bonus. They agreed to be featured in a future lottery commercial.

Ms. Baer said there are two new instant tickets to present to the Commission for approval: Game #836 *Turkey Day* and Game #838 *Winter Riches*. (See attached Exhibit #1.)

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

Ms. Baer 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 #709 *Tic Tac Wild*, Game #738 *Bankroll*, and Game #753 *Bonus Blackjack*.

Procurement – **Robert Howells, Director**

Mr. Howells said he has no additional information to add to his report.

Vice Chairman Thomas asked what is the status of the Rocky Gap site facility. Mr. Howells replied the Location Commission is meeting on June 25, 2010, and that is a topic on the agenda for review as well as discussing the Baltimore City site facility. He is currently working on a draft RFP for Rocky Gap.

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

Mr. Gallagher said the SGI annual SAS-70 audit was completed and will be issued in August 2010. Hollywood Casino is on schedule for its September opening. They have opened a temporary facility for the hiring of personnel. Mr. Martino said Penn National issued a press release after the BPW meeting to announce the opening date change from October 24, 2010, to September 30, 2010. Prior to the official opening, Hollywood Casino will be sending invitations for a live pre-event. Mr. Martino brought up the possibility of having the September Commission either there or in that general area. He will bring that up again at the July meeting.

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

Mr. Eaton said the Investments Internal Audit has been cancelled because it was felt it would not be beneficial to move forward with that activity. The Travel and Expense Internal Audit is in progress. Chairman Fowler said the Audit Committee will hold a conference call with Mr. Eaton on July 8, 2010, to review the audit status plan for this year as well as discuss other audit issues.

REGULATIONS

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

She presented a proposed amendment to COMAR 14.01.10.19 Vendor Registration. This amendment would establish thresholds at which a vendor is exempt from the registration requirement, is required to complete a registration form, or is required to both complete a registration form and pay a registration fee. The thresholds are based on the total dollar amount of business that a vendor does, or anticipates to do, with all Maryland VLT facilities in a calendar year. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.10.19. The motion was made by Vice Chairman Thomas and seconded by Commissioner Reeder, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.12.03 Video Lottery Terminal Machines. This amendment adds regulation .03, Purchase or Lease of Video Lottery Terminal Machines; Manufacturer Incentives. The VLT law requires the Commission to promulgate regulations regarding the purchase or lease of VLTs and permits it to promulgate regulations pertaining to incentives for VLT manufacturers. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.12.03. Motion made by Commissioner Presley and seconded by Commissioner McGraw, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.15.18 Video Lottery Technical Standards—Video Lottery Terminal Tower Lights and Error Conditions. This section was based on similar regulations in the surrounding jurisdictions. After further review by staff, it was determined that those regulations were no longer viable in the industry. This amendment would reflect the present situation in the industry and allow the manufacturers to provide a guide to the Commission to explain what condition the machine is in when the tower lights are blinking. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.15.18. Motion made by Commissioner Presley and seconded by Vice Chairman Thomas, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.17 Mandatory Exclusion. This new chapter would establish standards for exclusion or rejection of individuals from VLT facilities. It also establishes standards to ensure that intoxicated individuals and individuals under 21 years of age are not permitted to play VLTs or be in an area of the facility where VLTs are located. Ms. Knepper spoke with the Commission regarding further discussion points in the proposed regulation. After discussion, Chairman Fowler said he would entertain a motion to approve the new chapter COMAR 14.01.17, with the addition of the wording, “for the Commission’s approval” on page 10, line 1. Motion 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 permit Lottery staff to submit these regulations on both an emergency and regular basis. Motion made by Commissioner Wagner and seconded by Vice Chairman Thomas, and the motion carried by unanimous vote of the Commission.

COMMISSION BUSINESS

Video Lottery

At a recent Board of Public Works meeting, the topic of MBE compliance regarding VLT facilities and manufacturers was brought up. Mr. Howells stated the total MBE compliance rate is at 20.3%, with individual contractors running at 16.5% to 25%.

Lottery

The Commission held a discussion on their current rate of compensation for attendance at Commission meetings or other lottery functions. It was suggested that a review of the compensation rate of other Maryland Commissions be done. The Commission then would hold further discussions at the next meeting.

PUBLIC COMMENTS

There were no comments.

DATE AND TIME OF NEXT MEETING

The next Commission meeting will be held on Thursday, July 22, 2010, at 10 a.m.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler said he would entertain a motion to adjourn. Motion was made by Commissioner Wagner and seconded by Vice Chairman Thomas. Motion carried by unanimous vote of the Commission. The meeting adjourned at 12:06 p.m.

Respectfully submitted,

Stephen L. Martino