

**MARYLAND STATE LOTTERY COMMISSION
NOVEMBER MINUTES**

DATE: November 17, 2011

TIME: 10 a.m.

PLACE: Maryland Lottery Headquarters

PRESENT: Chairman J. Kirby Fowler, Jr.
Commissioner F. Vernon Boozer
Commissioner E. Randolph Marriner
Commissioner Diane L. McGraw
Commissioner W. Ray Presley
Commissioner Bruce L. Reeder

Stephen Martino, Director
Robert Fontaine, Principal Counsel
John Gallagher, Chief Information Officer
Charles LaBoy, Assistant Director for Gaming
John Martin, Assistant Director for Lottery
Jill Baer, Director, Creative Services
John Mooney, Director for Enforcement
Robert Howells, Procurement Director
Michael Eaton, Director, VLT Auditing
Jennifer Wetherell, Responsible Gambling Program Coordinator
Holly Knepper, Deputy Counsel
Marie Torosino, Executive Associate

OTHERS: 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 10:09 a.m. Commissioners present were F. Vernon Boozer, E. Randolph Marriner, Diane L. McGraw, W. Ray Presley, and Bruce L. Reeder. Kimberly D. Robertson and George M. Wagner were absent.

APPROVAL OF THE AGENDA

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

APPROVAL OF MINUTES

Chairman Fowler stated the October 27, 2011, minutes were provided to the Commissioners for review and asked if there were any corrections. There were none. Commissioner Marriner motioned that the minutes be approved, and it was seconded by Commissioner Presley. The minutes were approved by unanimous vote of the Commission.

CONSENT AGENDA

Chairman Fowler said the Consent Agenda contains new instant ticket games (Exhibit #1) for the Commission's approval. He asked if there were any questions. Hearing none, Chairman Fowler requested a motion to approve the following new instant games: Game #919 *Monopoly*, Game #922 *Triple Green Crossword*, #928 *Double Hot Bucks*, and Game #930 *10X Payday Payout*. Motion made by Commissioner McGraw, seconded by Commissioner Reeder, and motion carried by unanimous vote of the Commission.

OPERATOR REPORTS

Hollywood Casino Perryville

Mr. Bill Hayles, General Manager, said October's gross terminal revenue compared to last year are 15% behind. This is normal when talking about a new facility that opened a year ago in October. Currently in November, gross terminal revenues are running 12% ahead of last year. A car giveaway promotion will be held on Thanksgiving weekend. In October, they began converting the buffet into a lounge area on Saturday nights. It is too early to tell how successful this will be, but if it is, they will consider enhancing it.

Casino Ocean Downs

Mr. Joseph Cavilla, General Manager, said the casino is coming into the off season. The gross terminal revenue for October was \$3.8 million, which is 18% behind last month.

Ocean Downs was recently invited to an economic development community meeting sponsored by the local chamber of commerce. He noted a more positive attitude from Ocean City businesses than they received in the past.

Maryland Live! Casino

Mr. Robert Norton, General Manager, and Mr. Joe Weinberg, principal from Cordish Company, gave a presentation to the Commission on the current progress of the Maryland Live! They provided detailed overview of the inside and outside of the casino, its functions and amenities. It will be a 330,000 square foot casino with 4,750 slots, various restaurants and eight full service bars. They showed renderings of the buildings, the entrance to and from Arundel Mills, the parking garage which will be both self-service and valet, and a bus waiting area. Restaurants will include a buffet, Noodles, Market to Go, Bobby Flay, Cheesecake Factory, a high end steakhouse and a well-known seafood restaurant. Rams Head and eight bars will be located on the mid-level of the casino. A preview center will open in the mall next week during Thanksgiving and Christmas to show the public what the facility will be like. They are working on the project seven days a week. They look forward to the opening in June 2012. The Commission thanked them for the presentation.

Chairman Fowler asked where the nearby hotels are located. Mr. Weinberg responded hotels are located off Arundel Mills Boulevard. A new hotel is slated to be build at Rt. 295 and Arundel Mills Boulevard South, near the entrance to the facility. They are working with hotels in the area to cross market rooms.

Chairman Fowler asked what impact the Rams Head facility at the casino will have on the current Rams Head facilities located in Annapolis and Baltimore. Mr. Weinberg responded they will complement each other and bring more venues to the area.

