

**MARYLAND STATE LOTTERY COMMISSION
APRIL MINUTES**

DATE: April 26, 2012

TIME: 10 a.m.

PLACE: Maryland Lottery Headquarters

PRESENT: Chairman J. Kirby Fowler, Jr.
Vice Chair Kimberly Robertson Pannell
Commissioner F. Vernon Boozer
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
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
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 10:01 a.m. Commissioners present were Kimberly Robertson Pannell, F. Vernon Boozer, Diane L. McGraw, W. Ray Presley, Bruce L. Reeder, and George M. Wagner. E. Randolph Marriner was absent.

APPROVAL OF THE AGENDA

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

APPROVAL OF MINUTES

Chairman Fowler stated the March 22, 2012, minutes were provided to the Commissioners for review and asked if there were any corrections. There were none. Commissioner McGraw made a motion that the minutes be approved, it was seconded by Commissioner Wagner, and the motion carried 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. This item was tabled for further discussion during the staff reports.

The Consent Agenda contains VLT Games and Component Testing (Exhibit #2) for the Commission's approval. Following Commission discussion, Chairman Fowler requested a motion to approve the VLT Games and Component Testing. Motion was made Vice Chair Robertson Pannell, seconded by Commissioner McGraw, and motion carried by unanimous vote of the Commission.

OPERATOR REPORTS

Hollywood Casino Perryville

Mr. Bill Hayles, General Manager, said gross terminal revenue for March showed a 28% year over year growth. He notes there were five weekends in March last year compared to four weekends in March this year. They have a strong marketing calendar; more from a mid-week perspective. They are starting to ramp up offers during mid-week, showing positive results on Tuesdays and Wednesdays.

The 175 foot tall casino sign has been installed and was lit yesterday. The sign can be seen both north and southbound on Interstate 95.

Chairman Fowler asked if there has been any development of the surrounding properties at the facility. Mr. Hayles responded there are some prospects for the properties, but it is not progressing quickly. They are starting to get more interest than a year ago.

Vice Chair Robertson Pannell asked about monthly census numbers of customers that come to the casino. Mr. Hayles responded they track attendance figures on a daily basis using thermal counters at the door. There are approximately 100,000 customers per month. Chairman Fowler asked how many customers are from out of state. Mr. Hayles responded approximately 20% come from out of state, particularly from the Lancaster, Pennsylvania area. Chairman Fowler asked if customer surveys are conducted. Mr. Hayles responded they use different methods of gathering information such as Facebook, reactions on promotions, feedback on customer service and monthly customer surveys handed to those that visit.

Chairman Fowler offered the facility congratulations on their revenue numbers.

Casino Ocean Downs

In Mr. Cavilla's absence, Ms. Bobbi Sample, Assistant General Manager, provided Ocean Downs' report. She said gross terminal revenue shows a 25% increase over March last year. A big part of the increase is the milder winter weather that brought the people to the Ocean City area. Thus far, April revenue is showing an increase over last year. The facility held a food drive to benefit the local homeless shelter and it was very successful. They are getting involved as sponsors with the Ocean City air show, and during bike week the facility will be giving away a Harley Davidson motorcycle. They continue to do various marketing promotions.

Vice Chair Robertson Pannell asked what is the average number of customers coming into the casino. Ms. Sample responded they do not do a customer count of those coming in the door, but instead base it on use of the slot machines themselves and the number of card readers in use. There are often approximately 400 to 450 cards in use at one time.

Chairman Fowler offered congratulations to the facility on their revenue numbers.

Maryland Live! Casino

Mr. Robert Norton, General Manager, said they have 3,500 slot machines in their possession with 2,000 currently installed on the casino floor. Casino staff has been hired and training will begin in mid-May. Mock training session for the employees will be conducted prior to the end of May. A controlled demonstration will be held on June 2. The VIP grand opening will be June 6 from 7:30 to 9:30 p.m. with a 10 p.m. opening to the general public. They will launch myliveonline.com casino website where people can

experience games for free and sign up for a players club cards. He and other staff are gradually moving their offices into the facility within the next few weeks.

Commissioner Reeder asked how many full time employees will be working by the opening on June 6. Mr. Norton responded approximately 800 employees with some additional part time employees hired for the opening.

Chairman Fowler wished the casino good luck.

VENDOR REPORTS

Scientific Games International

Mr. Steve Smith, General Manager, said that of the jackpot digital signs approved last year, 450 of the 650 signs have been installed. Approximately 4,000 Lottery in Motion (LIMs) have been installed. There are 200 retailers refusing the LIMs and SGI will be going back to attempt to get them installed.

Graphic upgrade to the Racetrax monitor game has been completed. This improved the sales along with a change in the time--a reduction in the time off between races--for more races per day. They are in the process of a similar graphic upgrade for Keno.

Pollard Banknote Limited

Ms. Julin Shaw, Marketing Manager, provided the Commission with a copy of the FY2012 third quarter report. During the third quarter, sales were 5% higher than last year. Holiday instant game sales were 15% better than last season. In March, they began the monthly introduction of instant games. March 2012 instant game sales were 6% ahead last year.

