

**MARYLAND STATE LOTTERY COMMISSION
JANUARY MINUTES**

DATE: January 26, 2012

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
John Mooney, Assistant Director for Enforcement
Holly Knepper, Deputy Counsel
Marie Torosino, Executive Associate

OTHERS: Representative from Hollywood Casino/Perryville
Representative from Casino Ocean Downs
Representative from Maryland Live! Casino
Representative from Scientific Games International
Representative from Pollard Banknote Limited
Representative from GTECH
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 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 Vice Chair Robertson, seconded by Commissioner McGraw, and the motion carried by unanimous vote of the Commission.

APPROVAL OF MINUTES

Chairman Fowler stated the December 15, 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 #926 *Silver 7s*, Game #931 *Strike It Rich*, #932 *Double the Money*, and Game #937 *Hot Casino Cash*. Motion made by Commissioner Wagner, seconded by Vice Chair Robertson, and motion carried by unanimous vote of the Commission.

OPERATOR REPORTS

Hollywood Casino Perryville

Mr. Bill Hayles, General Manager, said December's gross terminal revenue was \$9.5 million. Year over year growth in several categories is in excess of 40%. Since December is typically a slower month with the holidays and a year ago in January we experienced some weather issues, February will be a good month to compare the year over year results.

Chairman Fowler asked for a status update concerning the sign. Mr. Hayles said the sign is currently under construction. They recently received the zoning certificate and expect the sign to be erected by March.

Casino Ocean Downs

Mr. Joseph Cavilla, General Manager, said December's gross terminal revenue was \$3 million. There is a difference between in season and out of season, \$3 million in December compared to \$5.4 million in July. Experiencing significant expense increases in employee benefits, maintenance of grounds and facility, and their marketing budget. Because Ocean Downs is more of a seasonal location and not a destination location, they are working with local businesses and the Chamber of Commerce for promotional opportunities. They are attempting to find events in Ocean City and the surrounding areas to promote the casino facility. Ocean City does not allow advertising associated with gambling. However, after contact with the City Council, and with the support of the Chamber of Commerce and other associations, the City Council will permit it, but it is not a permanent change. This is a good indication that the relationship with Ocean City is growing.

The employee Thanksgiving food drive brought in over 2,000 pounds of food that was donated to the local food bank and shelters. They conducted the food drive again at Christmas and are looking to repeat it for the Easter holiday.

Commissioner Wagner asked if Ocean Downs is participating with hotels in the area by offering reduced room rates and running a shuttle to the casino facility. Mr. Cavilla said they have developed a relationship with seven hotels, five of which are Marriott hotels. They have looked at a shuttle service, but it would be a two part shuttle. There are two companies that operate and they do not run into each other's territory. Mr. Cavilla said when they work with the hotels, free play is offered to bus groups if they are part of a tour. Commissioner Marriner asked if Ocean Downs has made contact with the Maryland Tourism and Development agency and, if a contact person is needed, to let him know. Mr. Cavilla said he will look into it.

Vice Chair Robertson ask if there are plans to increase casino signage. Mr. Cavilla said currently there are three billboards located on Route 50, two of which are between Salisbury and Ocean City. They are currently concentrating on radio advertising.

Maryland Live! Casino

Mr. Robert Norton, General Manager, said construction is moving along and work is taking place on the building interior. By next month, they will be acquiring warehouse space for the slot machines which should be arriving in approximately four weeks. Recruitment ads have run on radio and in print, and the job recruitment center recently opened. They are in the process of hiring 40 employees.

VENDOR REPORTS

Scientific Games International

Mr. Jeff Hale, Operations Manager, said the \$2 Powerball game successfully launched. The 400 Mega Millions/Powerball dual jackpot signs have been installed. Their goal is to install 500 signs by January 31.

Pollard Banknote Limited

Ms. Julin Shaw, Marketing Manager, provided the Commission with an overview of the FY2012 second quarter. Current fiscal year to date sales are down 2%. Upcoming initiatives to help rejuvenate sales include Playbook games (\$20 product), core games with distinct prize structure offerings and the first \$10 Bingo scratch-off game.

