

**MARYLAND STATE LOTTERY COMMISSION
AUGUST MINUTES**

DATE: August 25, 2011

TIME: 10 a.m.

PLACE: Maryland Lottery Headquarters

PRESENT: Chairman J. Kirby Fowler, Jr.
Vice Chair Kimberly D. Robertson
Commissioner F. Vernon Boozer
Commissioner Diane L. McGraw
Commissioner W. Ray Presley
Commissioner Bruce L. Reeder

Stephen Martino, Director
Gina Smith, Deputy Director/CFO
Robert Fontaine, Principal Counsel
John Gallagher, Chief Information Officer
Jill Baer, Director, Creative Services
Robert Howells, Director, Procurement
John Mooney, Director, Enforcement
Michael Eaton, Director, Internal Audit
Jennifer Kelley, Responsible Gambling Program Coordinator
Holly Knepper, Deputy Counsel
Marie Torosino, Executive Associate

OTHERS: Matthew Thomas
Representatives from Hollywood Casino/Perryville
Representatives from Casino Ocean Downs
Representatives from Maryland Live! Casino
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 10:10 a.m. Commissioners present were F. Vernon Boozer, Diane L. McGraw, W. Ray Presley, Bruce L. Reeder, and Kimberly D. Robertson. George M. Wagner was not present.

APPROVAL OF THE AGENDA

Chairman Fowler said he would entertain a motion to approve the Agenda. Motion was made by Vice Chair Robertson, seconded by Commissioner Reeder, and the motion carried by unanimous vote of the Commission.

APPROVAL OF MINUTES

Chairman Fowler stated the July 21, 2011, minutes were provided to the Commissioners for review and asked if there were any corrections. There were none. Commissioner McGraw motioned that the minutes be approved, and it was seconded by Vice Chair Robertson. The minutes were approved by unanimous vote of the Commission.

COMMISSION SERVICE RECOGNITION

Mr. Matthew Thomas, former Lottery Commission Vice Chairman, was present at the meeting to receive an award of recognition for his service to the Lottery Commission. Mr. Thomas said the Lottery made history in moving forward with video gaming in the state and it was a privilege to be a part of it. He thanked the Commission and the staff for this recognition of service. Chairman Fowler offered congratulations on behalf of the Commission.

CONSENT AGENDA

Chairman Fowler said the Consent Agenda contains new instant ticket games for the Commission's approval. He asked if there were any questions. It was noted that one of the instant games was not listed on the Consent Agenda. Discussion and approval of the games was tabled until Ms. Baer's report later in the meeting.

OPERATOR REPORTS

Hollywood Casino Perryville

Mr. Bill Hayles, General Manager, said July was the casino's second highest month of revenue. This weekend will present a challenge with the forecast of the hurricane. The casino will be celebrating its first anniversary in September.

Mr. Hayles said regarding the signage issue, work continues with the Mayor of Perryville and the Cecil County Commission. The County Commission goes back to into session in September and they await their vote on this issue in October.

Casino Ocean Downs

Mr. Joseph Cavilla, General Manager, said the casino's performance in July was strong. They have seen a significant performance since adding the 50 machines in July and they are performing .75% above average. They appreciate the effort made by the Lottery to get the machines installed and it has made a significant contribution to their bottom line. They are also seeing a stronger performance with the extended hours on Fridays and Saturdays.

They will be meeting with Lottery staff today to discuss the pending weather situation and come up with a plan. Ocean City has already started their evacuation procedures.

Maryland Live! Casino

Mr. Joseph Weinberg said construction is progressing at the casino site, and they are on target toward the June 2012 opening.

Chairman Fowler noted the recent tragedy involving the death and injury of a worker that occurred at the casino building site. Mr. Weinberg said they closely examined the accident site. The injured individual is doing well and is in rehab.

STAFF REPORTS

Director's Report – Stephen Martino

An updated sales and revenue sheet was provided to the Commission. Mr. Martino said sales are approximately 3% ahead of last year at \$6.7 million with revenue of \$1.3 million or 1.9%. The fiscal year is off to a good start.

Video Lottery Terminal gaming revenue was already reviewed by representatives from Ocean Downs and Perryville. Total gross terminal revenue for July was \$15.5 million with \$7.5 million going to the Education Trust Fund. July was best month thus far for both facilities in the short history of casino operations.

The Ravens Cash Fantasy scratch-off game launched on August 6, and through this past Monday, 13% of the tickets have been activated. This is in line with where we were last year. Activations should be at 25% to 30% activated when the season starts.

Later during this meeting at an executive session, litigation issues will be address regarding the RFPs for Baltimore City and Rocky Gap.

The October Commission meeting is scheduled for October 27, and some Lottery staff will be attending the annual NASPL meeting in Indianapolis. He will follow up with an e-mail

to the Commission regarding possibly changing the meeting to October 20, if they so desire.

Discussions will be held after today's meeting with the management of Ocean Downs concerning their plans for possible shut down of the casino due to the upcoming weather situation.

