

**MARYLAND STATE LOTTERY COMMISSION
JULY MINUTES**

DATE: July 22, 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
John Gallagher, Chief Information Officer, Information Technology
Paul Dorsey, Director, Policy and Development
Robert Howells, Director, Procurement
Michael Hofferbert, Creative Services-Strategic Product Planner
Holly Knepper, Deputy Counsel
Marie Torosino, Executive Associate

OTHERS: Steve Smith, Scientific Games Online Entertainment Systems
Scott Gales, 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 10:08 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 June 18, 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 Reeder. The June 18, 2010, Commission minutes were approved by unanimous vote of the Commission.

SCIENTIFIC GAMES ONLINE ENTERTAINMENT SYSTEMS (SGI)

Mr. Steve Smith said the testing of the Megaplier for Mega Millions is being conducted, and it will launch on September 13, 2010. SGI is working on the implementation of the items as part of the contract extension.

DIRECTOR'S REPORT

Mr. Stephen Martino provided a copy of the press release showing the fiscal year-end numbers. This is the Lottery's 13th straight year of record sales even with the state of the economy, two huge snowstorms and the reduction of the advertising budget. Total sales were \$1.7 billion. Revenue contributed to the State's General Fund was \$509.7 million, the Lottery's second highest amount contributed. The Commission congratulated the Lottery staff on the record sales. Question was asked where Lottery revenue ranks as an income producer for the state. Mr. Martino said he will look into that and respond to the Commission.

For the current fiscal year, total sales are 1.73% behind last year and revenue is 1% behind last year. This is a slow time of year, and the heat is having some effect on sales. Also, sales are competing against a higher Mega Millions jackpot from last year as well as the Keno Super Bonus. A Keno Sprinkler promotion begins this week. The Unclaimed Prize Fund has a balance of \$6.4 million.

Commissioner Presley commented that the BRE estimate for FY2011 is \$547.6 million and asked if that included VLT revenue. Mr. Martino responded this estimate refers only to Lottery revenue. Beginning in October, a VLT monthly report will be issued.

Mr. Martino said, as discussed last month, the Lottery is concerned with sales of the Multi-Match game. Sales are stable, and the Lottery will continue to monitor the game.

Mr. Martino said the RFP for the televised drawings of the Lottery's on-line games is being developed. He had previously contacted the Commissioners regarding their interest in serving on the RFP Evaluation Committee. He will contact those who expressed interest at a later date.

Mr. Martino said a Task Force comprised of Lottery staff has been formed to work with SGI on the implementation of various items as part of the contract extension. Two of the items are refurbishment of the lottery terminals and introduction of LIMs for increase point-of sale contact. A copy of the list of members was provided to the Commission.

Mr. Martino said he attended a commercial shoot at M & T Bank Stadium for the Ravens Cash Fantasy instant ticket. The Lottery is producing two new commercials this year and reusing two commercials that were produced last year. The winner of last year's season tickets for life will be featured in one of the new commercials. The Lottery will be present at Ravens training camp on August 9, for the launch of the ticket. Sample Ravens Cash Fantasy tickets were distributed to Commission.

Mr. Martino said a controlled demonstration is scheduled for September 25, 2010, prior to the grand opening of Hollywood Casino in Perryville. If any Commissioners are interested in attending this event, please contact the Director. Chairman Fowler asked about a scheduled grand opening. Mr. Martino responded the grand opening is September 30, 2010, subject to regulatory approval. Vice Chairman Thomas asked what happens to the proceeds at the controlled demonstration. Mr. Martino responded the State will receive its share, and the facility's 33% will be donated to charity. The Lottery will sign off on charity the facility selects.

Mr. Martino said the Lottery received approval from the Board of Public Works (BPW) on June 23, 2010, for the final compliment of slot machines for Perryville. A revised slot machine chart was provided to the Commission. The Lottery will appear before the BPW on August 11 to request approval for the slot machines for Ocean Downs.

