

Maryland Lottery and Gaming Control Commission

Larry Hogan, Governor



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MARYLAND LOTTERY AND GAMING CONTROL COMMISSION DECEMBER MINUTES

DATE: December 13, 2018

TIME: 10 a.m.

PLACE: Maryland Lottery and Gaming Control Agency Headquarters

PRESENT: Chair E. Randolph Marriner
Commissioner F. Vernon Boozer
Commissioner George L. Doetsch, Jr.
Commissioner Bert J. Hash, Jr.
Commissioner James Stakem

Gordon Medenica, Director
Gina Smith, Deputy Director, Chief Financial Officer
James Nielsen, Assistant Deputy Director, Chief Operating Officer
Robert Fontaine, OAG Principal Counsel
Holly Citko, OAG Deputy Counsel
John Martin, Managing Director, Chief Revenue Officer
James Logue, Managing Director, Gaming
John Mooney, Managing Director, Regulatory Oversight
Leo Mamorsky, Managing Director, Chief Marketing Officer
James Butler, Managing Director, Organizational Compliance
Kathy Lingo, Executive Assistant

OTHERS: Representative from Hollywood Casino Perryville
Representative from Ocean Downs Casino
Representative from Live! Casino
Representative from Rocky Gap Casino Resort
Representative from Horseshoe Casino Baltimore
Representative from MGM National Harbor
Representative from International Game Technology
Representative from Pollard Banknote
Representative from Scientific Games
Members of the Public and Agency Staff

E. Randolph Marriner, Chair

F. Vernon Boozer, George L. Doetsch, Jr., Michelle R. Fager, Bert J. Hash, Jr., James J. Stakem

CALL TO ORDER

There being a quorum present, Chair Marriner called the meeting of the Maryland Lottery and Gaming Control Commission to order at 10:00 a.m. Commissioners present were Vernon Boozer, George Doetsch, Bert Hash, and James Stakem. Michelle Fager was absent.

APPROVAL OF THE AGENDA

Chair Marriner reported that the Commissioners were provided with a copy of the agenda. Chair Marriner asked for a motion to approve the agenda. Commissioner Doetsch motioned to approve, Commissioner Hash seconded, and the motion carried unanimously.

APPROVAL OF THE MINUTES

Chair Marriner said the November 15, 2018, open session minutes were provided to the Commissioners for review and asked if there were any changes. There were no changes. Commissioner Doetsch moved to approve, Commissioner Hash seconded, and the motion carried unanimously.

CONSENT AGENDA

Chair Marriner said the Consent Agenda contains five new instant ticket games for the Commission's approval: #420 (\$2) *I Love Lucy*; #421 (\$5) *Stacks of Cash*; #422 (\$1) *Cloud 9*; #423 (\$5) *Lucky Numbers*; and #433 (\$5) *Loteria Grande*. He said the Consent Agenda also includes EGD Games and Component Testing approvals for certified lab software, hardware and game certifications, VLTs, table game components and instant bingo machines for the period covering November 1, 2018 to November 29, 2018; Consent Agreements for Regulatory Violations at Hollywood Casino – August 2018; Ocean Downs Casino – March 2018; July 2018; and August 2018; and Rocky Gap Casino – August 2018; Gaming License Application Denials and Revocations; and Staff Reports from Jim Nielsen, Assistant Deputy Director, Chief Operating Officer; John Martin, Managing Director, Chief Revenue Officer; James Logue, Managing Director, Gaming; Leo Mamorsky, Managing Director, Chief Marketing Officer; Carole Gentry, Managing Director, Communications; and Robert Fontaine, Principal Counsel.

Chair Marriner asked if any Commissioners wished to remove any items from the Consent Agenda. There were no requests for removal. Chair Marriner asked for a motion to approve the consent agenda as noted above. Motion to approve was made by Commissioner Hash, seconded by Commissioner Doetsch, and carried by a unanimous vote of the Commission.

OPERATOR REPORTS

Hollywood Casino Perryville

Mr. Matthew Heiskell, General Manager, reported that November gaming revenue was down 6%, with slot machine revenue down 5% and table games down 11%. Mr. Heiskell added that since the start of the football season in September, the availability of sports betting at casinos in surrounding states has hurt business at Hollywood. December is off to a better start, and Mr. Heiskell said New Year's Eve restaurant bookings are stronger than last year.

