

**MARYLAND STATE LOTTERY COMMISSION
SEPTEMBER MINUTES**

DATE: September 27, 2012

TIME: 10 a.m.

PLACE: Maryland Lottery Headquarters

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

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
Phil Metz, VLT Licensing Manager
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 10:06 a.m. Commissioners present were: F. Vernon Boozer, E. Randolph Marriner, Bruce Reeder, and W. Ray Presley. Kimberly Robertson Pannell and Diane L. McGraw were absent.

APPROVAL OF THE AGENDA

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

APPROVAL OF MINUTES

Chairman Fowler stated the August 23, 2012 minutes were provided to the Commissioners for review and asked if there were any corrections. There were none. Commissioner Boozer 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 #949 *Luck*, Game #970 *7X the Money*, Game #976 *Rubies*, Game #977 *For the Love of Money*, Game #978 *Easy Grand*, Game #980 *King Size Bingo*, and Game #982 *Emerald Green 7s*. (Exhibit #1) for the Commission's approval.

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

OPERATOR REPORTS

Hollywood Casino Perryville

Mr. Chris Bruno, Director of Finance, said the facility's gross terminal revenue for August was \$6.5 million, which is down 24% over last year. The conversion of the buffet to the new restaurant, Celebrity Bar and Grill, is doing well. There are approximately 250 full time employees working at the facility.

Chairman Fowler asked if the facility has increased their marketing efforts to reverse some of the loss. Mr. Bruno responded major marketing efforts will start up next month.

Ocean Downs Casino

Mr. Joseph Cavilla, General Manager, said following a strong July, August was the facility's second best month to date. Gross terminal revenue was \$5.67 million, which is 24% ahead of last year. The facility is still seeing growth. The facility successfully took part in the four-day event, Bike Week. They are looking at the possibility of hosting more events at the property.

Chairman Fowler offered congratulations on the increase over last year.

Maryland Live! Casino

Mr. Rob Norton, General Manager, said gross terminal revenue for August is \$32.4 million, which is in line with the previous month. September revenue is running slightly ahead of August. Rams Head Live opened on August 30 featuring the Charlie Daniels Band. The opening of the final phase with 1,043 additional slot machines, a high limit room, and gift shop took place. He thanked Chairman Fowler for being present for the opening. Rapid Fire promotion runs Sunday through Thursday. The next promotion involves a giveaway of 50 cruises on Royal Caribbean, followed by Drive Live!/21 cars.

Commissioner Reeder asked if a large amount of customers are coming from the DC area to the facility. Mr. Norton responded that DC customers are the second largest, next to Baltimore City.

Chairman Fowler asked if the facility is addressing the significant traffic issues. Mr. Norton responded currently there are no issues. It only occurred when they did the grand opening and the opening of the final phase.

Evitts/Lakes Entertainment Resorts

Ms. Jeanette Ortiz, from Greenwill Consulting Group representing Evitts/Lakes, said they are working on the design specifications. A meeting is scheduled in October with the Western Maryland Delegation to discuss the revised facility plans. As plans are finalized, she will update the Lottery Commission. Preliminary meetings were held with Lottery staff

to discuss the slot machine mix. Construction is scheduled to start in November with a projected July 2013 opening.

CBAC Gaming

Mr. Robert Rubin said work continues with departments within Baltimore City to finalize the design plans and obtain permits. Chad Barnhill has been appointed as the General Manager of the facility.

STAFF REPORTS

Director's Report – Stephen Martino

Mr. Martino said the Commission was provided with the sales and revenue sheet through September 16. When the sales and revenue sheet is available for September 23, it will be forwarded to the Commission.

Through September 16, total sales are up \$14.8 million or 4.2% ahead of last year. Revenue is down \$12.2 million or 10% behind last year. There have been significant large payouts in the Pick 3 and Pick 4 games and that impacts the bottom line.

Mr. Martino said the casinos talked about their sales and revenue figures and the Commission was also provided with the information.

Commissioner Presley asked what is happening with Keno and are the low sales an effect from the casinos. Mr. Martino responded that number is down from a sales perspective. Mr. Martin will address that further in his report. Lottery staff and SGI are reviewing Keno to see what can be done to freshen up the product.

Mr. Martino said he had e-mailed the Commission concerning the possibility of rescheduling the October 25 meeting. After discussion, the meeting for October was scheduled for Thursday, October 18 at 9 a.m.

September 30 will be the last day the Maryland Lottery Commission will exist. As of October 1, it will be known as the Maryland Lottery and Gaming Control Commission to reflect the duties that it has carried out for several years as well as the additional duties that were designated in Senate Bill 864 and Senate Bill 1, and more if the expanded gaming referendum passes. He does not know the schedule for the appointment of a new Commission. As soon as he is informed, he will contact the Commissioners.

A number of new regulations and new responsibilities were placed on the Lottery after the last legislative session, such as improving regulations governing electronic gaming machines. Also, staff is working on the implementation of regulations for instant ticket pull tab machines at veterans' organizations for non-Eastern Shore Counties, excluding Montgomery County. Regulations for table game are being developed in case the

referendum passes in November. If it does pass, the Lottery will accommodate the casinos as best it can to get them operational as soon as possible.

In September, the Lottery filed a Report on Proposed Platform and Regulatory Structure for Online Lottery Sales as required by the 2012 Joint Chairmen's Report. There is a 45-day period for any comments before moving forward. Mr. Snapkoski and Mr. Martin will provide further details.

Mr. Jason Snapkoski, New Media Manager, presented an overview of i-Lottery that included what it is, how it works, what games will be included (Pick 3, Pick 4, Mega Millions and Power Ball), how it would be provided to consumers on personal computers and mobile devices, an explanation of the digital wallet, how to educate players to play the games, and the claims procedures.