Vice Chairman Thomas asked for an explanation of the variance in the MBE participation. Mr. Martino responded some manufacturers are not able to reach the 25% MBE goal. The current total MBE participation is 21.6%. An aggressive goal was set for the VLT manufacturers. All of the MBE spending will be in the State of Maryland.

Mr. Martino said two letters were recently sent to the Baltimore City Entertainment Group (BCEG) regarding outstanding background investigation invoices. Copies were provided to the Commission. BCEG currently owes the Lottery approximately \$201,000 for the cost of investigation services completed thus far, which BCEG is obligated to pay.

The Commission had previously passed regulations regarding ATMs. The AELR did not agree with the dollar limits and did not sign off on the regulation as passed by the Commission. Ms. Knepper will discuss this further in her report.

Mr. Martino asked if the September meeting could be moved to the third week of the month on September 16, 2010, because he will be attending the yearly NASPL Conference during the fourth week. The Commission agreed to move the meeting. Last month, he suggested the idea

of the giving the Commission a tour of Hollywood Casino in Perryville and then either having the meeting there or somewhere in that general area. Mr. Martino felt that the meeting should be held at Lottery Headquarters and possibly a tour of the casino could be arranged for the Commission if they so desire.

REPORTS

Legal Unit – **Holly Knepper, Deputy Counsel**

Ms. Knepper will present the Legal Unit's report since Mr. Fontaine is attending the NASPL Subcommittee Meetings in Wisconsin. She said that the owner of Freddie's Variety, former lottery agent Ms. Young Valley, was found guilty of all ten counts related to her conduct of Lottery operations in the Circuit Court for Montgomery County and was sentenced on July 19, 2010. Ms. Knepper gave a brief summary of the case, and described the sentence Ms. Valley received. Several prison sentences were suspended except for 18 months, and Ms. Valley is subject to five years probation, with conditions, after her release from incarceration. If she violates the conditions of the probation, the original sentences of confinement may be re-imposed. Ms. Valley was also ordered to sell her property and make restitution to the State. It was suggested that a letter from the Commission or Director be sent to the Montgomery County State's Attorney's Office to thank them for prosecuting this case.

Regarding the appeal of Baltimore City Entertainment Group (BCEG) appeal of the Location Commission's rejection of BCEG's proposal for a video lottery operator license, Ms. Knepper said we are waiting for the Maryland State Board of Contract Appeals (MSBCA) to confirm the hearing date, which will likely be scheduled to begin September 28, 2010 and go for several days.

Ms. Knepper said the Court of Appeals overturned the decision of the Court of Special Appeals regarding the Anne Arundel County zoning matter; the zoning issue will go to referendum on the November ballot.

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

Proposed amendment to COMAR 14.01.10.13, Video Lottery Employee Licenses adjusts the one year license term to three years and amends fees related to the license accordingly. This change in license term reflects Senate Bill 882, which took effect on June 1, 2010. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.10.13. The motion was made by Commissioner Robertson and seconded by Commissioner Presley, and the motion carried by unanimous vote of the Commission.

Proposed amendment to COMAR 14.01.10.15, Manufacturer Licenses, also adjusts the license term for video lottery terminal (VLT) manufacturers from one to three years and amends fees related to the license accordingly. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.10.15. The motion was made

by Vice Chairman Thomas and seconded by Commissioner Reeder, and the motion carried by unanimous vote of the Commission.

Proposed amendment to COMAR 14.01.10.16, Principal Employee Licenses, also adjusts the application, license, and renewal fee in light of the three year license term. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.10.16. The motion was made by Commissioner Presley and seconded by Commissioner McGraw, and the motion carried by unanimous vote of the Commission.

Proposed amendment to COMAR 14.01.10.17, Contractor – Qualification, also adjusts the application, license, and renewal fee for a contractor, and adjusts the license terms from one to three years. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.10.17. The motion was made by Commissioner Reeder and seconded by Commissioner Robertson, and the motion carried by unanimous vote of the Commission.