Mr. Gallagher said he is working with SGI concerning the equipment installed in the Ocean City area, particularly the satellite dishes located on the roof tops of the buildings. They want to ensure that no one is injured by possible flying debris.

Mr. Martino said regarding the Assistant Director for Lottery and Assistant Director for Gaming positions, interviews are scheduled with two candidates for the Lottery position and three candidates for the Gaming position. He will keep the Commission updated.

Chairman Fowler said regarding new internal audit position, he and the Vice Chair will be involved in those interviews.

A press release was issued with the end of fiscal year Lottery and VLT figures and he participated in media interviews.

Administration Finance & Operations and Sales – Gina Smith, Deputy Director/CFO

Ms. Smith said her report was provided to the Commission. She and Mr. Eaton will do the initial round of interviews for the internal audit position on August 30 and forward the names of possible candidates to the Chairman and Vice Chair for a second interview. The new Human Resources Director started in mid-July, and a vacancy in the Licensing Division was also filled.

Work has begun on the FY2013 budget that is due to the Department of Budget and Management in September. No additional funds for lottery operations were requested; however, funds for additional staff were requested in the VLT budget.

FY2011 budget close out has been completed and is now being converted to GAAP. GAAP is due to the State of Maryland by October 3. The Commission will not receive financial statements until after GAAP has been issued.

In March, the Legislative Auditors began their work at the Lottery and they are coming close to completing their work. Once the discussion notes are received, the Chairman will be provided with a copy.

Creative Services – Jill Baer, Director

Ms. Baer said her report was provided to the Commission. There are five new instant games being presented for approval. Vice Chair Robertson noted that on the new and closed games the administrative expense allocation is the same no matter what the number

of tickets or sales are, and asked for an explanation. Ms. Smith responded we do not do a cost accounting per game. This is done to give the Commission a picture of the bottom line. She gave a brief explanation of the method used to come up with the figures. Ms. Smith said she will review the instant ticket expenses and provide the updated information to the Commission at next month's meeting.

Chairman Fowler requested a motion to approve the following new instant games: Game #910 *Super Gems*, Game #913 *Mega Money Match*, Game #916 *The Golden Ticket*, Game #917 *Triple Play*, and Games #920 *Fast Cash*. Motion made by Commissioner McGraw, seconded by Vice Chair Robertson, and motion carried by unanimous vote of the Commission.

Ms. Baer said they are pleased with the start of Ravens Cash Fantasy game. The Double Play scratch-off game also continues to perform well.

Communications staff has had a busy season representing the Lottery at various events throughout the State. They were recently at the Maryland Association of Counties (MACO) conference in Ocean City and will be at the State Fair that begins on August 27. A remote lottery drawing will be held at the State Fair on August 27.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said his report was provided to the Commission. The deployment of Lottery in Motion (LIMs) was completed in July. He has been in discussions with SGI regarding the Ocean City properties and removing the satellite dishes from the mounts for safety reasons. He also has a conference call tomorrow morning with Ocean Downs to discuss the weather situation.

Every two years an IT audit is performed and it has just started. He will keep the Commission updated.

Internal Audit – Michael Eaton, Director

Mr. Eaton said his report was provided to the Commission. The VLT audit of Ocean Downs began on August 8, and will be issued next month. The VLT audit of Hollywood Casino Perryville will begin in September.

Enforcement – John Mooney, Director

Mr. Mooney said his report was provided to the Commission. An Executive Summary of the Investigative Report for Cummins-Allison Corporation, a manufacturer license applicant, was provided to the Commission. He read the Executive Summary into the record. Cummins-Allison Corporation was sent a notice to give them an opportunity to comment; however, no one was present.

Chairman Fowler said he would entertain a motion that Cummins-Allison Corporation has established by clear and convincing evidence that it is qualified under Subtitle 9-1A of the State Government Article of the Annotated Code of Maryland for a Manufacturer License in order to provide for the lease or purchase, and installation, implementation, support and maintenance of a video lottery terminal to support the state's video lottery terminal program. Motion made by Vice Chair Robertson, seconded by Commissioner Presley and motion passed by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion to authorize the Chairman to draft the Commission's Decision and Order to Cummins-Allison Corporation. Motion made by Vice Chair Robertson, seconded by Commissioner Presley and motion passed by unanimous vote of the Commission.

Mr. Mooney said by letter dated March 29, 2011, Ocean Enterprise 589, LLC (OE589) requested a change to their ownership structure. The information was previously provided to the Commission. He read an Executive Summary into the record. Mr. Michael Vild from OE589 was present and said he had no additional comments.

