

**MARYLAND STATE LOTTERY COMMISSION
DECEMBER MINUTES**

DATE: December 15, 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 E. Randolph Marriner
Commissioner Diane L. McGraw
Commissioner W. Ray Presley
Commissioner Bruce L. Reeder
Commissioner George M. Wagner

Stephen Martino, Director
Gina Smith, Deputy Director/CFO
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
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 10:05 a.m. Commissioners present were Kimberly D. Robertson, F. Vernon Boozer, E. Randolph Marriner, Diane L. McGraw, W. Ray Presley, Bruce L. Reeder, and George M. Wagner.

APPROVAL OF THE AGENDA

Chairman Fowler said he would entertain a motion to approve the Amended 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 November 17, 2011, minutes were provided to the Commissioners for review and asked if there were any corrections. There were none. Vice Chair Robertson motioned that the minutes be approved, and it was seconded by Commissioner Reeder. 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 #853 *Triple Tripler*, Game #924 *Star Spangled Tripler*, #925 *Thrilling 3s*, and Game #929 *Cashword*. Motion made by Commissioner Presley, seconded by Commissioner Wagner, and motion carried by unanimous vote of the Commission.

OPERATOR REPORTS

Hollywood Casino Perryville

Mr. Bill Hayles, General Manager, said November gross terminal revenue is running the same as October. They had a strong Thanksgiving holiday weekend, with only a slight decrease in customers when Ravens played on Sunday. The casino is 20% ahead in year-over-year comparison. They are now moving into the slower time of the year until after Christmas holiday, then business should go back up. The casino is working with slots manufacturers to exchange out some of the machines. The casino staff participated in a holiday food drive and donated 2,000 pounds of food.

Commissioner Reeder asked how many full time employees work at the casino. Mr. Hayles responded there are currently 245 full-time employees. Chairman Fowler asked for

an update on the sign. Mr. Hayles responded they expect to be issued the permit within the next few weeks. The sign is currently in the production stage, and he anticipates it being erected in late February. Chairman Fowler asked if the sign will be seen both northbound and southbound on Interstate 95. Mr. Hayles responded the sign will be 175 feet high and visible both ways. Chairman Fowler congratulated the casino on the strong numbers.

Casino Ocean Downs

Mr. Joseph Cavilla, General Manager, said the casino's performance for November is down 19% from the previous month. December is traditionally a slower month between Christmas and New Year's, and then business should pick up. They are looking forward to January for the year-to-year performance comparison. Players have been coming to the casino from outlying areas such as Virginia and Virginia Beach and they attribute this to Ocean City tourism for bringing in players from outlying areas. Over the holiday period, casino employees as well as customers donated 2,000 pounds of food for families in need.

Chairman Fowler asked if the part time employee base increases during summer months. Mr. Cavillo said they do utilize part time employees. They have 200 full-time with an increase to 240 employees in the summer. Chairman Fowler thanked the casino operator for the community outreach program participation.

Maryland Live! Casino

Mr. Robert Norton, General Manager, said construction of the facility is progressing and work is beginning on the interior. The casino started accepting job applications on-line through their website and received over 3,000 applications. They will begin the interview process for the first group of positions. In mid-January, they will open a job recruitment center and anticipate ramping up the hiring process. Over 15,000 people have signed up through the website for the players club. They are beginning to build a player database.

STAFF REPORTS

Director's Report – Stephen Martino

Mr. Martino said Lottery sales as of December 11 are \$11.6 million or 1.5% ahead of last year. Mega Millions jackpot is currently \$135 million and the Powerball jackpot is currently \$91 million. Revenues are \$6.1 million or 2.7% ahead of last year.

The VLT gross terminal revenue (GTR) for FY2011 was over \$100 million and thus far for FY2012, GTR is \$67 million. By the end of the fiscal year, we should be close to the FY2011 mark.

Video lottery numbers were commented on by the operators. We are pleased with the figures. Ocean Downs will be open one year in January. To date, over \$32 million has gone into the Education Trust Fund for FY2012.

The Lottery will go before the Board of Public Works (BPW) on December 21 with two items—the slot machine purchase for Maryland Live! Casino and the Monopoly scratch-off license contract. Mr. LaBoy will speak further on the slot machines. We are working with the casino to develop an appropriate mix of machines.

