

**MARYLAND STATE LOTTERY COMMISSION
AUGUST MINUTES**

DATE: August 23, 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 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
John Mooney, Assistant Director for Enforcement
Holly Citko, Deputy Counsel
Marie Torosino, Executive Associate

OTHERS: Representative from Hollywood Casino/Perryville
Representative from Ocean Downs Casino
Representative from Maryland Live! Casino
Representative from Lakes Entertainment (Rocky Gap)
Representative from CBAC, Inc. (Baltimore)
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 10:03 a.m. Commissioners present were: Kimberly Robertson Pannell, F. Vernon Boozer, Diane L. McGraw, Bruce Reeder, and W. Ray Presley. 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 Vice Chair Robertson Pannell, seconded by Commissioner Reeder, and the motion carried by unanimous vote of the Commission.

APPROVAL OF MINUTES

Chairman Fowler stated the July 26, 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 Reeder, and the motion carried by unanimous vote of the Commission.

CONSENT AGENDA

Chairman Fowler said the Consent Agenda contains new instant ticket games: Game #966 *Action Cash*, Game #967 *2X Cash*, Game #968 *Tax Free \$50,000*, Game #969 *Green Streak*, Game #972 *Money Talks*, Game #973 *White Ice 7s*, Game #974 *Millionaire's Game Book*, Game #975 *Hot Doubler*, Game #979 *Get Rich*, and Game #981 *Cashword*. (Exhibit #1) for the Commission's approval.

Chairman Fowler asked if there were any questions. Hearing none, he requested a motion to approve the new instant games noted above. Motion made by Commissioner Reeder, seconded by Commissioner McGraw, and motion carried by unanimous vote of the Commission.

Chairman Fowler said the Consent Agenda contains VLT Games and Component Testing (Exhibit #2) for the Commission's approval. Chairman Fowler asked if there were any questions. Commissioner McGraw requested a title and date be placed on the report. There being no further questions, the Chairman requested a motion to approve the VLT Games and Component Testing. Motion made by Commissioner McGraw, seconded by Commissioner Boozer, and motion carried by unanimous vote of the Commission.

OPERATOR REPORTS

Hollywood Casino Perryville

Mr. Bill Hayles, General Manager, said the casino continues to see a decrease in year over year business. The grand opening of the new restaurant, Celebrity Bar and Grill, is this Saturday. Jim Palmer and Rick Dempsey will be attending the grand opening.

Chairman Fowler asked if there was any progress on the development of the surrounding property at the casino. Mr. Hayles responded the company that owns property indicated there has been some discussion.

Ocean Downs Casino

Mr. Joseph Cavilla, General Manager, said July has been the casino's best month thus far since opening in January 2011. Gross Terminal Revenue (GTR) is 7.5% over last year, and so far this month, GTR is 9.5% ahead of this month last year. Last year revenue was affected by the hurricane.

Commissioner McGraw asked if the increase in revenue is due to more advertising. Mr. Cavilla responded the radio ads have gone out to a large audience. Customers are traveling three hours or more to the casino and others are making additional trips to Ocean City. They are having a better relationship with Ocean City and are allowed to participate in events in Ocean City. Marketing in the second year has been increased.

Maryland Live! Casino

Mr. Rob Norton, General Manager, said the casino is pleased with the July figures, and they continue to see a strong attendance. There are currently 180,000 people in their player database. The casino is running a major marketing promotion in August called \$500,000 Rapid Fire, a 15-minute free play giveaway. In September, they will be giving away 50 cruises with Royal Caribbean as part of a marketing promotion.

Rams Head will open to the public on August 30. A VIP and media event will be held featuring the Charlie Daniels Band. There are 31 acts booked for September, and they will be issuing an extensive entertainment lineup.

Phase two of the casino should be open to the public by-mid September with 1,043 more games. They will do another marketing push for this opening. The Prime Rib Restaurant should be opening in late fall.

Evitts/Lakes Entertainment Resorts

Ms. Jeanette Ortiz, from Greenwill Consulting Group representing Evitts/Lakes, said since last month some significant changes have been made regarding the casino at Rocky Gap due to the market and the uncertainty of table games. On July 31, the Location Commission approved Evitts amended proposal to place 500 VLTs in the existing conference space at Rocky Gap instead of the construction of a separate facility with 800

VLTs. This amended proposal was made due to Evitts' difficulty in seeking finance for the property. Construction should begin in November and projected opening is July 2013.