Chair Marriner asked if it was possible to measure the impact that sports betting in bordering states is having on the casino. Mr. Heiskell replied that the rate of play has been down, and that half of the decline in table games can be attributed to the availability of sports betting in Delaware.

Ocean Downs Casino

Ms. Bobbi Sample, General Manager, reported that November revenue was up 34.2% year over year. Table games, which were not introduced at Ocean Downs until the last week of December 2017, accounted for a substantial portion of the increase, though slot machine revenue was up 20.1% compared to November 2017, when there were disruptions on the gaming floor due to construction. Ms. Sample reported that December started a bit soft, partly due to lucky slots players, including the winner of a \$125,000 jackpot.

Ocean Downs has a New Year's Eve event planned this year that will be open to the public; last year's event was by invitation only. On January 1, the casino will begin a promotion that will culminate on February 22 with the giveaway of a Mercedes. Guests and employees are contributing to a holiday food drive. A similar effort raised \$15,000 in donations prior to Thanksgiving. Ocean Downs will hold a holiday party for employees, and the casino's leadership team will also attend a separate party that will take place from 1 a.m. to 3 a.m. for the employees who work the overnight shift.

Live! Casino & Hotel

Mr. Travis Lamb, Executive Vice President and General Manager, reported that November gaming revenue was \$48.7 million, up 12% year over year. Slots revenue was up 15.8%, while tables were up 4.5%. December business can be somewhat slow, but Mr. Lamb said that foot traffic from Arundel Mills Mall has helped. Likewise, business was solid on Black Friday and throughout the Thanksgiving weekend.

Live! donated 200 turkeys to the Anne Arundel County food bank in November, and employees did volunteer work at the food bank. Each employee also received a turkey. In early December, Live! held its fifth annual minority outreach fair, which was attended by vendors, the State's other casinos and the MLGCA. The Live! events center hosted a holiday party with Ravens quarterback Joe Flacco, which drew about 400 attendees and raised funds for the Mount Washington Pediatric Hospital. The Anne Arundel County Chamber of Commerce has also used the events center for a number of recent events. The events center also recently hosted shows by K.C. and The Sunshine Band and Carlos Mencia, and this weekend's event with Patti LaBelle is sold out. On this upcoming Sunday, Mr. Lamb will be playing Santa at the holiday party for employees and their families.

Rocky Gap Casino Resort

Mr. Skylar Dice, Vice President and General Manager, reported that November gaming revenues were down 2.7%, due primarily to hold percentages. He noted that volumes have not been off. An annual canned food drive produced 1½ tons of canned food that was donated to a local food bank. The casino gave turkeys to all team members, and the staff performed volunteer work with the Union Rescue Mission in Cumberland. The casino will be hosting a Toys for Tots drive in December. Mr. Dice said he will have a series of dinners with some of Rocky Gap's top-level guests to hear their concerns and ideas. Giveaway promotions are planned during December, and the casino is preparing for its annual New Year's Eve celebration. In addition to selling out its hotel, there are an additional 133 hotel rooms in greater Cumberland that have been booked for New Year's Eve.

Horseshoe Casino

Ms. Erin Chamberlin, Senior Vice President and General Manager, reported that after a strong October, Horseshoe saw a significant decline in gaming revenue in November. The casino underheld on table games and slightly underheld on slots, with volumes also being off, and Ms. Chamberlin said the leadership team is working to adjust in hopes of a stronger December. Horseshoe will be holding a Big

Red Sled promotion, where it will give away an Alfa Romeo. Former New York Giants great Lawrence Taylor recently visited Horseshoe for a VIP event, and the casino is gearing up for New Year's Eve events. Employees have donated 150 gifts under the YMCA Angel Tree, and will be doing volunteer work at McHenry Elementary School.

Ms. Chamberlin said she wanted to clarify recent news regarding Caesars' investments near Horseshoe in Baltimore's South Gateway District and along Warner Street near the casino. A demolition permit has been issued for a property on Giles Road. A public-private partnership will take down the existing building on that site and build a state-of-the-art animal control intake center and a new facility for the Baltimore Animal Rescue and Care Shelter (BARCS). The current BARCS location on Stockholm Street, near Horseshoe, will become the site of the Topgolf indoor driving range.

MGM National Harbor

Mr. Pete Brascia, Senior Vice President of Operations, reported that November gaming revenues were \$57.3 million, up 13.2% year over year, with slots up 15.5% and table games up 11.6%. MGM recently gave away two Range Rovers, and had 13 acts in its theater, which attracted more than 30,000 visitors to the property, including four sold-out Price Is Right gameshow events and a John Legend concert. After Christmas, Anita Baker's Farewell Tour will play three sold-out shows at the MGM theater. Casino employees performed more than 300 volunteer hours in November, including a project where they packaged 20,000 meals for Prince George's County families.