GTECH

Mr. Gary Cherwinski, Gaming Operations Director, said operations are going well. GTECH completed the disaster recovery testing in December and will be testing some software at the end of February. All equipment has been ordered for Maryland Live! Casino and should be received by February 6.

STAFF REPORTS

Director's Report – Stephen Martino

Mr. Martino said the Lottery sales and revenue report as of January 22, shows total sales are \$15.5 million or 1.64% ahead of last year. Total revenue is \$7.2 million or 2.5% ahead of last year.

Both casinos spoke about their gaming revenue. We are pleased with what the casinos are doing and how diligently they are working to generate revenue for the State.

Since the last Commission meeting, the Lottery appeared before the Board of Public Works (BPW) with two items: the request for the slot machine purchase for Maryland Live! Casino and the Monopoly scratch-off license contract that will launch at the end of February. Both items were approved.

The legislative session began two weeks ago, and James Butler is the Lottery's legislative liaison. On January 31, we have a Senate budget hearing and on February 8, we have a budget hearing with the House.

Last week the Lottery testified before a Joint Hearing of the Senate Budget and Taxation and the Senate Finance Committees on the area of responsible gambling. There were participants from the Department of Health and Mental Hygiene and the Council on Problem Gambling as well as the three General Managers from the casino facilities. He expressed his appreciation to Mr. Hayles, Mr. Cavilla and Mr. Norton for their attendance.

This past week, he met with the House Ways and Means Committee to present a general game overview. The Committee was pleased with the operation of the Lottery and the revenue it has generated.

Chairman Fowler asked if there is an update on the table games legislation and asked if table games go to referendum, does the Commission take any position. Mr. Martino responded the Lottery will take its lead from the Administration, and wait and see what develops.

The \$2 Powerball launched on January 15. The current jackpot is \$120 million. The base jackpot will start at \$40 million with an increase of \$10 million for each roll. Advertising is currently running about the changes to the game.

At the February meeting, qualification hearings for the applicant for the Allegany County operation license and an applicant for a slot machine manufacturer's license will be presented to the Commission. The Commission will be sent summaries prior to the meeting.

A \$70 million Powerball jackpot ticket purchased in Georgia was not claimed within the 180 day claiming period and expired in December. The amount of \$851,000 will revert back to Maryland to the Unclaimed Prize Fund. It is unusual for a large jackpot to go unclaimed.

Requests have been received from individuals regarding a conflict for the May and June Commission meetings. Mr. Martino is requesting that the May 24 date be changed to May 17, and the June 28 date be changed to June 21. He will follow-up with an e-mail to the Commission to see if this presents any problems.

Commissioner Wagner noted that Maryland pays for the lease of the slot machines and asked what is done in other states. Mr. Martino said Delaware, New York and Rhode Island lease the slot machines. In Pennsylvania, Nevada, and West Virginia, it is the responsibility of the facility operator to procure the slot machines.

Commissioner Reeder asked for an update on federal internet gaming, *e.g.*, poker, and whether there be any impact to the Maryland Lottery. Mr. Martino responded internet gaming would have a significant impact on Maryland. In October, Governor O'Malley sent a letter to Congress discouraging action on the federal legalization of internet gaming. Mr. Martino said he will keep the Commission updated on this legislation.

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

Ms. Smith said her report was provided to the Commission. The Commission was also provided with the September and October 2011 Special Purpose Financial Statements as well as the Agreed Upon Procedures for Mega Millions, Powerball and Powerplay games. The FY2011 Comprehensive Annual Financial Report (CAFR) was also provided. She thanked Jill Baer and GKV for their assistance in putting the CAFR together. The CAFR was submitted to the Government Finance Officers Association for their review and certification.

We are continuing to struggle with filling the Lottery internal auditor position. The position was reposted due to a lack of candidates and the closing date is January 27. She and Mr. Eaton will then review any applications received.

The Lottery is preparing for the budget hearings on January 31 with a Senate Subcommittee and on February 8 with a House Subcommittee.