Chairman Fowler said he would entertain a motion that WMR Management Corporation has established by clear and convincing evidence that it is qualified as a Principal Entity under Subtitle 9-1A of the State Government Article of Annotated Code of Maryland. Motion made by Commissioner McGraw, seconded by Commissioner Reeder and motion carried by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion that Sheila Kessinger, Zoe E. Roa, Cynthia K. Rickman, and Lynn M. Green have established by clear and convincing evidence that they are each qualified as Principal Entities under Subtitle 9-1A of the State Government Article of Annotated Code of Maryland. Motion made by Commissioner McGraw, seconded by Commissioner Presley, and motion carried by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion to approve the change in ownership percentage of Ocean Enterprise 589, LLC as follows: Rickman from 100% to 35%, WMRMC 1%, Sheila Kessinger 16%, Zoe E. Roa 16%, Cynthia K. Rickman 16%, and Lynn M. Green 16%. Motion made by Commissioner Presley, seconded by Commissioner Reeder, and motion carried by unanimous vote of the Commission.

Mr. Mooney said by letter dated August 4, 2011, PPE Casino Resorts Maryland, LLC submitted a reorganization request. He read an Executive Summary into the record.

Chairman Fowler said he would entertain a motion to approve the change in ownership percentage of PPE Casino Resorts Maryland, LLC as follows: Jonathan A. Cordish 29.34%, Blake L. Cordish 29.33%, Reed S. Cordish 29.33%, Joseph S. Weinberg 10.0%, and Charles F. Jacobs 2.0%. Motion made by Commissioner Reeder, seconded by Commissioner McGraw and motion passed by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion to approve PPE Casino Resorts Maryland Developer, LLC is qualified as a principal entity, and all existing members of

PPECRM can contribute their ownership interests into the Holding Company call PPE Casino Resorts Maryland Developer, LLC. Motion made by Vice Chair Robertson, seconded by Commissioner McGraw and motion passed by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion to approve Maryland Live Holdings, LLC is qualified as a principal entity, and approve all existing members of PPECRM can contribute all of the ownership interests in PPECRM to a Subsidiary of the Holding Company, PPE Casino Resorts Maryland Developer, LLC, to be called Maryland Live Holdings, LLC. Motion made by Commissioner Reeder, seconded by Commissioner McGraw and motion passed by unanimous vote of the Commission.

Responsible Gambling Program – Jennifer Kelley, Coordinator

Ms. Kelley said her report was provided to the Commission. Ms. Kelley said there are currently 35 participants in the Voluntary Exclusion Program and the number continues to grow. Included with her written report are sample promotional materials consisting of brochures and a wallet card that will be available at the casinos. One brochure references the voluntary exclusion program and the other brochure references problem gambling. A large poster will also be at the casino entrances/exits reminding players that they must be 21 years old to play and listing the website for problem gambling. Small stickers with similar information will be affixed to ATMs and self-service machines at the casinos. Responsible gambling regulations will be presented at the September Commission meeting.

Legal Unit – Robert Fontaine, Principal Counsel

Mr. Fontaine said his report was provided to the Commission. Mr. Fontaine said they filed an amended interpleader regarding the Baltimore City Entertainment Group's (BCEG) initial license fee. However, since this report, a letter was received addressed to the Commission Chairman from an attorney who stated that BCEG had assigned the initial licensing fee of \$3 million to the attorney and that it should be returned. A reply was drafted by the Attorney General's Office and copies will be provided to the Commission.

He said during the closed session he will discuss the MBE requirement for the VLT program.

PUBLIC COMMENTS

There were no public comments made.

CLOSED SESSION

Chairman Fowler said pursuant to State Government Article §10-508(a)(7), (8), and (14) he would entertain a motion to move to a closed session to consult with counsel to obtain legal advice; to consult with staff, consultants, or other individuals about pending or potential litigation; and before a contract is awarded or bids are opened, discuss a matter directly related to a negotiating strategy or other contents of a bid or proposal, if public discussions or disclosures would adversely impact the ability of the public body to participate in the competitive bidding or proposal process. Motion was made by Vice Chair Robertson, seconded by Commissioner Reeder, and motion carried by unanimous vote of the Commission. See attached Statement for Closed Meeting, pursuant to State Government Article §10-508(a). The meeting moved to a closed session at 11:20 a.m.

In addition to the six Commission members present, the following were also present during the closed session: Stephen Martino, Gina Smith, John Gallagher, John Mooney, Jennifer Kelley, Robert Howells, Michael Eaton, Robert Fontaine, Holly Knepper, and Marie Torosino. The meeting returned to open session at 11:54 a.m.

Chairman Fowler announced that during the closed session, the Commission discussed the status and new developments in the interpleader action pending in Baltimore City Circuit Court, revisions to the process of MBE goal setting for VLT licensees/awardees and the outstanding RFPs for Baltimore City and Allegany County.

DATE AND TIME OF NEXT MEETING

The next Commission meeting will be at 10 a.m., Thursday, September 22.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler said he would entertain a motion to adjourn. Motion was made by Commissioner Reeder, seconded by Vice Chair Robertson and motion carried by unanimous vote of the Commission. The meeting adjourned at 11:57 a.m.

Respectfully submitted,

Stephen L. Martino