The Lottery conducts the background investigations for the video lottery operation licenses and is currently working on the applications for Baltimore City and Rocky Gap. When those background investigations are completed, they will be presented to the Lottery Commission for review and approval. Investigations of the Rocky Gap applications are being done internally, while investigation of the Baltimore City application is being done by the Spectrum Gaming Group. Through a Memorandum of Understanding (MOU) Maryland is splitting the cost with the Ohio Casino Control Commission who is also conducting the same background check utilizing Spectrum. We hope to have the Rocky Gap investigation completed by the end of January. Investigation of the Baltimore City application may not be completed until March or April.

The legislative session starts on January 11. James Butler, the new Director of Legislation and Policy Affairs, will be the Lottery's legislative liaison. We are expecting some gaming legislation this year. Chairman Fowler asked that a monthly report be provided to the Commission on legislation. Mr. Martino said he will provide a report to the Commission via e-mail or at the monthly meetings.

He thanked Hollywood Casino Perryville and Casino Ocean Downs for hosting recent meetings of the Maryland Alliance for Responsible Gambling (MARG). When Maryland Live! Casino opens, he will ask that they host one of the MARG meetings.

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

Ms. Smith said her report was provided to the Commission. Earlier this week, the Chairman and Vice Chair held a second round of interviews for the internal audit position. She is in the process of checking references before an offer is sent to the selected candidate who would start in January.

The Lottery is gearing up for the legislative session and budget hearings. Chairman Fowler asked if there is any expectation that the advertising budget would increase. Ms. Smith responded the Department of Budget and Management added no additional funds to advertising. The Lottery is requesting \$500,000 for the conversion cost for video lottery facilities.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said his report was provided to the Commission. Testing has been completed for \$2 Powerball launch in January. A check-off list that was required by the Powerball group has also been completed. SGI will begin downloads to the agent network next week in preparation for the January 15 launch.

Vice Chair Robertson asked what is a disaster failover test. Mr. Gallagher responded GTECH conducted a failover test last week where the system is run from the back-up data center for 24 hours. Both GTECH and SGI's contract require this failover testing twice a year.

Lottery – John A. Martin, Assistant Director

Mr. Martin said he has action items to present to the Commission for their review and approval. The first item concerns the Ravens Cash Fantasy \$5 scratch-off ticket. The ticket is in its third year in the field and sales are lagging somewhat from previous years. The Lottery would like to run an agent based incentive program beginning December 16 through the close of business on January 1. A retailer who activates a book of Ravens Cash Fantasy scratch-off tickets during that period would qualify for an additional \$10 per book commission once the book is marked sold.

Chairman Fowler asked what is the current agent compensation. Mr. Martin responded it is 5% of sales. Chairman Fowler asked if any incentive programs have been done before. Ms. Smith responded agent incentive programs have been conducted in the past. Mr. Martin said the goal is to have all the books out in the field before Super Bowl Sunday.

After discussion, Chairman Fowler entertained a motion to approve the Ravens Cash Fantasy agent incentive program. Motion made by Commissioner Wagner, seconded by Commissioner Marriner, and motion carried by unanimous vote of the Commission.

Mr. Martin said \$2 Powerball launches on January 15 and the Lottery is proposing to increase lottery agent bonuses. For every sale of a Powerball ticket with five matching numbers, the agent bonus would increase from \$1,000 to \$2,500. For selling a Powerball ticket with five matching numbers with the Power Play option, the agent bonus would increase from \$2,500 to \$5,000. Also, for selling the top tier ticket for Powerball and Mega Millions, agents would receive a bonus of one-tenth of 1% of the jackpot up to a maximum of \$100,000. Agent bonus for the Mega Millions jackpot would remain at \$25,000 up to and including \$25 million. Shared jackpots will affect the proportionate share of the retailer bonus.

After discussion, Chairman Fowler entertained a motion to approve the revised Lottery agent bonuses. Motion made by Commissioner Wagner, seconded by Vice Chair Robertson and motion carried by unanimous vote of the Commission.

Mr. Martin said the Lottery is requesting the Commission delegate to the Director the authority to permit new lottery agent incentive programs as well as lottery agent bonuses. This would be effective January 1, 2012. A report of such action would be submitted to the Commission on the Consent Agenda at the next Commission meeting. Mr. Martino said agent incentive programs have been implemented in the past and not brought to the Commission for approval. However, it was discovered that under the law the agent

incentive programs have to be presented to Commission. In some cases, this could cause a delay in implementing the programs since they are time sensitive.

