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The evaluation criteria, as it was laid out originally in the RFP, there were six levels of criteria and they were clearly labeled as these are the most important things, second, third, fourth, fifth, sixth. And then within each level of criteria was a total of 35 individual criteria, which didn't necessarily have a ranking within the levels.

By June of 2016 we were back to the bidders asking for best and final offers, which we received. And then the evaluation committee, and again I am not part of the evaluation committee. I recused myself. It's a proper, normal procurement challenge. My role is to evaluate the evaluation committee's process and to make sure that it was done independently, objectively, fairly, and considered all of the factors properly.

When the evaluation committee submitted their report to me, I reviewed it. I decided that the process that they followed was in fact excellent. And I recommended that we then move that recommendation on to our Commission. The Commission met in executive session, because a lot of the

obviously information in these bids is considered confidential and proprietary. They met and they unanimously approved the recommendation for Scientific Games to be awarded this contract.

Now the technical ranking of the three bidders, number one, Scientific Games; number two, IGT, formerly GTech; and number three, Intralot Gaming Innovations. Price ranking, not surprisingly, exactly reversed from that. The lowest ranked technical bidder was also the cheapest, vice versa. Overall ranking, though, was the same as the technical ranking. SGI, one; IGT, two; and Intralot GI, three.

We then informed the non-winning bidders and we had our debrief sessions. And then over the next few months we've received a total of five protests, three from IGT, two from Intralot GI. Those came in between August and November of 2016. We then through our Attorney General responded to those protests point by point by point. The protest denial document is a very lengthy document and again we shared them with your staff. And that was issued in December of 2016, so a year after the RFP originally went out. And at that point, IGT declined to appeal to the Board of Contract Appeals. They had three of the protests. They saw our responses and they chose not to appeal. Intralot GI did appeal. They went to the Board of Contract Appeals, filed an appeal in January 2017. However, in less than a month, in February, they withdrew that appeal. And again, I think seeing the arguments that were made against their



protest points were pretty compelling, pretty powerful. And I think they made the decision that it wasn't likely to be won at that level.

So why did we pick Scientific Games? And the critical statement that's in all the procurement is best value to the State. Best value does not mean cheapest price. Best value means who can do the best job for the State. And for us, and again I hearken back to my earlier comments about our mission, our ability to drive revenue performance. Everything is about revenue performance in terms of evaluating these bids. The price difference among the three bids has been variously touted out there as \$50 million. And again, because of the way numbers are presented to this Board it is the cumulative total of the full potential term, which in this case could be as long as ten years, the contract is for seven plus a three-year renewals. So but what that really means is the price difference is about \$5 million a year. That is, again, on a business that generates \$570 million over the course of the year. That represents less than one-quarter of one percent of our sales.

However, part of our analysis was to do sort of an apples to apples comparison, because different companies included different components in their base bids. And by the way, the base bids are expressed as a percentage of sales. So there is a built in incentive for whoever the vendor is to maximize sales because that's how they get paid. And the more that we're successful on sales, the better that they will do.

Nevertheless, in truing up the components we had to add some optional costs that were presented by the bidders, other things that we could buy. One feature, and I touched on this much earlier, is we believe dual comm communications are very important to us. We think it's a feature that is important to reliability and performance of the Lottery. Scientific Games included 100 percent dual comm as part of their base bid. So to true up the bids, we had to add the optional cost, for example in the case of IGT they were only offering 15 percent of the network with dual comm. We wanted to get that up to 100 percent. So we added the cost of that additional feature to the bids from IGT and Intralot GI.

Another component was a smaller terminal for retail locations to do online only games, which in this case is primarily our Keno and our monitor games. And this allows a player not to have to rely on the waitress or the bartender when they want to play Keno. They can go up to the terminal and do it themselves. That's another feature that was very important. We had to add that in. And in this case the Intralot GI optional cost was in fact significantly greater than the Scientific Games cost. And interestingly, IGT doesn't even build a terminal like this. And that was, you know, one of the factors that certainly hurt their bid.

So when you add in those apples to apples cost totals, the difference, the ten-year difference for the two bids is about \$20 million, or \$2

million a year. However, again, we're a revenue agency. We did extensive cost benefit analysis. And first of all, in terms of the importance of technical scores versus financial scores, again, technical outweighs them. And that is absolutely best practice in the lottery injury. We looked at the last 11 lottery central systems that were bid out in the United States and the weighting on technical factors ranged from 63 percent to 91 percent for an average of 75 percent. When I was still in New York the last time we did a conversion there we had 85 percent weighting on technical factors. So it's very difficult, and it makes sense, and it's good business practice, that the price differences are somewhat diminished because in fact what you are really out for is those revenue increases and the ability of the vendor to drive your business.

On top of that, then, we still has this difference, which was at that point no so material. But we also wanted to look at what would be the revenue impact of these bids. One specific piece was our Racetrax game. Racetrax, again I've said it already, uniquely in Maryland we do about \$170 million in sales, just under \$40 million in profit, from that one game alone. It comes through our existing vendor, SGI. And it's a game that is owned by an Australian company called Tabcorp. Scientific Games has an exclusive agreement with Tabcorp to bring that game to the U.S. We made very clear statement in the RFP that we expected any winning bidder to equal or exceed the performance of Racetrax.

And of course both the other bidders also presented racetrack games that we did not think were as good as the Tabcorp game.

Now there's been some confusion out there saying, well, Tabcorp is an exclusive. You put something in your RFP that the other bidders couldn't match. Not true. First of all, it's well known that Scientific Games' agreement with Tabcorp expires if they lose this account. So Tabcorp was up for grabs. Anybody could have negotiated with Tabcorp for this specific game. Also, it's not that proprietary. There are other vendors in the world who provide these kinds of virtual horse racing games. So the options for the other bidders were to negotiate with Tabcorp, to negotiate with another bidder. In fact, Intralot's bid included a new game that doesn't exist in the U.S. right now from a vendor called Vermantia. And we certainly thought that was better than the Tournament One game that IGT showed us and that Intralot itself uses in Washington, D.C., but not as good as the Racetrax game. And there are other companies, Inspired and everything, who do that.