Commissioner Presley noted that the legislation says that the conference space has to be replaced in three years. Ms. Ortiz responded the conference space would be replaced as soon as possible because it is important to Rocky Gap.

CBAC Gaming

Mr. Phil Rogers said CBAC Gaming was awarded a VLT operation license by the Location Commission on July 31. They are currently in negotiation with Baltimore City for the leases for the land and expect that to go before the City's Board of Estimates in September. They will have their first meeting with the City on September 13 to discuss the casino building designs. Their projected goal for opening is the third or fourth quarter of 2014.

STAFF REPORTS

Director's Report – Stephen Martino

Mr. Martino said an updated copy of the sales and revenue report was provided to the Commission. Lottery sales through August 19 are up \$7.5 million or 3.3% over last year. Revenue is down \$8.2 million, or -11.3% under last year's numbers. Large payouts in both the Pick 3 and Pick 4 games have affected revenues.

Vice Chair Robertson Pannell asked if there is any reason why Keno sales are down. Mr. Martino responded these numbers are up against a promotion that ran last year at this time. However, sales of the second monitor game, Racetrax, are running ahead.

Total Gross Terminal Revenue for all the casinos is \$48 million, with \$23.3 million going to the Education Trust Fund.

A memorandum prepared by Mr. Butler was distributed to the Commission. This memo gives an overview of the provisions of Senate Bill 1 (Overview of the Gaming Expansion, Video Lottery Terminals and Table Games, Lottery Machines, and Veterans' Organizations) as it relates to the Lottery Agency's and Commission's duties and responsibilities. Mr. Martino reviewed and discussed the contents of the memo with the Commission (Exhibit #3).

Mr. Martino said a letter was received from Hollywood Casino/Perryville requesting a reduction of 500 VLTs in order to reduce the footprint on the casino floor. The Lottery will need to develop regulations for slots reduction requests.

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

Mr. Martino said Ms. Smith was not present at today's meeting due to close out the fiscal year, and her report was provided to the Commission.

Vice Chair Robertson Pannell said in Ms. Smith's report on page 4, the paragraph referencing the FY2012 MBE Waiver Report states the Lottery had no reportable waivers, but three for Arundel Mills; she asked for further explanation. Mr. Martino responded the State has an MBE goal. Vendors can request a waiver for less than that goal. IGT, ShuffleMaster and Speilo did not achieve their MBE goal. He will check with Ms. Smith and Mr. Howells and respond.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said his report was provided to the Commission. Testing for the new version of Extrema software is underway. There is an upcoming game change to Pick 4 in September and a new game will roll out in November. IT is working on a server migration plan and deployment of new PCs. Interviews for the computer operator position will begin next week and work also continues on the IT reorganization plan.

Gaming – Charles LaBoy, Assistant Director

Mr. LaBoy said his report was provided to the Commission. He made one change to his report. Paragraph 1.c. references that the internal audit regulations for the video lottery facilities would be presented at the September meeting. However, they were completed in time and will be presented at today's meeting. Staff is working with Maryland Live! Casino on phase two that is scheduled to open in early September. Staff is conducting communications and meter testing of the new VLTs.

Mr. LaBoy said there is one new regulation and several amendments to present to the Commission.

COMAR 14.01.14.08 Video Lottery Technical Standards - Records Retention. The proposed amendment would reduce the amount of time that an operator must retain gaming tickets redeemed at a ticket redemption unit from six months to 30 days. This would be consistent with retention time for gaming tickets redeemed at a VLT (as in current COMAR 14.01.14.08F(3)(c)), and would reduce the burden of storing a volume of redeemed gaming tickets. Staff is recommending approval.

After discussion, Chairman Fowler said he would entertain a motion to approve the amendment to COMAR 14.01.14.08. Motion made by Commissioner McGraw, seconded by Vice Chair Robertson Pannell and motion carried by unanimous vote of the Commission.

COMAR 14.01.14 – Video Lottery Facility Minimum Internal Control Standards – .04 Content of Internal Controls and .50 Internal Audit Department Standards. Staff proposes

new regulation 14.01.14.50 and corresponding amendment to 14.01.14.04 to ensure that all gaming operations are subject to internal audit to ensure a facility's compliance with its facility's Minimum Internal Control Standards (MICS), and to establish operating procedures and standards for a facility's internal audits. Staff is recommending approval.

After discussion, Chairman Fowler said he would entertain a motion to approve new regulation 14.01.14.50 and the amendment to 14.01.14.04. Motion made by Vice Chair Robertson Pannell, seconded by Commissioner Presley and motion carried by unanimous vote of the Commission.