After further discussion, Chairman Fowler entertained a motion to delegate authority to the Director to implement new lottery agent incentive programs and lottery agent bonuses with the option of the Commission to revoke that delegation if needed. This delegation would be effective January 1, 2012. A report of any action would then be submitted to the Commission on the Consent Agenda at the next Commission meeting. Motion made by Commissioner Presley and seconded by Commissioner Boozer. Chairman Fowler called for a vote and the motion carried by a vote of six voting for and two voting against.

Creative Services – Jill Baer, Director

Ms. Baer said Ravens Cash Fantasy is 75% activated. To push through the remaining inventory, enhancements will be made to the second chance contest by adding new prize drawings and bringing attention to the new prizes by increasing marketing and PR support for the game. Eight \$10,000 cash prizes were added for the eight weekly drawings.

She is working on developing the advertising strategy for the launch of the \$2 Powerball game in January. She notes that Ms. Everett in Communications has been seen throughout the media as the gift guru promoting that lottery tickets make great gifts.

Gaming – Charles LaBoy, Assistant Director

Mr. LaBoy said his report was provided to the Commission. VLT Auditing Division completed two Casino Ocean Downs audits—Surveillance Department and Responsible Gaming. There were no findings to report. Copies of the audit reports were provided to the Commissioners.

The slot machine order for Maryland Live! Casino has been submitted to the Board of Public Works for the December 21 agenda. The order is for 4,719 leased machines at a cost of \$168.5 million. This order will allow the Lottery to apply a performance based strategy whereby the manufacturers will compete with each other for floor share at each of the video lottery facilities. A copy of the RFQs for Maryland Live! Casino was provided to the Commission.

There are currently 51 participants in the Voluntary Exclusion Program (VEP). He included with his report a copy of the National Council on Problem Gambling. It contains an article on MARG submitted by Jennifer Wetherell, the Responsible Gambling Coordinator.

Mr. LaBoy presented the following regulations for the Commission's review and approval:

COMAR 14.01.01.02 Definitions. The proposed amendment clarifies the definition of "video lottery terminal" by specifying that a VLT means each player position or seat

available for use by a player. Staff proposes an effective date of this amendment of June 30, 2012. Chairman Fowler reminded members that the interpretation of the VLT statute regarding the number of slot machines versus the number of seats was discussed at last month's meeting.

After discussion, Chairman Fowler entertained a motion to approve on a regular (non-emergency) basis the amendment to COMAR 14.01.01.02B(28) with an effective date of June 30, 2012. Motion made by Commissioner Marriner, seconded by Vice Chair Robertson and motion passed by unanimous vote of Commission.

COMAR 14.01.13.03A(1)(c) Facility Design Standards and COMAR 14.01.14.17B, E, F and G Access to Central Monitor and control System. The proposed amendments to these regulations would clarify that only individuals authorized by the Commission and representatives of the operator of the central monitor and control system would have access to the central monitor and control system and segregated area in the video lottery facility. This amendment would effect consistency between the VLT Law and the regulations.

After discussion of the amendment by the Commission, including comments by the video lottery operators present, Chairman Fowler entertained a motion to approve on a regular (non-emergency) basis the amendment to COMAR 14.01.13.03A(1)(c). Motion made by Commissioner McGraw, seconded by Vice Chairman Robertson, and motion passed by unanimous vote of Commission.

After discussion by the Commission, including comments by the video lottery operators present, Chairman Fowler entertained a motion to approve on a regular (non-emergency) basis the proposed amendments to COMAR 14.01.14.17B, E, F and G with some additional clarifying edits and formatting changes. Motion made by Commissioner Marriner, seconded by Commissioner McGraw and passed by unanimous vote of Commission.

COMAR 14.01.14.37F, G Promotional Play. The proposed amendments would implement a requirement in the VLT law that the Commission establish by regulation a percentage of proceeds, after the first fiscal year of operation, that may be given away as free promotional play. The proposed regulation would establish that an amount of money given away as free promotional play in a fiscal year exceeding 20% of the facility's proceeds of the prior fiscal year shall be allocated as proceeds under §9-1A-27 of the VLT Law.