Finally the third option for any bidder, you can build your own. Again, this is nothing unique. It's a matter of devoting the investment in software and graphics and those sorts of things. You can build your own. That's an option.

So what was missing from both of those other bidders was what would it cost for them to in fact match Racetrax? So there was a piece of the cost element that was never included because they didn't have a comparable game.

Again retail recruitment a very important part. We made estimates of the impact.

By the way, on Racetrax, when we calculated the revenue impact we only reduced our current sales and profits from five percent. It's a very subtle increase. We thought what was presented would, we would lose five percent. On the IGT example we dinged them to the tune of 15 percent. So again, Racetrax is somewhat overblown in terms of the impact in the total decision.

Retail recruitment was another point of analysis. And again, your staffs have all of the numbers that related to these. Higher staffing levels, the SGI bid clearly had, you know, superior staffing levels, particularly on retail recruitment. Marketing skill and management quality, all of those factors played a big part.

When we added all those things up, we believe that Scientific Games had about \$113 million revenue advantage over Intralot. That \$113 million compares to what we think is the \$20 million in cost difference between the two. So it was clearly advantageous on a financial analysis to go with SGI.

And then the one final piece that we didn't quantify that we think is very important, and that is SGI's expertise in the instant ticket category.

Obviously they are not our primary vendor for instant ticket printing. However, they are the leading instant ticket printer in the world. And their expertise in driving that part of the business we think is very important to us and we would not get that with an Intralot bid.

Finally just to wrap up, again to repeat that our two main growth areas are going to be from instant tickets, again getting it up to that industry average of 50 to 60 percent from the current level in the low 30s, and the retail expansion piece. And we firmly believe that Scientific Games is the best positioned vendor to deliver that growth. Thank you very much.

GOVERNOR HOGAN: Thank you. Any questions for the Director?

TREASURER KOPP: Not at this point.

GOVERNOR HOGAN: Thank you. We may call you up in a little while. We've got two different groups interested in speaking, both Gaming Innovations, LLC with Ralph Tyler and others, and we've got Scientific Games with Mike Johansen and others. But I'm going to use my discretion as Chairman to call up my friend Tessa Hill, the Chairman and President of the Baltimore NAACP first. And then we'll get into the other groups.

MS. HILL-ASTON: Thank you, Governor. Hello, everybody. Thank you. Good to see everybody. My name is Tessa Hill-Aston. I'm the











comprehensive, and very well done, in that protest they state, IGT, not us, that the Director said to them that the source of that revenue was igaming. That revenue source is not legal currently in the State, and in most states in the U.S. So if you take out and normalize for revenue that's not legal in the State and would not be supported by most accounts, which has not been supported throughout the U.S., then that difference of \$50 million is there and more.

If you look at what is in the Agenda item it says that the total cost is \$348 million. Our bid was initially \$203 million. We got communication from the Lottery saying that they had made some type of spreadsheet error that then adjusted up our contract price of \$203 million to \$212 million. So it's not just, I don't know where the Director gets the \$20 million from. But if you just simply do the math and look at the contract that they've procured, the contract that they left.

And also in that protest, IGT states the following, that the Lottery suggested to them that they add igaming as an additional revenue enhancement. SGI had that in their bid. We as the third bidder heard no notice of that. And one of the fundamental tenets in Procurement 101 --

GOVERNOR HOGAN: Are you talking about the protest that was dropped?

MR. BAILEY: Yes.

GOVERNOR HOGAN: Okay.

MR. BAILEY: Yes. But it did --

GOVERNOR HOGAN: So it would be if somebody said something and then decided not to pursue it, it doesn't really hold a lot of weight with me.

MR. BAILEY: I would agree with one caveat, respectfully, Governor. They also have a current contract with the State which expires in 2020. So I'll just leave it at that. Ralph?

MR. TYLER: So I think that, I think what the truth of the situation is that the process was skewed to favor the incumbent. And I think the presentation is consistent with that. The emphasis on the Racetrax game favored the incumbent improperly and the licensing arrangements I think are more complex than the Director indicated. That favored the incumbent unfairly, tilting the process to the financial disadvantage of the State. Further, the process was unfairly tilted by essentially changing the rules in mid-course. We were told in the course of the bid process in response to a specific question that a joint venture was altogether permissible, and then in the debrief process that was a major point of criticism. And the financial wherewithal and the management wherewithal of the combined joint venture were more than adequate to meet the contract and to guarantee performance under the contract. Conversely the Scientific Games has had some serious financial challenges. Those were ignored and dismissed and not considered. And it all comes back to I think the really inexplicable price

difference here, which cannot be justified by any rational, lawful projection of revenue to make up for the difference. In the end the test is the best value to the State, and that best value proposition cannot be met here given the price differential and the capability of Gaming Innovations to meet this contract. We urge the Board to reject the recommendation and not award it, and to either award it to Gaming Innovations or alternatively to remand it to the agency to reconsider it and to review the proposals fairly and properly.

MR. BAILEY: If I could just add one point? This contract that's before this body would represent the most expensive contract every procured by any lottery in the history of the lottery business in this country. And that should not be ignored. Thank you for your time.

GOVERNOR HOGAN: Thank you very much. Any questions?  
Thank you.

MR. TYLER: Thank you.

GOVERNOR HOGAN: Maybe we'll have Director Medenica come up and address some of the things that they just said about you.

MR. MEDENICA: Thank you. I hope I followed most of that. And I took a few notes and so I'll address the topics as they came up.

Again, at the very beginning I said that the Lottery makes \$570 million for the State and it goes to the General Fund. And obviously the General Fund of the State of Maryland supports all of the good causes that we as the

members of the Maryland community enjoy. And, you know, the gaming side of the business does have specific carve outs where the bulk of the money goes to the Education Trust Fund. But again, we do fund education because it goes through the General Fund.