The *Strike It Rich* instant game is doing well, and it is the number two top selling instant game. Two second chance drawings are taking place with over 10,000 entries submitted. This instant game is tied to the Baltimore Orioles sponsorship.

The first \$10 Bingo Game was introduced and it has been selling 2% faster than the average bingo instant game.

GTECH

Mr. Kevin Mangus, Site Manager, said everything is going well at the Perryville and Ocean Downs facilities. The current assignment at Maryland Live! is to install and begin this week to resolve all issues on site and continue to work with testing.

STAFF REPORTS

Director's Report – Stephen Martino

Mr. Martino said the Mega Millions \$656 million jackpot on March 30 was the largest jackpot in the world. Maryland, Illinois and Kansas each sold one of the three winning tickets and all the tickets have been claimed. Maryland and Kansas permit the winners to remain anonymous while Illinois does not. The large jackpot drew a lot of media attention. Mr. Martin and Ms. Palmisano will speak further on the Mega Millions.

Mr. Martin and Ms. Palmisano gave a PowerPoint presentation to the Commission regarding all the events occurring around the Mega Millions jackpot. Some highlights were sales of \$17.8 million in one day, and at 5:48 p.m. on the day of the drawing, wagers were \$21,045 per minute. The winning ticket sale provided a \$100,000 bonus to the retailer. Over 98% of the 176 million combinations were covered for the drawing. The Commission was also provided with a list of some of the media the Lottery worked with.

Chairman Fowler asked if anything will be done regarding the false claim of the winning ticket that was broadcast by the media. Mr. Martino responded this was not looked into. One reason the first press conference was held was to let the media know we did not hear from anyone, and an explanation of the claiming process. The financial advisor for the actual winners eventually contacted the Lottery. The payout was \$105 million that was divided by the three Maryland winners who wished to remain anonymous. Mr. Martino thanked the Communications staff for their work. He also thanked SGI who brought in extra ticket stock for the retailers so they would not run out. Mr. Joe Serio, the Sales representative for the 7-11 that sold the winning ticket, was at the 7-11 on Saturday morning. The retailer was overwhelmed and would not talk to the media. However, he was very accommodating to all the media and people that were coming to the store. Chairman Fowler commented that this was very well-handled.

Mr. Martino said lottery sales were \$60 million, 4.3% ahead of last year. Mega Millions sales were \$5.4 million, 6.37% ahead of last year. Revenue is \$27.8 million, 6.5% ahead of last year. A question was asked if the BRE would be revised before June 30. Mr. Martino responded probably not.

Mr. Martino noted that at the May 17 Commission meeting, we may take up the issuance of the operator license for Maryland Live! Casino. Internal controls, responsible gambling, etc., and all such information has been submitted and there is nothing unusual. The controlled demonstration is scheduled for June 2 from 8 a.m. to 8 p.m., with the grand opening tentatively scheduled for June 6. Staff will follow up with the Commissioners to see if they are interested in attending. If we run into an Open Meetings Act issue, we will address it.

The background investigation for the Baltimore City facility may be taken up at the June Commission meeting.

The Video Lottery Facility Location Commission will meet today at 12 noon in Annapolis. They will be taking up the issue of the Rocky Gap license and may be voting on the award of the facility license. Mr. Martino said he will keep the Commission updated on this matter.

The regular Legislative session has concluded but may reconvene at some point in time for a special session to further discuss the budget and the gaming issues. One piece of legislation concerned the electronic gaming machines and transfer of compliance and oversight to the Lottery Commission. We do not know the status of that bill as yet.

With regard to Internet Lottery sales, the legislature approved a provision in the budget. There is \$667,000, including development money and hiring three new full-time positions. Revenue of \$2.2 million is projected to the State for FY2013. The Legislature wanted to make sure to retain retailer incentives in the program. We will have a number of conversations with retailers to get their input about sales commissions to retailers for Internet Lottery sales. We are the only state moving forward with commission on Internet sales. Mr. Martino will begin the planning process and keep the Commission updated.

Yesterday the Pick 3 mid-day number was 000. Sales were \$281,000 and payout was \$567,000 with a 201% payout.

Commissioner Presley asked what the next step is if the Rocky Gap licensed is awarded. Mr. Martino responded the licensee will be able to move forward with construction. The approval of the operator license comes back to the Commission. Chairman Fowler said the Commission signs the license for them to open their doors to the public.

There was continued discussion regarding the electronic gaming machines. The Lottery is waiting to see whether or not the bill is signed. This will impact all electronic machines throughout the State, including Bingo in Anne Arundel and Calvert Counties. Fraternal organizations in the nine counties on the Eastern Shore that currently have slot machines will remain under the authority of the Comptroller's Office. Mr. Fontaine and Mr. Butler will be obtaining further information on these electronic gaming machines.