Vice Chair Robertson said the November MBE participation report show GTECH's percentage is below their goal of 25%, and asked if anything is being done to increase their MBE participation. Ms. Smith responded there is a reporting issue and she will respond to the Commission. However, if you look at the December MBE report, GTECH is up to 14.1% compared to 8.9% in November. Commissioner Marriner commented that GKV is doing well at 37.2%.

Vice Chair Robertson said the Special Purpose report for September shows a significant decrease in capital assets with an \$8 million change and asked why there is a significant reduction in capital obligations. Ms. Smith responded that the majority of the change is because the Lottery made its first payment on the slot machines that were purchased for Ocean Downs and Perryville. The State Treasurer takes the money from the Lottery once a year.

Commissioner McGraw asked who is responsible for disbursing the VLT funds to small, minority, women businesses because the 1.5% of the casino revenues are not being disbursed. Mr. Martino responded that falls under the Secretary of the Board of Public Works.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said his report was provided to the Commission. Meetings have been held for several months with SGI regarding new game enhancements. Testing of new graphics for Racetrax is taking place and the change is scheduled to be implemented in February.

Lottery – John A. Martin, Assistant Director

Mr. Martin said an initiative is being instituted in Sales Division called SalesMaker. The program will begin in February and will target retailers across the State to improve sales

efforts by upgrading displays and in-store merchandising. Nearly 500 dual digital jackpot signs were delivered throughout the State within the last 30 days.

The recent Ravens Cash Fantasy retailer incentive program was successful, showing a 33% increase during the same period last year. He thanked the Commission for their support of that incentive program. The final drawing is February 9 for the Ravens Cash Fantasy million dollar cash prize, season tickets for life and other prizes.

The Monopoly scratch-off game is scheduled to launch the latter part of February. The game will be advertised throughout the State.

Last night's \$120 million Powerball jackpot was not hit and continues to roll. For yesterday only, Powerball sales were \$467,000.

The Communications Division was busy promoting the holiday tickets as well as the Powerball revisions. The winner of the Christmas Eve \$128 million Powerball jackpot claimed their winnings in January and they wished to remain anonymous. However, we still publicized that the ticket was claimed.

Commissioner Marriner asked if a change is made to the regulations can a person be required to publish their name if they win a large jackpot amount. Mr. Fontaine responded under Maryland's public records law, personal confidential information is not mandatory. To change this exception to the Public Information Act, it would need an override from the General Assembly. Mr. Martin said he was able get the winners to agree to a certain degree of publicity without showing their faces or names. The public wants to know that someone came forward.

Gaming – Charles LaBoy, Assistant Director

Mr. LaBoy said the confidential audit reports were provided separately to the Commission. The Surveillance Department audit at Hollywood Casino Perryville and the Wire Transfer audit at Casino Ocean Downs were completed. There were no significant findings.

An Internal control amendment was received for consolidation of supervisory and management positions in the VLT operations department at Ocean Downs. The change falls within the required minimum standards and does not significantly impact operations. It was reviewed by staff and the request was approved.

The VLT Audit Supervisor position was filled with an internal candidate and recruitment has begun for an open audit position.

The slot machine order for Maryland Live! Casino was approved by the Board of Public Works. We are working with the manufacturers to schedule a delivery date to Maryland Live's warehouse facility. Also, we are working on the logistics for first phase of moving 850 slot machines from Ocean Downs and Hollywood Casino Perryville to Maryland Live! Casino as part of the product refresh plan.

Mr. LaBoy is working with the current slot manufacturers to perform the first year performance review. All manufacturers are working cooperatively with casinos to include game and conversion configuration changes.

VLT Division staff added two members as the agency continues to reorganize. These members were previously working on VLT issues within the IT Department.

The Responsible Gambling Program added five new participants to Voluntary Exclusion Program (VEP) for a total of 56 participants. Included with his report was a copy of the Maryland Alliance for Responsible Gambling (MARG) report that the Director presented to the Legislature.