Also we did mention MBE participation. Scientific Games has been an excellent corporate citizen. Their previous contract had a goal of 15 percent and they were performing at an 18 percent level, which gives us confidence that they will be able to perform at the higher 20 percent level. And also, MBE really just relates to companies and subcontractors. I think it's also important to note the employees that are hired by Scientific Games. In their total employee base, this is the 86 that I mentioned, 47 percent of the 86 are minorities. And in their management ranks, 37 percent are minorities. So again, we think Scientific Games is an excellent corporate citizen.

There was a remark about changing rules in mid-course and the nature of the joint venture. The question that came up was would we accept a joint venture bid, and we said yes, of course. However, our concerns came later in evaluating the roles of the joint venture partner and more importantly the organization structure, which kept changing on us. We asked several times about who would be responsible for what. And again, this contract would actually be with Gaming Innovations, LLC, a company that really doesn't exist other than for bidding on this contract. Even though Intralot presented us with a lot of

suggestions that they would be responsible for everything, the fact is the contract would not be with Intralot. It would be with Gaming Innovations. So our concerns were with organizational structure and management responsibilities, not the fact that it was a joint venture per se.

There was another comment about igaming, which again took a lot of traction early on in the misinformation that was presented out there. We had a section in the RFP that asked for capabilities for e-commerce subscriptions. And right now, obviously, we do subscriptions for the Lottery but people have to mail in a check. And so this was to give us the capability of having people basically be able to do that on the internet like they do most other transactions.

Now in all fairness the technical capability to do e-lottery subscriptions online could also be built up to be a full iLottery solution, where we sell lottery tickets on the internet. But we have been telling our retailers, who are very much opposed to this, since I started in this job two years ago, we have no plans for internet Lottery sales. It's a non-issue for business reasons. The few states, there's a handful in the United States that have launched iLottery products, and they make minuscule money. Less than one percent of their sales come from internet sales. So for us to deal with the political lift of getting iLottery sales in agreement just isn't worth it, again, given the opportunities that we also know are much larger on the instant ticket side and the retail recruitment side.

Also the adjustment that was alluded to in the spreadsheet error, absolutely. We found an algorithm in our spreadsheets for analyzing these. We corrected them. That was all done ahead of time and all the players were recalculated. So again, it is an absolutely apples to apples comparison. It was simply an error on how the algorithm and the formula worked in the spreadsheet. It didn't really impact anything.

GOVERNOR HOGAN: On the apples to apples comparison, so you said when you spoke earlier that it was really \$20 million rather than \$50 million --

MR. MEDENICA: Yes.

GOVERNOR HOGAN: -- in the difference. Their argument was it's really \$50 million and you were wrong.

MR. MEDENICA: Yeah.

GOVERNOR HOGAN: So I'd like to kind of hear you address that. And then you said, really, it was really about the revenue.

MR. MEDENICA: Absolutely.

GOVERNOR HOGAN: And that you, I think you said you projected the revenues to be much higher. Now we didn't get into the details of that.

MR. MEDENICA: Right.



GOVERNOR HOGAN: But one group is saying it's going to cost \$50 million. You're saying we're actually going to make --

MR. MEDENICA: Right.

GOVERNOR HOGAN: -- \$100 million and something.

MR. MEDENICA: The adjustments on the cost side that brought that 50 down to 20, again, had two primary components. One was the purchase of those smaller terminal machines, I think 1,000 is what we have in there. And the other was the -- what was the other?

TREASURER KOPP: So how does that bring it from 50 to 20?

MR. MEDENICA: Dual comms, I'm sorry. I'm sorry.

TREASURER KOPP: How does the purchase of the machines work towards reducing the 50 to 20 --

MR. MEDENICA: The price that Intralot presented for those machines was much higher than the price that Scientific Games. So the adjustment figures, and again I don't have them off the top of my head, but I think it was roughly \$40 million in incremental costs to buy those machines for Intralot and it was about half that to buy those machines from Scientific Games. And then the dual comm piece, to bring them up to 100 percent, was the balance that brought that 50 down to 20. So it was a total adjustment of about \$30 million.

TREASURER KOPP: And those two things were laid out in the RFP?

MR. MEDENICA: Yes. Oh, no, those were laid out as options. We asked --

TREASURER KOPP: That's what I mean. In the RFP?

MR. MEDENICA: Yes, absolutely. These were the numbers that were submitted in their bids for all the services that we wish to purchase.

GOVERNOR HOGAN: Director Medenica, you mentioned, you didn't get into the details, and we don't need a whole lot of details, but you said you would accept a possible joint venture but your concern was that this group doesn't even exist and perhaps while the parent company might have some money the one that's actually signing the contract does not have this financial capability. Is that the case?

MR. MEDENICA: That's right.

GOVERNOR HOGAN: Do you have concerns about that?

MR. MEDENICA: Yeah, we had major concerns. Also the joint venture partner also attributed, remember what I said earlier on, they submitted an initial MBE goal of 30 percent. Half of that, 15 percent, was attributed to the joint venture partner himself. So in rough terms that's about \$3 million a year that is going to the joint venture partner for his role in fulfilling the MBE requirements.

GOVERNOR HOGAN: So the real MBE would only be 15?

Lower than the other --

MR. MEDENICA: Well I think, you know, our sense was that they met the 20 percent goal. And finally, there was a point made about Scientific Games having financial challenges as a corporation. I think that's pretty much a non-starter. Obviously both IGT and Scientific Games had major expansions corporately just a couple of years ago where they both purchased the major players in the slot machine world. And so now they have become much larger companies with gaming sides of the business that are almost as comparable as the Lottery side of the business. And so there were heavier debt burdens that came from those acquisitions. And in the case of both companies, frankly, the acquisitions appear to have been fairly successful and they are working their way back to, you know, normal financial measures.

GOVERNOR HOGAN: All right.

COMPTROLLER FRANCHOT: Just your response to Tessa Hill-Aston's comments about give back to the community?

MR. MEDENICA: Well, again, we are a revenue agency. We also have many community events that we participate and sponsorships and reach out. We have, we place advertising in minority publications and in minority media. We have I think a very active and responsible community outreach program.