Commissioner Reeder commented that Bruce Bereano sent a letter to the Chairman with copies to the Commissioners, and asked if a response was sent. Mr. Martino responded he and the Chairman discussed this correspondence.

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

Ms. Smith said her report was provided to the Commission. The Lottery is preparing for the FY2012 budget close-out. She is working on recruitment efforts to fully staff Maryland Live! with employees. Captain Mooney will be extending offers to candidates today and get them on board as soon as possible for training. She is currently recruiting for a number of accounting positions as a result of several vacancies over the last few months.

Vice Chair Robertson Pannell asked about the status of the Special Purpose Financial Statements. Ms. Smith responded Stout, Causey, & Horning have performed their audits through February and will begin working on March. Once the statement is generated, turnaround takes a few days.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said his report was provided to the Commission. He said new screens for the Player Activated Terminals (PATs) are in the field. The changes make the screens more user-friendly. He is working to deploy more PATs in the field. There are approved upcoming game changes for new games for online and Racetrax games. Testing is scheduled for July with deployment scheduled for the fall.

The new computer system to assist the Licensing Division in the processing of applications is working well.

Gaming – Charles LaBoy, Assistant Director

Mr. LaBoy said we are very involved with the opening phase of Maryland Live! Casino. Beginning this week GTECH will be at the facility starting communication testing on the slot machines. This will continue through May 18 then we will begin accounting and coin testing. The coin testing will continue through May 24. After that, the facility will conduct two mock operations prior to the controlled demonstration. This mock operation will serve as training for the casino employees. The mock operations are similar to a scaled down controlled demonstration. During these events, the facility will operate in a normal operation environment.

Lottery – John A. Martin, Assistant Director

Mr. Martin said at last month's meeting, Commissioner McGraw asked a question about the advertising expenditure on one of the closed instant games. When the instant ticket was first approved, a promotion was not anticipated; therefore, no advertising expenditures were indicated.

Vice Chair Robertson Pannell asked if a price point analysis produced information about how games perform in the marketplace and what the plan is for the next 24 months. Mr. Martin responded that game layout by price point has been developed for the next two years. We are always trying to have an optimal mix of games.

Chairman Fowler requested a motion to approve the following new instant games: Game #943 *Rake It In*, Game #944 *Sapphire Blue 7s*, #946 *Ravens Cash Fantasy*, Game #947 *Red Line Bingo*, Game #953 *Aces High*, and Game #954 *Fast \$50s*. A motion was made to approve the games by Vice Chair Robertson Pannell, it was seconded by Commissioner Reeder, and the motion carried by unanimous vote of the Commission.

Mr. Martin said the SalesMaker campaign was presented to Lottery retailers and over 100 retailers have expressed interest in having store makeovers to better merchandise instant tickets. This campaign runs through the end of July, and he anticipates a number of retailers will take advantage of this program. He will keep the Commission updated.

The Regional Advisory Board meetings were held with key retailers in each of the five regions. There was a great response from the retailers. He will extend an invitation to the Commissioners for the Regional Advisory meetings to be scheduled in November.

Enforcement – Capt. John Mooney, Assistant Director

Capt. Mooney said his report was provided to the Commission. The Licensing Division is working on the license applications for Maryland Live!. We have received 700 license applications and 50% have been approved. He commended Maryland Live!’s Human Resource Division for their screening of the applications. Cooperation between the two departments was excellent.

Office of the Attorney General – Robert Fontaine, Principal Counsel

Mr. Fontaine said his report was provided to the Commission. He introduced the new Assistant Attorney General in his division, Mr. Daniel Baker.

PUBLIC COMMENTS

Mr. Kevin O’Keeffe, spoke on behalf of the Maryland Amusement and Music Operators Association (MAMOA). He also submitted his comments in writing to the Commissioners. He said MAMOA represents manufacturers, distributors, operators and locations involved with amusement games in Maryland. There were five to six manufacturers present at today’s meeting. They wanted to introduce themselves and wished to express their concerns regarding SB864 Gaming-Electronic Machines-Regulations that Mr. Martino mentioned earlier. This bill would give the Lottery Commission authority over the regulations of these amusement games in Maryland. MAMOA wishes to work with the Commission as a resource as these regulations are developed. They look forward to working with the Commission to ensure that they will continue to be able to operate amusement games in Baltimore City and Baltimore County. They are here to work with the Commission and be part of the process and make sure they are still around to offer entertainment and amusement games. They want to take as active a role as they can and offer their assistance.

Chairman Fowler stated that when the regulations are developed, there will be a 45-day period for the public to comment. Chairman Fowler thanked the group for their comments.

DATE AND TIME OF NEXT MEETING

Chairman Fowler said the next Commission meeting is scheduled for 10 a.m. on Thursday, May 17. A motion to approve was made by Commissioner Reeder, seconded by Vice Chair Robertson Pannell and the motion carried by unanimous vote of the Commission.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler adjourned the meeting at 11:26 a.m.

Respectfully submitted,

Stephen L. Martino