An October 2011 criminal trespass case in Cecil County District Court concluded and was placed on stet docket, which puts the charges aside without a finding of guilt or innocence. We are waiting for the final action of a criminal trespass at Hollywood Casino that occurred in November 2011.

Chairman Fowler said the Commission Audit Committee met with Mr. Eaton to discuss an internal audit for the Lottery. If the Commission would like to see a copy, it can be provided. At some point in time, he would like to discuss with Mr. LaBoy and Ms. Smith the planning for the VLT audit.

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

COMAR 14.01.14.37 Promotional Play. At the December 2011 meeting, an amendment to this regulation was approved by the Commission. The VLT law requires a defined percentage to be applied to a casino's share of VLT proceeds. That amendment inadvertently applied to the total statewide proceeds. The amendment proposed today would allow the percentage to be applied to a casino's share of proceeds and would also allow for any variable rate in the statute, such as a different proceeds percentage for the Allegany County location for the first ten years of operation (State Government §9-1A-27(b)).

Staff recommends approval of the withdrawal of the regulation submitted at the December 2011 meeting and approval of this revised version.

After discussion by the Commission, Chairman Fowler entertained a motion to approve proposed amended regulation 14.01.14.37. Motion made by Commissioner Wagner, seconded by Vice Chair Robertson, and motion carried 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 Marriner, seconded by Commissioner Wagner, and the motion carried by unanimous vote of the Commission.

Chairman Fowler said he would entertain a motion to withdraw the approval of regulation 14.01.14.37 that was done at the December 15, 2011 Commission meeting. Motion made by Commissioner Marriner, seconded by Commissioner McGraw, and motion passed by unanimous vote of Commission.

Enforcement – John Mooney, Assistant Director

Mr. Mooney said his report was provided to the Commission. Progress has been made to enhance the current licensing division computer system. Recruitment for compliance officers at Maryland Live! Casino has begun.

Commissioner Marriner asked when the background investigations would be completed for Baltimore City. Mr. Mooney responded the target date for completion is mid-April. Mr. Martino said the goal is to present the completed investigations to the Commission at the April meeting.

Commissioner Wagner asked what are the qualifications for the compliance officer positions. Mr. Mooney responded preferred qualifications are a background in military, law enforcement or investigations.

Mr. Mooney presented the following amended regulation for the Commission's review and approval:

COMAR 14.01.10.19 – Vendor Registration and Certification. The proposed amendment would: create a new category called "Vendor Certification" for vendors doing business at or over \$100,000 in a calendar year for which a \$500 certification fee is charged; change "vendor registration" to mean that vendors doing business from \$2,500 to \$99,999 in a calendar year must identify themselves by registering with the Commission; clarify that an operator submits the vendor registration form on behalf of a vendor while the vendor submits the vendor certification form; clarify exemptions from the vendor registration/certification requirements; and clarify the duration of the term of vendor registration/certification.

The changes in registration and certification are in line with surrounding states. The three casino facilities had an opportunity to review and comment on these proposed changes to the regulation.

After discussion by the Commission, Chairman Fowler entertained a motion to approve proposed amendments to regulation 14.01.10.19. Motion made by Commissioner McGraw, seconded by Commissioner Wagner, and motion carried by unanimous vote of Commission.

Chairman Fowler said he would entertain a motion to permit Lottery staff to submit amendments to regulation 14.01.10.19 approved today on both an emergency and regular basis. Motion was made by Commissioner Presley, seconded by Vice Chair Robertson, and the motion carried by unanimous vote of the Commission.

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

Mr. Fontaine said his report was provided to the Commission. The Baltimore City Entertainment Group's (BCEG) challenge to the rejection of its proposal for the Baltimore City operation license is before the Court of Special Appeals. BCEG filed its brief. The Attorney General's Office has completed its brief on behalf of the Facility Location Commission and it will be filed today.

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, February 23.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler said he would entertain a motion to adjourn. Motion was made by Commissioner Wagner, seconded by Commissioner Presley and motion carried by unanimous vote of the Commission. The meeting adjourned at 11:31 a.m.

Respectfully submitted,

Stephen L. Martino