COMPTROLLER FRANCHOT: Let me just ask, you've mentioned \$570 million going to the General Fund, which obviously is very important to the State, but isn't it true that two zip codes in the State produce, are number one and two as far as purchasing Lottery tickets? And aren't they two of the poorest zip codes in the entire State? One up in Baltimore City, I think it's Park Heights, and one in Prince George's County, I think it's Capitol -- yeah, something down there. I mean, we have two zip codes, I believe, that purchase an inordinate amount of Lottery tickets.

MR. MEDENICA: This is --

COMPTROLLER FRANCHOT: What do we, is that true?

MR. MEDENICA: That kind of data has actually been presented in many lotteries around the country. And one of the factors there is that where Lottery tickets are purchased is not necessarily where the purchaser is from. For the most part people tend to purchase Lottery tickets at work, not at their homes. And so you see differences between where their residential patterns are and their work patterns.

More importantly, though, I think you raise a better question is what are the demographics of Lottery players? And in Maryland about 70 percent of the population plays Lottery games. And if you look at and you break down the demographics of Lottery playership it almost exactly replicates the demographics of the State as a whole. Again, Maryland has 30 percent minority

and we have about 30 percent minority playership. But if you break that down by age, gender, occupation, education, income, all of those factors, they pretty line up with the demographics of the State. And when you think about it, if you sell a product that is being purchased by 70 percent of the population, you would think that that, your purchase population is going to be very similar to your overall population.

COMPTROLLER FRANCHOT: If you could just respond to my question? Whether or not those two zip codes, one in Prince George's and one in Baltimore City, are the top zip codes in the State of Maryland for purchasing Lottery tickets because I'm talking about two economically challenged zip codes where there are not a lot of jobs and where there are some desperately poor individuals. And I -- separate from the contract I'm just curious as to whether that in fact is true or whether I'm just --

MR. MEDENICA: I don't, I don't have the data by zip code. I don't challenge it. I suspect it's probably right. I know that by county, certainly our three biggest counties are Baltimore County, Baltimore City, and Prince George's County in terms of Lottery sales.

COMPTROLLER FRANCHOT: Does anyone on your staff have

--

MR. MEDENICA: But again --

COMPTROLLER FRANCHOT: Does anybody on your staff have

--

MR. MEDENICA: Oh, it's easily obtainable. Absolutely.

GOVERNOR HOGAN: I would point out that all the money comes into the General Fund.

MR. MEDENICA: Yeah.

COMPTROLLER FRANCHOT: And we spend more money in Baltimore City and Prince George's County than in any other jurisdiction. We put I think \$2 billion into the City last year, \$16,000 per student in the school system which is higher than anywhere else in the State, and Prince George's County gets the second amount of money. So the money that's being generated, some of it is going directly to those jurisdictions.

COMPTROLLER FRANCHOT: No, that's a good point. I was just following up --

GOVERNOR HOGAN: In fact the majority of it, probably. Depending, you can't say which money comes from where and goes to where, but of our money we spend more there than anywhere else.

MR. MEDENICA: And again, we're neutral on those allocations. That's for people other than us.

COMPTROLLER FRANCHOT: You get my point.

MR. MEDENICA: Absolutely.

COMPTROLLER FRANCHOT: It's not a specific to this contract, it's a question about regressive sources of State revenue that really reach into the pockets of people that unfortunately don't have anything.

MR. MEDENICA: I understand.

TREASURER KOPP: But isn't it fortunate, and I don't support gambling at all including the Lottery. I think personally, I've told you this, I think it's not a good, I don't play the Lottery and I don't believe in it.

COMPTROLLER FRANCHOT: I do.

TREASURER KOPP: I know you do.

(Laughter.)

TREASURER KOPP: I know you do. And I know you did the slots.

GOVERNOR HOGAN: And he's in a different zip code --

(Laughter.)

GOVERNOR HOGAN: Takoma Park.

TREASURER KOPP: Yeah. At least if it is taking money disproportionately, if the Comptroller is right, and I fear he is right, at least it's being spent through the General Fund, which is the legal requirement, on an equalizing basis. Just as income tax from the larger and wealthier jurisdictions go disproportionately to the poorer jurisdictions with their school systems. Which is in the interest, I believe, of every citizen in this State.

MR. MEDENICA: If I could just add a final note --

GOVERNOR HOGAN: I think we're taking the money from you  
and the Comptroller, out of Montgomery County --

TREASURER KOPP: That's --

GOVERNOR HOGAN: -- and giving it to Baltimore City and  
Prince George's.

MR. MEDENICA: We also have a very robust responsible  
gaming program. We joined the World Lottery Association. We've already  
achieved level one and two of their responsible gambling program certification  
process. We're working on level three. And fortunately as an agency we have  
two lines of business. Today we've only talked about Lottery but we also have  
the casino side of the business. And we have a fixed funding level and I think we  
have probably one of the highest dedicated funding levels to responsible gaming,  
in the State of Maryland, of any state in the Union. And we're very proud of that  
and we are very much involved with the responsible gaming efforts. We were  
one of the founders of the Maryland Alliance for Responsible Gaming. It's a very  
active group and it includes all of our stakeholders.

TREASURER KOPP: Could I just tell you personally it hurts me  
every time I vote for an advertising contract for the Lottery or other gambling,  
because I don't think we should be doing that. But --

MR. MEDENICA: We're in the consumer entertainment business.



TREASURER KOPP: -- that's a different issue.

GOVERNOR HOGAN: Thank you, sir. And now we're going to bring up the group from Scientific Games International, Mike Johansen and the rest of his group. Whoever he wants to have join him.

MR. JOHANSEN: Thank you, Governor, Madam Treasurer, Mr. Comptroller. I think we can be brief. I'm Mike Johansen with the Rifkin Weiner Livingston Law Firm. With me is Pat McHugh, the corporate representative of Scientific Games; and Scott Livingston, my partner.

Briefly, I think we should mention that with respect to the Lottery generation of revenues part of the \$570 million goes to Baltimore City Schools, \$20 million a year, as well as stadium projects, two wonderful stadium projects in Baltimore City. So some direct return from the \$570 million.