After discussion by the Commission, Chairman Fowler entertained a motion to approve proposed amended regulation COMAR 14.01.14.37, effective January 1, 2012. Motion made by Vice Chair Robertson, seconded by Commissioner Reeder, and motion passed by unanimous vote of Commission.

Chairman Fowler said he would entertain a motion to permit Lottery staff to submit amended regulation 14.01.14.37 approved today on both an emergency and regular basis. Motion was made by Commissioner McGraw, seconded by Commissioner Wagner, and the motion carried by unanimous vote of the Commission.

COMAR 14.01.14.47 Signs, and COMAR 14.01.16 Voluntary Exclusion and Responsible Gaming. Based on public comments received about the responsible gaming regulations that were approved by the Commission at the September 22, 2011 meeting, it is requested that amendments to sections 14.01.14.47 and 14.01.16 be withdrawn and replaced with the revised amended sections. These revisions are the result of discussions with and suggestions by the facility operators.

Chairman Fowler said he would entertain a motion to withdraw the approval of 14.01.14.47 and 14.01.16 that was done at the September 22, 2011 Commission meeting and approve the new set of regulations. Motion made by Commissioner Marriner, seconded by Vice Chair Robertson, and motion passed by unanimous vote of Commission.

After discussion by the Commission, Chairman Fowler entertained a motion to approve the proposed amendments to COMAR 14.01.14.47 and COMAR 14.01.16 on a regular (non-emergency) basis. Motion made by commissioner Marriner, seconded by Commissioner McGraw, and motion passed by unanimous vote of the Commission.

Enforcement – John Mooney, Director

Mr. Mooney said his report was provided to the Commission. He said Manufacturers and Traders Trust Bank (M & T Bank) and Deutsche Bank Trust Company Americas (Deutsche Bank) each submitted an Institutional Investor Waiver Application in December as institutional investors for PPE Casino Resorts Maryland, LLC. Investigations were conducted into the qualifications of M & T Bank and Deutsche Bank and both are qualified to be granted waivers as institutional investors by the Lottery Commission. Mr. Mooney reviewed the waiver reports on both banks that were provided to the Commission.

Chairman Fowler said he would entertain a motion to approve M & T Bank and Deutsche Bank as institutional investors. Motion made by Commissioner McGraw, seconded by Commissioner Marriner and motion carried by unanimous vote of Commission.

Legal Unit – Robert Fontaine, Principal Counsel

Mr. Fontaine said his report was provided to the Commission. As a result of last month's hearing, the Commission's decision was to deny the video lottery employee license application of Gregory Young. The Decision Order for Gregory Young was provided to the Commission. Motion made by Commissioner Marriner to authorize the Chairman to sign the Decision Order on behalf of the Commission, motion seconded by Commissioner Wagner, and the motion passed by unanimous vote of Commission.

The Lottery is seeking revocation of lottery agent West Street BP based on the agent's failure to meet their weekly sales average. West Street BP was notified by the Director of the revocation, and the agent had 10 days to contest. The agent failed to do so. Chairman Fowler said he would entertain a motion to approve the Director's recommendation to

revoke the lottery sales agent license of West Street BP. Motion made by Commissioner Reeder, seconded by Vice Chair Robertson, and motion carried by unanimous vote of Commission.

Our interpleader case with Baltimore City Entertainment Group (BCEG) is pending in the Baltimore City Circuit Court. Two motions to intervene have been denied. One of the parties that moved to intervene was the New Mexico State Investment Council (NMSIC) who sent a letter to the Commission (copy provided) demanding the \$3 million initial license fee that was submitted on behalf of BCEG. To protect the Lottery Commission, he may have to amend the complaint to include NMSIC as a defendant in the interpleader action. No hearings are currently scheduled. Mr. Fontaine will keep the Commission updated.

PUBLIC COMMENTS

There were no public comments made.

DATE AND TIME OF NEXT MEETING

The next Commission meeting will be at 10 a.m., Thursday, January 26.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler said he would entertain a motion to adjourn. Motion was made by Commissioner Presley, seconded by Vice Chair Robertson and motion carried by unanimous vote of the Commission. The meeting adjourned at 11:50 a.m.

Respectfully submitted,

Stephen L. Martino