Proposed amendment to COMAR 14.01.10.14, Bonds, adds at §C(3)(a) “A facility operator’s contract with the Commission shall specify the amount of the operator’s fidelity bond required to sufficiently cover a loss attributable to a gaming employee’s fraudulent or dishonest act.” After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.10.14. The motion was made by Vice Chairman Thomas and seconded by Commissioner Robertson, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.11.07, Automated Teller Machines. In October 2009 the Commission approved this regulation with language as to ATM withdrawal limits that left limits to whatever arrangement is in place between the VLT player and the player’s bank. The AELR Committee disagreed with the regulation and Lottery staff (as assigned by the Commission) has worked with AELR to reach acceptable terminology regarding per player, per day, per account ATM withdrawal limits. Staff believes the following language in §B is acceptable to those concerned: “Withdrawal Limits. Between the hours of 8 a.m. and 2 a.m., the maximum amount that a player may withdraw from an account by using an automated teller machine shall be: (1) no more than \$250 per transaction; and (2) no more than \$1,000.” After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.11.07. The motion was made by Commissioner Robertson and seconded by Commissioner Presley, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.11.08, Predatory Marketing. This new section satisfies the statute’s requirement to include in the regulations a provision that “prohibits video lottery operation licensees from engaging in or contracting with another to engage in predatory marketing practices.” After discussion, Chairman Fowler said he would entertain a motion to approve new section .08 to COMAR 14.01.11. The motion was made by Vice Chairman Thomas and seconded by Commissioner McGraw, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.14.20, Checks Accepted from a Player. This amendment reflects the requirement of verification of a signature on one ID rather than a signature on two IDs. After discussion, Chairman Fowler said he would entertain a motion to approve the proposed amendment to COMAR 14.01.14.20. The motion was made by Commissioner Presley and seconded by Commissioner Reeder, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.14.46, Accounting Controls for a Count Room. The requirement currently in the regulation for conducting two separate cash counts at different stages of the count process may be impractical because computerized cash counts are able to count cash twice, but during one stage of the process. The proposed amendment to the regulation requires verification of a single signature. After discussion, Chairman Fowler said he would entertain a motion to approve the amendment to COMAR 14.01.14.46. The motion was made by Commissioner Wagner and seconded by Commissioner McGraw, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.15.11, Average Payout Percentage. This proposed amendment deletes in §C the wording “any wager level.” As currently written, this regulation restricts some progressive play from factoring into the required 87% average payout percentage and inadvertently imposes more of a restriction than the statute imposes. After discussion, Chairman Fowler said he would entertain a motion to approve the amendment to COMAR 14.01.15.11. The motion was made by Commissioner Presley and seconded by Vice Chairman Thomas, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.18, Violations, Civil Penalties and Sanctions. This new chapter describes the grounds and procedures for the Commission to issue a reprimand, suspension or revocation of licenses issued under the VLT Law. It authorizes the Commission to deny, reprimand, fine, suspend or revoke a license for a licensee’s violation of the VLT statute or regulations, or a condition the Commission sets. She reviewed the new chapter with the Commission. After discussion, Chairman Fowler said he would entertain a motion to approve new chapter COMAR 14.01.18. The motion was made by Commissioner Wagner and seconded by Commissioner McGraw, and the motion carried by unanimous vote of the Commission.

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

Ms. Knepper said the regulations and statutes can be accessed on the Lottery’s website under Video Lottery Commission. When all the regulations have been finally completed, the Commission will be provided with a copy.

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

Mr. Martino said that Ms. Smith and other Lottery personnel are attending NASPL Subcommittee meetings in Wisconsin. Her report was previously provided to the Commission. If there are any questions, feel free to contact her.

Commissioner McGraw asked why the MBE participation for GTECH does not show any amounts. Mr. Howells responded there is MBE participation, but they are not being paid as yet. He will have the reports by September.

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

Mr. Gallagher said VLT machine delivery to Penn National begins on August 4, 2010. They will be set up, configured and connected to the central system. Testing will begin this week on the Mega Millions Megaplier.