In addition with respect to benefit to those other than the vendors in the room and the Lottery agency itself and the General Fund, are the 4,500 retailers who receive on average seven percent of sales in commissions and cashing commissions. So that's five times more than what the vendor gets in this circumstance with respect to sales. The average retailer gets \$40,000 a year. So if you look at where Lottery tickets are sold, and you look at the diversity of that small business group, small retailers, convenience stores, gas stations, licensed beverage stores, some of those retailers, for example, make up to \$400,000 a year in commissions. The highest grossing retailer Lottery agent is actually located in

Baltimore County close to the Anne Arundel County line. So I think that diverse group should not be ignored in this.

This Board, you mentioned with respect to being the final authority on school construction, this Board is the final authority on approval of contract awards. And it relies, however, on the fact that there's a process for resolving issues before they come to you. So you have the full benefit of everything that would have occurred. So counsel for Gaming Innovations and Intralot posted just Friday, a few days ago, new legal challenges. Not new in the sense that they haven't been stated before and been in a protest before and denied before, but raised them anew as if they are brand new ideas and they deserve to be presented here. But the process is they should go through the protest. They should go to the Board of Contract Appeals so that this Board has the benefit of that information.

We submitted a letter in response to their letter of concerns, the same concerns we submitted before, the same concerns that were denied before. So Governor, we don't really have anything more to add. Pat McHugh is here if you have any specific questions and he can certainly address those.

GOVERNOR HOGAN: Any questions?

COMPTROLLER FRANCHOT: Not for me.

GOVERNOR HOGAN: Okay. Thank you all very much.

MR. JOHANSEN: Thank you.

GOVERNOR HOGAN: Any other questions on this item? All right. I have questions on Item 3. This is Linda Lamone from the State Board of Elections. Good afternoon.

MS. LAMONE: Good afternoon, Governor, Mr. Comptroller, Madam Treasurer. I have with me Patrick Hogan, who is the Vice Chair of the State Board of Elections; and Nikki Charlson, who is the Deputy Administrator.

GOVERNOR HOGAN: Great. Thank you very much. This is a sole source contract for the purchase of electronic poll books for the 2018 election. Is that correct?

MS. LAMONE: Yes.

GOVERNOR HOGAN: And you know, it's one of our pet peeves is sole source contracts. Maybe just explain why it is a sole source?

MS. LAMONE: Because the poll books that we have currently, we need more of them. The company that we get them from doesn't really have any more new ones, other than the new model. And so what we're looking at is just getting prepared for your election next year with the new early voting centers in some of the counties we need more equipment. And --

GOVERNOR HOGAN: There's an election next year?

MS. LAMONE: Yes.

GOVERNOR HOGAN: She said, your election. There's a lot of people running.

(Laughter.)

GOVERNOR HOGAN: So I wanted to just, your agency just was the subject of an audit --

MS. LAMONE: Yes.

GOVERNOR HOGAN: And maybe you or the Board Vice Chair or somebody can address some of those issues. Because it was somewhat disturbing. They found that the State Board had exposed the social security numbers of 600,000 voters and, you know, making them vulnerable to identity theft. It found that there was a failure to maintain the integrity of the voter registration records, failed to adequately authenticate certain voters who had requested absentee ballots. And it allowed access to employees and contractors to voter databases that they should not have had access to or did not need access to. And I understand that you're taking steps to address some of these concerns and problems but maybe you could talk about that a little bit, what you are doing. And before we vote on this contract, I'd just like to see if there's any assurances you can give us that they will be addressed and that when Marylanders register to vote or step into the polling, the voting booth, that their security of their personal identification information is not going to be compromised and that their ballots are going to be secure.

MS. LAMONE: Well to answer your first question, yes and yes. I think it's very, there's a couple points here, Governor, that I'd like to make.

There's no evidence whatsoever that the voter registration database was breached and there's no evidence whatsoever that any voter information has been compromised.

GOVERNOR HOGAN: That's what the legislative audit said. I mean, I'm not making it up.

MS. LAMONE: I know you're not.

GOVERNOR HOGAN: It didn't come from us.

MS. LAMONE: But the problem here is, understand we have different systems. The voter registration database, which is sort of the core of our business, is a private network. There's no public access to it at all. The only way you get into it is if you have the log in credentials and know two different passwords and you're sitting at a computer that's been authorized to have access.

GOVERNOR HOGAN: So you're saying that the legislative audit was just wrong?

MS. LAMONE: He I don't think --

GOVERNOR HOGAN: Instead of we're going to fix it.

MS. LAMONE: -- completely understood the architecture of that voter registration database.

GOVERNOR HOGAN: And you've addressed that with the auditor?

TREASURER KOPP: No, excuse me, the auditor, did the auditor say it actually had been breached? Or he was concerned that there was the potential?

MS. LAMONE: He I think was concerned that there was a potential and he focused on the social security numbers. And --

TREASURER KOPP: And what should be done to assure that it couldn't be done. But I don't believe that there's been any allegation by the auditor of a breach. I just want people to feel comfortable that -- is that not so?

MS. LAMONE: No, that's correct. It's just that's been the implication in some of the press reports.

TREASURER KOPP: Well, that may be. But the question is what the audit said.

MS. LAMONE: No, the audit did not say it had been breached. It said that we put the social security numbers at risk. And --

TREASURER KOPP: Right.

MS. LAMONE: -- my response to that is, no, they are not at risk because of the architecture of the voter registration database and the security team that surrounds it and protects it, including the Department of Homeland Security. So we have a huge number of processes in place. Plus we deliberately built it so that it's a private network. It's not public facing. There's no, you can't even view it.

TREASURER KOPP: But you have taken steps also, or had taken steps also, it was my reading of the audit, to address each of these concerns and they are now in place?

MS. LAMONE: Absolutely. Virtually every one of them has been done.

TREASURER KOPP: I think that's what the Governor is asking for.

GOVERNOR HOGAN: Yeah. I don't know whether, what the wording is, or whether it's at risk or I think they said that you exposed the social security numbers of 600,000 people.