VENDOR REPORTS

Scientific Games

Mr. Stephen Smith, General Manager, reported that the number of calls being received from retailers at Scientific Games' call center has significantly declined, as retailers have adjusted to their new terminals. Additional terminals will be added in the next year. A major software release was performed in November, and another will be done within the next couple of months. Accounting issues that arose earlier this year during the conversion to the new central system have also been addressed.

Pollard Banknote

Mr. Matt Isaac, Director of Retail Development, reported that Pollard worked on 21 instant ticket games in the past quarter, and that Maryland's scratch-off sales continue to outperform the national average and sales in surrounding states. U.S. lotteries averaged 5.7% growth in instant ticket sales over the past quarter. Maryland's growth was 9.8%. New Jersey was down 0.9%, New York was down 0.1%, Virginia was down 5.9%, North Carolina was down 3.3%, and Pennsylvania was up 9%. Maryland has seen double-digit growth in scratch-off sales for the past four fiscal years and is getting close to double-digit sales again for FY2019.

International Game Technology (IGT)

Ms. Carmen Vegas, Technology Manager, reported that the IGT central system has been operating well, with no issues to report.

STAFF REPORTS

Director's Report – Gordon Medenica

Director Medenica reported that Lottery sales in November were up 6.3%, but profit was down 3.3% year over year, due to volatility on Pick 3 and Pick 4. December sales are up 7.9%, with profit up 9.7%, and year-to-date profit is up 8%. Casino year-to-date contributions to the State are up 9.1%. There being no questions on his monthly report, Director Medenica proceeded to his Commission Action Item.

Commission Action Item – Casino Tax Rate Recommendation

Director Medenica reported that the 2012 legislation that established the State's sixth casino and allowed all Maryland casinos to have table games included a requirement that the MLGCA make a recommendation to the Governor and the General Assembly by January 1, 2019, concerning slot machine tax rate adjustments for Hollywood Casino, Horseshoe Casino and Live! Casino. A report on the Agency staff's recommendations was provided to Commissioners prior to the meeting.

The 2012 legislation gave tax relief to Horseshoe and Live! upon the opening of MGM National Harbor, given the expectation MGM would draw market share away from each. The original tax rates had been established with an expectation that the State would have five casinos rather than six. Thus, Horseshoe received a 7% reduction and Live! an 8% reduction when MGM opened in December 2016. In addition, the 2012 legislation asked the Commission to recommend whether further adjustments were warranted, allowing for further reductions of up to 5% for Hollywood Casino, up to 3% for Horseshoe Casino and up to 2% for Live! Casino.

The legislation included seven criteria to make these determinations. The primary factor was the opening of MGM and the evolution of the State's casino market. Director Medenica said Agency staff went beyond the legislative parameters and considered other factors. Among them were the equity and fairness of the tax rate structure. Slot machine revenues are taxed differently at each of the State's six casinos, ranging from a low of 40% to a high of 61%.

Additionally, it was not possible for the 2012 law to take into account the impact of sports betting, which became legal in any state after a May 2018 U.S. Supreme Court ruling. Director Medenica said that while sports betting may not generate substantial revenue, the availability of sports betting drives customer traffic to casinos. With sports betting now available at casinos in Pennsylvania, West Virginia and Delaware, the resulting loss in customers has the potential to hurt Maryland's gaming market.

Having considered all factors, MLGCA staff recommended that all of the legislation's parameters should be accepted, and that the slot machine tax rates for Hollywood, Horseshoe and Live! should be reduced accordingly.

Director Medenica also reported that MLGCA staff calculated the impact of these adjustments on contributions to the Education Trust Fund (ETF). Staff assumed that the tax breaks would result in modest increases in business at all three casinos, but Director Medenica added that the analysis was conservative, and the potential revenue gains may be greater than estimated. The report also calculated the revenue gains that would be needed to completely offset the tax reductions. According to the analysis, Hollywood would need to gain 12%, Horseshoe would need to gain 8%, and Live! would need to gain 5.8% to offset the tax rate changes. Without this extra growth, it is estimated that the changes will reduce Fiscal Year 2020 contributions to the ETF by about \$13 million. Viewed in context, with the casinos having generated more than \$676 million in contributions to the State in FY2018, Director Medenica said it is worth making a commitment to the casinos to allow them to continue making investments in their properties. Hollywood, Horseshoe and Live! are required to use the funds generated by these reductions for advertising, marketing, promotions or capital improvements, according to the 2012 legislation.