Commissioner Reeder asked how many employees will be hired. Mr. Weinberg responded about 1,500 full time employees will be hired. In December, there will be an on-line application process available and in January they will open a recruitment center in the Mall.

STAFF REPORTS

Director's Report – Stephen Martino

Mr. Martino said sales through November 13, are \$10 million or 1.65% ahead of last year. Revenues are \$4.3 million or 2.33% ahead of last year. Instant game sales are down approximately \$6 million over last year. We will be addressing instant games at a strategic meeting with Pollard Banknote on November 29. Mega Millions sales are down \$3.5

million compared to last year. Sales are a function of jackpots and there have not yet been any large jackpots this fiscal year. Last year there was a Powerball jackpot over \$300 million. Powerball had a \$245 million jackpot a few weeks ago. Powerball sales have increased over the last year. Powerball moves to a \$2 game in January with a base jackpot of \$40 million.

Commissioner Reeder asked how many states are in Powerball. Mr. Martino responded all the lottery states except California sell Powerball. With the exception of Florida, all the lottery states sell Mega Millions.

Mr. Martino said he had no additional VLT information to add to what the operators previously reported. He agrees with Mr. Hayles that the October over year comparison is almost impossible to meet what they did last October when the facility was first opened.

Mr. Martino introduced John Martin, the new Assistant Director for Lottery. At the last Commission meeting, he was with the Director at the NASPL meeting. Mr. Martin will oversee the operation of sales, communications, and creative services. He was recently the Deputy Director for Sales at the Ohio Lottery.

Mr. Martino said last week he announced that James Butler would be the new Director of Legislative and Policy Affairs as well as the legislative liaison. He has worked at the Lottery in the Attorney General's Office for quite some time, and is familiar with Lottery operations.

On November 14, the Video Lottery Facility Location Commission held their meeting at Lottery Headquarters. Caesars Corporation gave a presentation of their proposal for a Baltimore City video lottery operation license. A copy of the PowerPoint presentation will be forwarded to Commission. Spectrum Gaming will conduct the background investigations. They are also performing background investigations of Caesars for Ohio. As noted last month, the Maryland Lottery entered into a Memorandum of Understanding (MOU) with the Ohio Casino Control Commission to share the cost of this background investigation. The investigations are expected to be complete by February or March.

There were two proposals received for the Video Lottery License at Rocky Gap. Bids were submitted by Landow Partners, LLC and Evitts Resort, LLC. The background investigations will be conducted on these bidders by the Lottery on behalf of the Lottery Commission.

Once both background investigations have been completed, the Commission will need to conduct qualification hearings for the Baltimore City and Allegany County operation licenses.

The Lottery is expected to appear before the Board of Public Works (BPW) on December 21 regarding the slot machine purchase for Maryland Live! Casino. A presentation will be made at the December meeting.

Starting in January, report presentations to the Commission will be made by the executive staff members. Any questions can be followed-up with support staff or they could be present during the course of the meetings.

Mr. Martino said he is working with Chairman Fowler and Vice Chair Robertson regarding setting up assignments for each Commission member to be involved in different areas of Lottery operations. He feels this would be good for the staff as well as the Commission. He will develop recommendations and discuss this further with the Chairman and Vice Chair.

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

Ms. Smith was not present and her report was provided to the Commission.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said his report was provided to the Commission. The software changes for \$2 Powerball are on schedule for release in January.

Lottery – John A. Martin, Assistant Director

Mr. Martin gave additional information on his background experience. In October, he participated in the annual NASPL conference. He is looking forward to working with the Commission and providing updates in sales, creative services and communications. He was welcomed by the Commission.

Creative Services – Jill Baer, Director

Ms. Baer said the Ravens Cash Fantasy scratch-off game is the Lottery's top selling \$5 game. With two-thirds of the tickets sold, we expect to be out of inventory in February. The four holiday tickets are in the field and advertising will begin closer to the Christmas holiday.

The licensed Monopoly scratch-off game is a \$5 ticket. Mr. Howells will present the licensing contract later in the meeting. The Lottery plans to launch the ticket in February. She will present additional information in the coming months. Nationwide, it is a top selling extended play scratch-off product with an on-line second chance component. Commissioner Marriner asked if this ticket was previously sold by Maryland. Ms. Baer responded the Monopoly ticket was sold over 10 years ago.

The Keno Sprinkler promotion starts on November 21 and runs through the holidays. The Pick 3 promotion starts on November 28 and runs through the holidays.