MS. LAMONE: Well they were in the database. People for years -- the social security numbers have been in the database for years and we've been audited every three years --

GOVERNOR HOGAN: It says finding two is the State Board of Elections does not ensure that the personally identifiable information from the Maryland voters database provided to an external third party was properly safeguarded.

MS. LAMONE: Oh, that's a different issue, Governor. That --

GOVERNOR HOGAN: There's a bonus plan. That's a new one.

MS. LAMONE: Yes. What they're talking about there is Maryland belongs to what's called ERIC, the Electronic Registration Information

Center. And that's a consortium of 21 states now. It originally was created by the Pew Charitable Trust. And the purpose of ERIC is to exchange voter registration data among the participating states. As I said, there are 21. It is now Virginia, Delaware, D.C., in this area participating. And since it went online I think in July of 2013 over almost 500,000 records in Maryland have been corrected. Either that people have died elsewhere that we didn't know about because of the state where you died determines whether it can be disclosed. Those kinds, moves. And what the auditor is talking about there is that the, all the information that we provide to ERIC for the data matching is what they call anonymized or hashed. And that means it's taken and if it were the word Linda it would just be a series of numbers and letters, it wouldn't be the word Linda.

GOVERNOR HOGAN: Hm.

MS. LAMONE: I'm looking at the Secretary over here for confirmation of that. And then when ERIC gets it they anonymize it further again. And when we get the reports back from ERIC there is no personally identifiable information in there. There is no social security number, nothing. It's just the name and the address. It would be Linda Lamone now lives in Virginia.

So what they, what the auditor, my understanding, and Nikki can correct me if I'm wrong, what the auditor really wants is that the company that ERIC uses to host the data have a SOC 2 security audit. And the Board directors for ERIC along with their security team of four fairly well known security folks



believe that it should be a different kind of audit based on ISO. And that's, a SOC 2 audit is like an accounting firm audit, and the ISO audit is more focused on IT. And that was the dispute as I understand it between the legislative auditor and the use of the ERIC stuff.

GOVERNOR HOGAN: I mean, this is the Department of Legislative Services. It's a, it's the audit that they are sending to Senator Craig Zucker, Co-Chair of the Joint Audit Committee and Delegate Bill Frick, Co-Chair of the Joint Audit Committee. And it says, it's talking about the period ending October 22, 2015. I guess that's somewhat outdated, but this document is dated April, last month. And it says, our audit disclosed that the State Board of Elections did not establish certain controls to maintain the integrity of the Statewide voter registration records and to protect certain voter data. For example user access to the voter registration system was not effectively controlled, consequently numerous system users had unnecessary access to the voter registration database which was removed after our inquiries. We also noted that SBE did not ensure that personally identifiable information from the database was either properly safeguarded when transmitted to a third party or contractor or removed from its own records. In this regard the full social security numbers of over 590,000 voters were retained by SBE in the database even though only the last four digits are needed. Regarding the voting process we noted that they did not adequately authenticate certain voters who requested absentee ballots for

primary and general elections. We noted that a certain critical voting system was not backed up off site when in use during elections and it was not addressed in SBE's disaster recovery plan. Then it goes on to talk about single source contracts, that \$18.8 million that SBE could not support the awards that were in the State's best interests and identified overpayments. It goes on. So either, I mean, this is not, I just found out about this today. I'm not involved in legislative audits. But just to say that the information is wrong --

MS. LAMONE: It's not all wrong.

GOVERNOR HOGAN: -- I would rather say we're going to fix all of these problems --

MS. LAMONE: Well we are.

GOVERNOR HOGAN: -- and we're going to get it done before the next election.

MS. LAMONE: And we've done that. And for example the one about authenticating absentee ballot requesters, the auditor is suggesting that we require everyone that submits a paper application for an absentee ballot to include the last four digits of their social security number. I have asked the Attorney General's Office whether or not that's legal and they have informed me, no. The law would have to be changed to do that. But even if the law were changed to do that, you are then excluding a whole population of people who don't have a social

security number from having the opportunity to vote by absentee ballot. And a large number of those are senior citizens, especially women, in the years ago --

GOVERNOR HOGAN: Well we're talking about 590,000 people who do have social security numbers that were put out on the --

MS. LAMONE: They weren't put out anywhere.

GOVERNOR HOGAN: That's what this says.

MS. LAMONE: Well --

GOVERNOR HOGAN: It says they were at risk.

MS. LAMONE: They weren't at risk. It's a closed network.

GOVERNOR HOGAN: Are you going to at some point address this, respond? Do you have to respond within a certain time frame?

MS. LAMONE: I did. It's attached to the audit report. And we've already removed, we had last fall a program change and removed everything but the last four digits. So and we also removed the ability of the local Boards of Elections to enter the full number because voters keep giving them to us.

GOVERNOR HOGAN: Okay, so on the last item, which we're, it's not about this contract, but the Legislature was concerned about multiple single source bid contracts at \$18.8 million and that we weren't supporting the awards in the State's best interest, and we have another sole source contract in front of us today. So I'm just --

MS. LAMONE: Let me, I'd like to address that. We had all the documentation for those sole source contracts, except it hadn't been typed up. It was the handwritten notes. And the Department of Information Technology approved them. We have the documentation to them and from them approving it. The auditor was upset because the people that did the evaluation took notes but they did not create a document.

GOVERNOR HOGAN: Well it says you couldn't support the awards and that --

MS. LAMONE: We could.

GOVERNOR HOGAN: -- they identified overpayments and things that should have been corrected.

MS. LAMONE: Well when you read our response, they then added a little box saying that we couldn't provide a document.

GOVERNOR HOGAN: I don't have any other questions.

COMPTROLLER FRANCHOT: I had forgotten that we have an election next year. And now that I'm reminded, I recall the last election in Baltimore County when I visited the polls there were some very irritated voters who had to spend in Baltimore County up to two hours because the county only had one scanning machine where the paper ballot had to be scanned into a, some form of Xerox machine or something. And that, I appreciate what the Governor was bringing up, but could you assure us that, I take it that's not your issue, the

scanners at Baltimore County election areas. But can you assure us that we're not going to have that problem in June of next year and November of next year?