Mr. John Martin, Assistant Director for Lottery, briefed the Commission on the interaction with retailers at regional advisory board meetings held in the five regions of the State. Retailers had an opportunity to share their comments and concerns.

There was continued discussion by the Commission on internet lottery.

Public comments were then heard from Ms. Ellen Valentino of the National Federation of Independent Businesses. She expressed her concerns regarding the possible implementation of an internet lottery and the effects it would have on the lottery retailers.

Chairman Fowler thanked Ms. Valentino for her comments.

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

Ms. Smith said her report was provided to the Commission. Work continues on converting the financial statements to GAAP that are due on October 1. The FY2014 budget is due to the Department of Budget and Management (DBM) in early October. Currently, she is working with DBM to obtain staffing for additional responsibilities under SB1.

Commissioner Presley noted that a new Lottery Budget Director was hired. Ms. Smith said John Draa started two weeks ago. He formerly was the CFO at the Maryland State Police and is a great addition to the Lottery staff. Commissioner Presley said he worked with him in the past and he is very knowledgeable.

Information Technology – John Gallagher, Chief Information Officer

Mr. Gallagher said his report was provided to the Commission. Lottery testing of the new Five Card Cash game will begin once SGI has completed its testing. Five Card Cash will be implemented in November.

Gaming – Charles LaBoy, Assistant Director

Mr. LaBoy said his report was provided to the Commission. Work continues on the development of regulations to address the requirements in SB864 and SB1. He hopes to provide draft regulations to the Commission in November.

Meetings are being held with representatives from Evitts Resorts on their plans for Rocky Gap. The Lottery should receive the proposed VLT mix and floor plan in October.

Hollywood Casino's Marketing and Slot Department Audits were completed and sent to the Commissioners for their review.

Maryland Live! Casino completed phase two, bringing the total number of VLTs to 4,750.

Changes in the amount of sweeps collected from the VLT facility will take effect on October 1. Currently the State collects 100% of the gross terminal revenue with 33% going back to the facility operators. Beginning October 1, the State will only sweep its share of 67%.

Currently there are 122 participants in the Voluntary Exclusion Program (VEP). On August 29, a Maryland Alliance for Responsible Gambling (MARG) meeting was held at the Maryland Live! facility. On September 5, staff exhibited at a booth at the Alcohol and Drug Abuse Administration's 2012 Annual Recovery Month. Staff is working on VEP information packets for counselors trained through the Department of Health and Mental Hygiene's Center for Excellence.

Chairman Fowler asked when the next audit conference call will be scheduled. Mr. LaBoy responded the next call will be scheduled shortly.

Mr. LaBoy said in accordance with COMAR 14.01.11.07, Maryland Live! has submitted a request for a waiver to the requirement that an ATM not be placed within 15 feet of a VLT. Maryland Live! has indicated there is one area within the facility that does not meet the 15 foot requirement, being approximately 9.5 feet from the closest VLT. A copy of the waiver requirement and layout were provided to the Commissioners.

After discussion, Chairman Fowler said he would entertain a motion to approve this waiver request for placement of ATM's within 15 feet of a VLT as requested by Maryland Live! Motion made by Commissioner Reeder, seconded by Commissioner Boozer, and motion passed by unanimous vote of the Commission.

Lottery – John A. Martin, Assistant Director

Mr. Martin said his report was provided to the Commission. In response to Commissioner Presley's question regarding Keno, sales and revenues have been down over the last year and impact from casinos' players is certainly a contributing factor. We are also up against a

Keno promotion that ran this time last year. We are looking at ways to improve and enhance Keno. He will keep the Commission updated.

Enforcement – Phil Metz, VLT Licensing Manager

In Capt. Mooney's absence, Mr. Metz presented the report. He said there was no further information to add to the report.

Office of the Attorney General – Robert Fontaine, Principal Counsel

Mr. Fontaine said his report was provided to the Commission. The Location Commission is also meeting today to discuss the joint request of CBAC Gaming LLC and the City of Baltimore for a 30-day extension of the time to finalize the (Land Disposition Agreement (LDA) and Ground Lease Agreement (GLA) for the Baltimore VLT facility. The 60-day deadline for execution expires on September 29.

The Maryland State Board of Contract Appeals granted the motions to dismiss the appeals by Harborwest and BCEG challenging the Location Commission's award of the Baltimore license to Caesars.

Regarding the BCEG Interpleader case involving the \$3 million initial license fee, the Court granted the Motion for the Lottery Commission to retain approximately \$200,000 for the background investigation and to keep the case open for other parties to resolve disposition of the remaining monies by the September 14 deadline.

As a result of the garnishment against the \$3 million by one of BCEG's law firms, the Office of the Attorney General moved to quash the writ. A motions hearing is scheduled for September 28, but will likely be resolved before then if the Interpleader case is resolved as expected.

PUBLIC COMMENTS

There were no additional public comments made.

CLOSED SESSION

Chairman Fowler said that 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. Motion was made by Commissioner Marriner, 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 11:23 a.m.

In addition to the five Commission members present, the following were also present during the closed session: Stephen Martino, John Gallagher, John Martin, Phil Metz, Robert Fontaine, Holly Citko, Michael Eaton, Wilma Edelenbos, Jennifer Wetherell, and Marie Torosino. The meeting returned to open session at 11:31 a.m.

Chairman Fowler announced that during the closed session, the Commission discussed with counsel legal issues associated with a potential transaction between two VLT facility operators.

DATE AND TIME OF NEXT MEETING

Chairman Fowler said the next Commission meeting is scheduled for 9 a.m. on Thursday, October 18.

ADJOURNMENT

There being no further business for discussion, Chairman Fowler adjourned the meeting at 11:35 a.m.

Respectfully submitted,

Stephen L. Martino