Communications continues to do great job supporting the Ravens Cash Fantasy instant game and other games in the field with parties and events.

Procurement – Robert Howells, Director

Mr. Howells presented the licensing contract for Monopoly with MDI Entertainment, a subsidiary of SGI. This is a sole source contract with a NTE amount of \$246,000 to provide a license to use Monopoly marks and logos for an instant game and related prizes. It will be a \$5.00 ticket with a ticket quantity of 2,640,000. Subject to the approval of the Commission, this item will be presented to the Board of Public Works (BPW) on December 21. The tickets will be printed under contract with Pollard Banknote. There is also a second chance component associated with this ticket. Chairman Fowler said he would entertain a motion to approve the Monopoly Licensing Contract and Related Services (#2011-14) with MDI Entertainment, LLC, a wholly owned subsidiary of Scientific Games International, Inc. Motion made by Commissioner Marriner, seconded by Commissioner Presley and motion carried by unanimous vote of the Commission.

Gaming – Charles LaBoy, Assistant Director

Mr. LaBoy said he has been reviewing the Requests for Quotations from the VLT manufacturers for the slot machines for Arundel Mills. He has also been reviewing various VLT regulations and may have some suggested regulations changes to present at next month's meeting.

Internal Audit – Michael Eaton, Director

Mr. Eaton said his report was provided to the Commission. The VLT Audit and Slot Drop and Soft Count Audit for Hollywood Casino Perryville were completed and an executive summary was provided to the Commission. Two of the three findings have been corrected and the third issue is being worked on with the casino management team. The VLT Revenue Audit for Lottery was completed and a copy was provided to the Commission.

Commissioner Marriner noted that the Hollywood Casino Perryville Video Lottery Terminal Audit showed a rating of not adequate, but no explanation of the findings. Mr. Eaton responded this detailed information is considered confidential information. Mr. LaBoy said during the audit finding review process we want to ensure the findings remain confidential. When the report is issued, a report can be provided to the Commission. The Commission can then elect to move to a closed executive session to discuss the audit report in detail.

The VLT auditor position announcement was issued. He is working with Chairman Fowler and Vice Chair Robertson on interviewing the candidates.

Responsible Gambling Program – Jennifer Wetherell, Coordinator

Ms. Wetherell said her report was provided to the Commission. Hollywood Casino's Responsible Gaming Annual Report was omitted from her report when it was sent to the Commission. She then provided a copy of the report. There are currently 48 participants in the Voluntary Exclusion Program (VEP). The VEP data is now being provided in a more graphic form.

Enforcement – John Mooney, Director

Mr. Mooney said his report was provided to the Commission. He is currently recruiting for one vacancy in Lottery Investigations and Security Division.

Legal Unit – Robert Fontaine, Principal Counsel

Mr. Fontaine said his report was provided to the Commission. He said five years ago the Eisner Group contract was terminated, which resulted in Interpleader actions because funds were due to the Lottery and other companies. Last week, a Motion to Summary Judgment was filed for a partial claim of funds made by WJLA-TV in DC.

Awaiting approval from the Department of Budget and Management to recruit for the vacancy left by Mr. Butler who accepted the position of Director of Government and Policy Affairs at the Lottery

There was is a motions hearing scheduled in Baltimore City Circuit Court on November 28 in the Baltimore City Entertainment Group (BCEG) interpleader case. Since all motions have been resolved, most likely there will not be a need for the hearing.

Regarding the BCEG challenge to the rejection of its proposal for Baltimore City, their brief is due on December 27 and then we will file our brief a month later. The argument before the Court of Special Appeals may occur in March.

Mr. Fontaine discussed with the Commission the interpretation of the VLT statute regarding the number of slot machines versus the number of seats. Further information will be presented next month regarding the regulations language.

Chairman Fowler said we will move to close session to discuss the process for the hearing regarding the hearing of the VLT employee license.

PUBLIC COMMENTS

There were no public comments made.

CLOSED SESSION

Chairman Fowler said pursuant to State Government Article §10-508(a)(13) he would entertain a motion to move to a closed session to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter. Motion was made by Commissioner Marriner, 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)(13). The meeting moved to a closed session at 11:25 a.m.