COMAR 14.01.14 – Video Lottery Facility Minimum Internal Control Standards - .37 Promotional Play and .38 Redemption Unit. The proposed amendments to these regulations would reflect the intention that promotional play credits or instruments not be redeemable for cash.

After discussion, Chairman Fowler said he would entertain a motion to approve the amendments to 14.01.14.37 and .38. Motion made by Commissioner McGraw, seconded by Vice Chair Robertson Pannell and motion carried by unanimous vote of the Commission.

Lottery – John A. Martin, Assistant Director

Mr. Martin said his report was provided to the Commission. In answer to the Vice Chair's question about Keno, we are beginning the fiscal year against a Keno promotion that ran last year at the same time. A three week Keno Sprinkler promotion began on August 20 as well as a Racetrax Doubler promotion.

Ravens Cash Fantasy IV ticket launched on August 6. Advertising includes both television and radio commercials. Redskins Mega Power promotion will begin on September 6 in the Prince George's and Montgomery Counties areas. Medal Madness and Strike It Rich second chance promotions are wrapping up.

The Lottery will be present at the State Fair, which runs through Labor Day. A live lottery drawing will be held on August 24.

At the MACO conference held in Ocean City, the Communications Division won Best in Show. This year's theme was related to Broadway. The Commission members offered their congratulations to the Communications Division for their award at MACO.

Commissioner McGraw asked for further information regarding the 7-11 upgrades. Mr. Martin responded it will be an ongoing effort through next year. There are 347 locations across the State and they will be upgraded from a 24 instant game counter case to a 32 instant game counter case.

Enforcement – Capt. John Mooney, Assistant Director

Capt. Mooney said his report was provided to the Commission. He has one regulation amendment to present to the Commission.

COMAR 14.01.14.45 – Video Lottery Terminals – Minimum Internal Control Standards. The amendment is located on page 1, line 29 of the regulation. Staff recommends this change to allow for the operational fact that Surveillance is staffed 100% of the time, and will therefore be immediately alerted of an alarm on a count room door. Conversely, due to gaming floor demands, it is possible that the Security desk could be unmanned. This change would also reflect the current practice of all three casinos pursuant to their Internal Controls.

After discussion, Chairman Fowler said he would entertain a motion to approve the amendment to 14.01.14.45. Motion made by Commissioner McGraw, seconded by Vice Chair Robertson Pannell and motion carried by unanimous vote of the Commission.

Office of the Attorney General – Robert Fontaine, Principal Counsel

Mr. Fontaine said his report was provided to the Commission. A request has been received from GEM Liquors for a revocation hearing. He will be in contact with the Commission regarding possibly scheduling the hearing in October.

Mr. Fontaine distributed the following documents to the Commission: Interpleader Plaintiff's Opposition to the Motion for Summary Judgment of Interpleader Defendant Baltimore City Entertainment Group, LP; Respondent's Motion to Dismiss the Appeal filed by Harborwest Partners, LLC or, in the Alternative, for Summary Disposition; and Respondent's Motion to Dismiss the Appeal filed by Baltimore City Entertainment Group, LP or, in the Alternative for Summary Disposition. He discussed these documents with the Commission.

PUBLIC COMMENTS

Mr. Jeff Zellmer, Maryland Retailers Association, said his concern is internet gambling and the effect it will have on the lottery retailers. He requested a meeting with Mr. Martino for further discussion. Mr. Martino will be in contact with Mr. Zellmer to schedule this meeting.

There were no additional public comments made.

CLOSED SESSION

Chairman Fowler said that pursuant to State Government Article §10-508(a)(1), (7), and (8), he would entertain a motion to move to a closed session to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal

resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; consult with counsel to obtain legal advice; and consult with staff, consultants, or other individuals about pending or potential litigation. Motion was made by Vice Chair Robertson Pannell, 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)(1), (7) and (8). 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, John Martin, John Mooney, Robert Fontaine, Holly Citko, Michael Eaton, and Marie Torosino. The meeting returned to open session at 11:48 a.m.

Chairman Fowler announced that during the closed session, the Commission discussed the appointment of new commission members and the Special Session legislation's impact on the Agency.

DATE AND TIME OF NEXT MEETING

Chairman Fowler said the next Commission meeting is scheduled for 10 a.m. on Thursday, September 27.

ADJOURNMENT

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

Respectfully submitted,

Stephen L. Martino