MS. LAMONE: What I can assure you is that we're working with all of the counties to make sure they have enough voting equipment so that there are no lines. The issue of course is money, which is your area of expertise. But under the law the counties if they want more additional equipment they have to pay half of it, of the cost. But we've been working with the county government and the election director, and especially in Baltimore City, but it applies to a lot of the other jurisdictions because under the law they have to add additional early voting centers. So a lot of them need additional equipment. So we've been working, yes to answer your question, we're working with everybody to make sure they have enough equipment, especially in Baltimore County.

COMPTROLLER FRANCHOT: And so how much does it cost? I take it they had one scanning machine, which has got to be an example of the greatest administrative and mismanagement ludicrous situation to put your own constituents in. So what exactly will it cost Baltimore County to have, let's just be very optimistic, two scanners? I mean, you go into Montgomery County and they have a half dozen scanners. But what is the problem up there with Baltimore County's --

MS. LAMONE: Nikki tells me it's about a half, total half a million? Just for --

COMPTROLLER FRANCHOT: Half a million dollars? Well maybe you could share some correspondence with us with whoever is running things up in Baltimore County and say last election was a complete and utter disgrace. It wasn't, it didn't affect me. I just went up there and looked at the individuals --

MS. LAMONE: No I --

COMPTROLLER FRANCHOT: -- coming out of the voting booth, saying it took us two hours to get the darn thing Xeroxed.

MS. LAMONE: Yeah. Scanned.

COMPTROLLER FRANCHOT: And, you know, it's not your agency's issue, as you said. It's the local jurisdiction. But can't you somehow guarantee or give some oversight so that perhaps you could give us a heads up in January if some counties are claiming they can't do what they're supposed to do?

MS. LAMONE: I would be happy to.

COMPTROLLER FRANCHOT: Yeah.

MS. LAMONE: I would be happy to.

COMPTROLLER FRANCHOT: Please. Just, I mean, ten years ago it was Montgomery County that lost all the votes that were supposedly cast for me. Somehow they found them, I guess, because here I am. But you know something always seems to happen. And I hope next year is problem free.

GOVERNOR HOGAN: Well we had calibration issues with fat fingers and long fingernails --

COMPTROLLER FRANCHOT: I missed that.

GOVERNOR HOGAN: -- where everybody who tried to vote for me actually registered for Brown. That was all over the State. That was a good one.

COMPTROLLER FRANCHOT: Oh wow. I missed that.

GOVERNOR HOGAN: We got that fixed, too, though.

COMPTROLLER FRANCHOT: Okay. Well thank you. You just, I'm going to vote for this item because I think the case it's okay. But I mean, it's sole source because no one else sells these things, right? Or these particular --

MS. LAMONE: Well I just, we're just adding onto our existing inventory, yeah.

COMPTROLLER FRANCHOT: But I would appreciate it if you'd let us know how particularly the big counties are doing in January for the June primary and the general election as far as their ability to provide equipment.

MS. LAMONE: We should know before then and I'll be in touch.

COMPTROLLER FRANCHOT: And I see former Senator Hogan sitting here, standing here. To what do we owe the honor of your presence?

GOVERNOR HOGAN: He's the Vice Chair of the --

COMPTROLLER FRANCHOT: Oh.

MR. HOGAN: Thank you, Mr. Comptroller, Mr. Governor, and Treasurer. I'm Vice Chair of the State Board of Elections. And I very much appreciate all of your concerns about the audit. The Board shares the same concerns. As somebody who has dealt with legislative audits for 25 years, I will tell you that there's often findings -- audits are good things. They highlight issues that need to be addressed. One problem I have with audits, legislative audits, is they are a timeframe, by the time they come out, you pointed out, Governor, that's an April letter --

GOVERNOR HOGAN: Yeah, talking about --

MR. HOGAN: -- the audit was 2012 to 2015.

GOVERNOR HOGAN: Yeah.

MR. HOGAN: I encourage you to read the administrator's response --

GOVERNOR HOGAN: Good point.

MR. HOGAN: -- item by item has been either addressed or is in the process of being addressed.

GOVERNOR HOGAN: Which is just what I asked her, because I didn't feel like reading the entire thing.

(Laughter.)

MR. HOGAN: And please know that the State Board of Elections takes the audit very seriously. What always used to irk me, I was a member of the



Joint Audit Committee. No so much audit findings, but repeat findings. It's unexcusable for any agency not to address repeat findings. There are no repeat findings and hopefully there won't be --

GOVERNOR HOGAN: There won't be.

MR. HOGAN: -- none of those will repeat in the future.

GOVERNOR HOGAN: Great. Thank you both very much. I appreciate it.

MR. HOGAN: Thank you.

MS. LAMONE: Thank you.

GOVERNOR HOGAN: Any other further questions? I guess is there a motion?

COMPTROLLER FRANCHOT: Can I separate out the Lottery?

SECRETARY MCDONALD: That would be 2-IT, so you can vote on 1 and 3-IT?

GOVERNOR HOGAN: Do you have to make a motion to separate it out? It has to be seconded?

SECRETARY MCDONALD: Somebody should make a motion to approve one and three, perhaps. I mean, that would be what to do.

GOVERNOR HOGAN: Say that again?

SECRETARY MCDONALD: Perhaps somebody would make a motion to approve Item 1 and Item 3, and then there would be a separate motion about whether to approve Item 2.

COMPTROLLER FRANCHOT: So move.

SECRETARY MCDONALD: One and three?

COMPTROLLER FRANCHOT: One and three.

TREASURER KOPP: Second.

GOVERNOR HOGAN: Okay.

SECRETARY MCDONALD: Right. Okay, so now, if there's a motion on Item 2, to approve Item 2?

GOVERNOR HOGAN: I'll make a motion to approve Item 2.

SECRETARY MCDONALD: There you go.

TREASURER KOPP: I'd like to hear the rationale for opposing it.