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

Mr. Hofferbert said the Commission was provided with the final analysis of seven instant games that were closed. (See attached Exhibit #1.) The closed games were Game #693 *Big Money Doubler*, Game #702 *Ultimate Payday*, Game #703 *Golden Ticket*, Game #710 *Cash Blast*, Game #750 *Emerald Green 7's*, Game #759 *Double Wild 7's*, and Game #757 *Spicy Hot Cash*.

Mr. Hofferbert said there are six new instant tickets to present to the Commission for approval: Game #825 *Instant Mega Millions/Powerball*, Game #837 *Holiday Treasures*, Game #839 *Happy Holidays*, Game #840 *Winter Green*, Game #844 *Bingo Times 10*, and Game #843 *Cash Spectacular*. (See attached Exhibit #2.)

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

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

Mr. Eaton was not present at the meeting due to vacation. However, Commissioner Robertson, as part of the Commission's Audit Committee, gave an update on audit issues. She said during a recent conference call between Chairman Fowler, Mr. Eaton and herself two completed audit reports—Internal Controls over Financial Reporting and Travel and Expense Reimbursement—were discussed. These have been provided to the Commission. They also discussed the controls and processes in place for the operation of the VLTs. Mr. Eaton will be involved in the testing of the casino controls and operations. Mr. Eaton also is in the process of hiring two Internal Auditors and interviews are scheduled for next week.

Procurement – **Robert Howells, Director**

Mr. Howells said today he is requesting the Commission's approval of the Licensing Contract for Ralph J. McDonald (#2010-08) with Pollard Banknote for an instant ticket game. There is no cost the Lottery for this licensing agreement. As part of Pollard's contract renewal, they agreed to provide one licensed property each contract year at no cost to the Lottery. There being no further discussion, Chairman Fowler said he would entertain a motion approve the

Licensing Contract for Ralph J. McDonald (#2010-08) with Pollard Banknote Limited Partnership. Motion made by Vice Chairman Thomas and seconded by Commissioner McGraw. Motion passed by unanimous vote of Commission.

Mr. Howells said at the Facility Location Commission meeting on July 19, 2010, the Request for Proposals (RFP) for a Video Lottery Operation License in Allegany County (#2011-0101) was approved, and the RFP was issued on July 21, 2010. A Pre-Proposal Conference will be held on August 12 at Lottery Headquarters and will be conducted by Lottery staff on behalf of the Facility Location Commission. Proposals are due November 9. If the Commission is interested in obtaining a copy of the RFP, it is available on the Lottery's website under Location Commission or a copy could be provided via e-mail.

A Request for Quotations (RFQ) was issued in June for the initial order of VLTs for Worcester County/Ocean Downs. Best and Final Offers (BAFOs) from the eight Master Contractors were received yesterday, and he is in the process of reviewing them and developing a summary chart. The Lottery will appear before the Board of Public Works on August 11 to request their approval.

Policy and Development – Paul Dorsey, Director

Mr. Dorsey said the deadline for the submission of any suggested legislation to the General Assembly is the end of August 2010.

Mr. Dorsey said between August 4 and 9, 1,500 VLT machines will be delivered to Penn National for installation by GTECH. Gaming compliance laboratories are testing the VLT machines to Maryland's technical standards. The Lottery will receive testing certifications. Mr. Gallagher will develop a spreadsheet to provide to the Commission at next month.

COMMISSION BUSINESS

Lottery

Chairman Fowler asked for the status of filling the vacancy as a result of the resignation of Commissioner Howard Denis. Mr. Martino will follow up with the Governor's Appointments Office.

The discussion of the Commission's compensation for attendance at Commission meetings or other lottery functions will be tabled until the August meeting.

PUBLIC COMMENTS

There were no comments.

DATE AND TIME OF NEXT MEETING

The next Commission meeting will be held on Thursday, August 26, 2010, at 10 a.m.

ADJOURNMENT

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

Respectfully submitted,

Stephen L. Martino