In addition to the six Commission members present, the following were also present during the closed session: Stephen Martino, John Gallagher, Charles LaBoy, John Martin, Jennifer Wetherell, Robert Howells, Michael Eaton, Robert Fontaine, Holly Knepper, James Butler, Jeff Patchen, Clarence Traynham, and Marie Torosino. The meeting returned to open session at 11:32 a.m.

Chairman Fowler announced that during the closed session, the Commission discussed confidential commercial information contained in a casino's audit report.

CLOSED SESSION

Chairman Fowler said pursuant to State Government Article §10-508(a)(7) he would entertain a motion to move to a closed session to consult with counsel to obtain legal advice regarding the process by which the hearing will be conducted and legal issues associated with VLT licensing requirements. Motion was made by Commissioner McGraw, seconded by Commissioner Presley, and motion carried by unanimous vote of the Commission. See attached Statement for Closed Meeting, pursuant to State Government Article §10-508(a)(7). The meeting moved to a closed session at 11:35 a.m. and remained at Maryland State lottery Agency headquarters, in Baltimore, Maryland.

In addition to the six Commission members present, the following were also present during the closed session: Stephen Martino, Robert Fontaine, Holly Knepper, Laura Tilley, and Marie Torosino. The Commissioners and Laura Davies Tilley discussed the process for the hearing and legal issues associated with the VLT licensing requirements. The meeting returned to open session at 12:07 p.m.

Chairman Fowler announced that during the closed session, the Commission reviewed the process for the hearing and legal issues associated with the VLT licensing requirements.

HEARING FOR DENIAL OF APPLICATION FOR VIDEO LOTTERY EMPLOYEE LICENSE

Chairman Fowler said there was a quorum present and explained how the hearing will be conducted regarding whether to grant or deny the video lottery employee license application for applicant Gregory R. Young. Romaine Williams, Assistant Attorney General represented the Lottery. A court reporter was present to record the hearing. Chairman Fowler administered the oath to Mr. Young. Mr. Young gave his opening statement. He said he made a mistake when he applied for the license by leaving off pertinent information. He has worked for Pendum for nine years serving ATM machines. Ocean Downs casino has four machines that are not located on the casino floor and he did not need a license. Ms. Williams asked Mr. Young to elaborate on the points he made. Chairman Fowler asked what incidents were omitted on the application. Mr. Young gave an explanation of the incidents. Chairman Fowler asked if any of the Commissioners had questions for Mr. Young. There were none. Ms. Williams provided copies of MSLA

Exhibits No. 1 through 4 to the Commission as well as Mr. Young, and the original MSLA Exhibits No. 1 through 4 were provided to the court reporter. Ms. Williams then introduced each MSLA Exhibit and admitted them into evidence upon hearing no objection by the Commission or Mr. Young. Ms. Williams then cross-examined Mr. Young. Mr. Young was given an opportunity to ask any questions and make any further statements. Chairman Fowler asked if there was any other testimony. Mr. Young submitted a personal reference letter from his wife. He said his District Manager was also going to send a personal reference letter, but had not done so. A copy of the personal reference letter was entered as Exhibit #1 from Mr. Young. Mr. Young gave a summary of the letter.

Ms. Williams provided Mr. Young with a copy of a Motion for Judgment. Copies were also provided to the Commission and the original was given to the Court Reporter. Ms. Williams presented the Motion of Judgment. Commissioner Boozer asked if the request is denied today is there anything to stop Mr. Young from re-applying in the future. Ms. Williams responded she is aware of nothing to prevent Mr. Young from coming back. Commissioner Presley asked Mr. Young how many ATMs he works on in a week. Mr. Young responded 30 to 50 machines. Commissioner Presley asked how many are located inside the casinos. Mr. Young responded four. Deliberations were held by the Commission. The Commission voted unanimously to accept the Motion for Judgment. The written Decision will be drafted and provided to Mr. Young. The record and testimony was closed. Mr. Young was advised of his right to appeal the Decision and that he would be provided procedures to appeal the Decision. The Commission thanked Mr. Young for coming in. The hearing was closed at 1:02 p.m.

DATE AND TIME OF NEXT MEETING

The next Commission meeting will be at 10 a.m., Thursday, December 15.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler said he would entertain a motion to adjourn. Motion was made by Commissioner McGraw, seconded by Commissioner Marriner and motion carried by unanimous vote of the Commission. The meeting adjourned at 1:03 p.m.

Respectfully submitted,

Stephen L. Martino