Can you, are you going to vote --

COMPTROLLER FRANCHOT: Yeah, no, I'm opposing --

TREASURER KOPP: Yeah.

COMPTROLLER FRANCHOT: -- the contract based on the cost.

TREASURER KOPP: Okay.

COMPTROLLER FRANCHOT: That's a lot of money. And --

TREASURER KOPP: Based on?

COMPTROLLER FRANCHOT: I'm not, I'm not convinced that the increase in revenue is actually a real figure. So I am opposing it on the differential between \$50 million and zero, I guess.

TREASURER KOPP: Okay.

COMPTROLLER FRANCHOT: That's a lot of money.

TREASURER KOPP: I mean, I am troubled by the question, I wish there were a way that we can get greater benefit and participation in the community. I think that would require a change in law because the money has got to go to the General Fund, but it would be a welcome change in the law. But having said that, it seems to me that this is a very difficult contract. I look at the flaws in the process and the allegations were very serious, but they seemed to be responded to by the agency. And so on that basis, both financial and technical, on that basis I would, I would support the motion.

SECRETARY MCDONALD: So the second motion --

TREASURER KOPP: The second motion.

GOVERNOR HOGAN: The second motion passes two to one.

SECRETARY MCDONALD: Thank you.

GOVERNOR HOGAN: Thank you. Move on to the Department of Transportation.

MR. RAHN: Good afternoon, Madam Treasurer, Mr. Comptroller, Governor. For the record, my name is Pete Rahn, I'm the Secretary of the

Maryland Department of Transportation. MDOT is presenting ten items for consideration today and at this time we are withdrawing Item 10-GM.

GOVERNOR HOGAN: Any questions on Department of Transportation? Motion?

COMPTROLLER FRANCHOT: Move approval.

GOVERNOR HOGAN: Second? Three-nothing. We move now to the Department of General Services Agenda.

MR. CHURCHILL: Good afternoon, Governor --

GOVERNOR HOGAN: Secretary Churchill.

MR. CHURCHILL: -- Madam Treasurer, and Mr. Comptroller. For the record, I'm Ellington Churchill, Secretary for General Services. The department has 21 items on our Agenda. We are withdrawing Item 19. And I am recusing myself of Item 14. We'll be glad to answer any questions that you have at this time.

GOVERNOR HOGAN: Well I think as Delegate Anderton is here and I think he wanted to talk about Item 2, the Holly Center. If he can get through the crowd of Lottery folks. Good afternoon.

DELEGATE ANDERTON: It is afternoon. Good afternoon, everybody. How are you all doing? When you all get to go back outside today, the weather is phenomenal. It's awesome out there.

GOVERNOR HOGAN: I think we may want to hold one of these outside.

DELEGATE ANDERTON: You should, absolutely. Under the tree would be great, a bagged lunch, you know, a nice blanket spread out.

GOVERNOR HOGAN: Yeah.

DELEGATE ANDERTON: I like that a lot. Madam Treasurer, Mr. Comptroller, Mr. Governor, I just wanted to come up and say thank you on behalf of the residents of Wicomico County, the Lower Eastern Shore, for the improvements that are being proposed to the Holly Center. And we're looking to turn that into more of a multifaceted facility and it's great to have the respite care aspect there stay intact. And the therapeutic pool, it's one of the only ones on the Lower Shore that has wheelchair access for therapy, so working together to get that back open is going to be phenomenal for our various communities that utilize that facility for that purpose.

I would like to touch base briefly on the vocational center in Somerset County. As a product of Somerset County Schools I think it's phenomenal that you're really being cognizant of the needs of the public schools in Somerset County. I think that's awesome. I really do. A lot of times, you know, us on the Lower Shore we tend to feel like we're forgotten a little bit. But as I say constantly when I'm here --

GOVERNOR HOGAN: Not anymore.

DELEGATE ANDERTON: -- we're definitely remembered now.

Absolutely. You got it. And Mr. Budget Secretary, I look forward to hanging out with you again this summer. So that will be good. You made me lose 30 pounds this winter, man, so we'll do it again. You know, the bypass project, Mr. Secretary, is looking great in Wicomico County. Not as many complaints as I expected. 404 is coming along great. I can't wait till that's done. That's my route to Annapolis from Delmar and so we'll be working with our colleagues --

GOVERNOR HOGAN: So what you're saying, Delegate, is that we're not going to hear any more of this forgotten Lower Shore talk?

DELEGATE ANDERTON: You're not going to hear that from me, brother.

(Laughter.)

DELEGATE ANDERTON: No. No. We have a seat at the table and we're eating lunch. So it's all good.

(Laughter.)

GOVERNOR HOGAN: All right. Well thank you. It doesn't look like you've eaten much, but thank you.

DELEGATE ANDERTON: So no, I just wanted to say thank you so much for everything you guys do for us on the Shore. And --

GOVERNOR HOGAN: Thank you. And the Holly Center is terrific. I'm glad that we got a resolution that everybody is happy with.

DELEGATE ANDERTON: Me too. Absolutely.

COMPTROLLER FRANCHOT: I want to thank Delegate Anderton for championing the Holly Center. As you know, your predecessor was a huge champion.

DELEGATE ANDERTON: Oh, absolutely.

COMPTROLLER FRANCHOT: And why don't you name one of those cottages after him down there?

DELEGATE ANDERTON: Sure.

COMPTROLLER FRANCHOT: Give him some visibility. Yep.

DELEGATE ANDERTON: Well we're doing roads and everything else we can name. We'll name the whole county if we have to.

COMPTROLLER FRANCHOT: Okay.

DELEGATE ANDERTON: But, you know, save one little corner for me somewhere. But anyway, thank you guys so much.

GOVERNOR HOGAN: All right. Thanks a lot.

DELEGATE ANDERTON: See you.

GOVERNOR HOGAN: Any other questions on the DGS Agenda? Is there a motion?

COMPTROLLER FRANCHOT: Move approval.

GOVERNOR HOGAN: Second? Thank you very much. That adjourns our meeting.

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(Whereupon, at 12:27 p.m., the meeting was concluded.)