Chair Marriner and Commissioner Hash commended the clarity of the MLGCA staff's analysis. Commissioner Stakem said the availability of sports betting in bordering states, and the pending addition of new casinos in Pennsylvania shows that the gaming market is changing and that Maryland needs to change also.

There being no further discussion or questions, Chair Marriner asked for a motion to approve Agency staff's recommendations. Commissioner Hash motioned to approve, Commissioner Stakem seconded, and the motion was unanimously approved. Director Medenica said the report provided to the Commission would be forwarded to the Governor and the General Assembly.

Administration, Finance & Information Technology – **Gina Smith, Deputy Director, Chief Financial Officer**

Ms. Smith reported that all four of her Commission Action Items that were approved during the November 2018 Commission meeting were still pending approval by the Board of Public Works. Its scheduled meeting on December 5, 2018 was postponed due to the closure of State offices that day in honor of the late President George H.W. Bush. The BPW rescheduled the meeting for December 19. Ms. Smith said she is finalizing the Agency's Comprehensive Annual Financial Report, which should be available to Commissioners in time for their January meeting. She is also working to finalize the Agency's FY2020 budget and will be working on year-end accounting procedures, including the processing of 1099 and W2-G forms.

Regulatory Oversight – **John Mooney, Managing Director**

Mr. Mooney asked the Commissioners if there were any questions on his Director's Report. There being no questions, Mr. Mooney proceeded with his Commission Action Item.

Commission Action Item – **Radio One Entertainment Holdings, LLC – Modification of \$50 Million Senior Secured Term Loan Transaction**

Mr. Mooney reported that Radio One Entertainment Holdings, LLC seeks to modify the previously approved loan agreement with Carlyle Credit Opportunities Fund, L.P. to secure a \$50 million Senior Secured Term Loan. The modification seeks to replace Carlyle Credit Opportunities Fund, L.P. with TCG Senior Funding, LLC, a different fund wholly managed by the Carlyle Group. The modification also seeks to increase the loan from \$50 million to \$100 million. The proceeds of the loan will be used by the Company to retire its existing 9.25% Senior Unsecured Notes.

As a condition of the financing, the lender is requiring that Radio One Entertainment Holdings, LLC transfer its economic interest in MGM to a newly created wholly owned bankruptcy remote subsidiary. A bankruptcy remote subsidiary is a special purpose entity formed to hold a defined group of assets to protect them from being administered as property in a bankruptcy proceeding. To fulfill this requirement, the Company formed Urban One Entertainment SPV, LLC on October 4, 2018. The Agency staff have determined that the modification is consistent with Maryland gaming law, and have recommended that it be approved.

Chair Marriner asked for a motion to approve the modification to secure the \$100 million Senior Secured Term Loan. Commissioner Doetsch motioned to approve, Commissioner Stakem seconded, and the motion was unanimously approved.

Commission Action Item – **PPE Casino Resorts Maryland, LLC – Modification of \$550 Million Senior Secured Credit Facility**

Mr. Mooney reported that PPE Casino Resorts Maryland, LLC seeks to enter into an amended and restated credit agreement with various lenders to obtain a senior secured credit facility in an amount not to exceed \$600 million. The credit facility will consist of a Term Loan in the amount of \$400 million and Revolving Loans in an aggregate principal amount not to exceed \$200 million. The credit agreement previously approved by the Commission was for an amount not to exceed \$550 million. The Agency staff have determined that the modification is consistent with Maryland gaming law, and have recommended that it be approved.

Chair Marriner asked for a motion to approve the amended and restated credit agreement with various lenders to obtain a senior secured credit facility in an amount not to exceed \$600 million. Commissioner Doetsch motioned to approve, Commissioner Hash seconded, and the motion was unanimously approved.

PUBLIC COMMENTS

There were no comments from the public.

CLOSED SESSION

Chair Marriner said no closed session was needed.

DATE AND TIME OF NEXT MEETING

The next monthly Commission meeting is scheduled for 10 a.m. on Thursday, January 24, 2018.

ADJOURNMENT

There being no further business for discussion, Chair Marriner adjourned the meeting at 10:36 a.m.

Respectfully submitted,



Gordon Medenica