

VIRGINIA LOTTERY
Board Meeting
July 20, 2022

The Virginia Lottery Board met on July 20, 2022, at 9:30 a.m. at Lottery Headquarters in Richmond, Va. A livestream link to the meeting was available on the Virginia Regulatory Town Hall website. A video recording of the meeting can be viewed here:
<https://youtu.be/C31I5pIHqdo>

MEMBERS PRESENT: Ferhan Hamid, Chairman
Cynthia Lawrence, Vice Chairman
Vonda Collins
Orrin Gallop
Kimberley Martin
John Paul (JP) Powell
Scott Price

STAFF PRESENT: Kelly T. Gee, Executive Director
Frank Wagner, Deputy Director
Amy Dilworth, General Counsel
Deborah Courtney, Deputy Executive Director of Finance and
Administration
Tony Russell, Deputy Executive Director of ITS and Operations
Gina Smith, Deputy Executive Director of Gaming Compliance
Rob Wesley, Deputy Executive Director of Lottery
Jennifer Mullen, Director of Public Affairs and Community
Relations
Jo Murphy, Executive Assistant

Mr. Hamid, chairman, presided, and Jo Murphy was the recording secretary.

CALL TO ORDER

Mr. Hamid called the meeting to order and noted that a quorum was present.

MINUTES OF LAST MEETING

On motion duly made by Ms. Lawrence and seconded by Mr. Price, the minutes from the regular meeting held on April 27, 2022, were approved as distributed.

DIRECTOR'S REPORT

Ms. Gee said that she updated the telework guidance effective July 5, 2022. Eligible employees are allowed to telework up to two days a week. For the three days in the office, Tuesday and Wednesday are required. Since March 2020, when the Lottery HQ workforce began more than a year of fully remote work, the Lottery has hired 111 employees. Ms. Gee said that she felt that

DIRECTOR'S REPORT (Continued)

establishing a three-days-a-week in-office environment respects the flexibility and work-life balance that teleworking permits. It also allows us to cultivate all the reasons that the Lottery has been named a top workplace - employee engagement, teamwork and professional development.

Ms. Gee provided a recap of FY22, which ended on June 30, 2022. She said that our 5,300 retailers are key to the Lottery's success and that we are constantly looking for ways to increase recruitment, strengthen our partnerships and leverage new technology to drive sales. She said that approximately 180 new retailers were added, forums and council meetings were held to keep an open dialogue with our retail partners, and a pilot for digital signage at stores debuted to see if it would help increase sales.

Ms. Gee said that our games are constantly being evaluated to look for ways to expand our portfolio. This year, we leveraged our Research team to gather consumer input prior to launching CASH POP, cross-promoted a couple of different licensed properties between our online and traditional retail networks and added Pick 4 and Cash 5 to our online offerings. This year, we had 172,000 online registrations of new player accounts, launched a new mobile app that is a state-of-the-art step forward and reflects the quickly evolving state of digital gaming in Virginia, and began the process of implementing a loyalty program. Ms. Gee said that the Gaming Compliance team continues to grow, and there are now over 50 employees in that department. Our central monitoring system that connects to each slot machine is operational, and the first casino opened.

Ms. Gee said that the FY22 sales and profit numbers are in the process of being audited. Total sales exceeded \$3.7 billion, which is approximately 15% higher than FY21, but the sales goal was missed by approximately \$1 million. The profits of \$776 million are the highest fiscal year profits in Lottery history. The administrative rate was about 5% of sales, which is half of what is allowed by statute.

Ms. Gee said that the \$776 million in profits represents about 10% of Virginia's entire education budget, and the Lottery plays no role in how it is spent. She said that about one-third of Lottery proceeds go back to K-12 public schools as flexible discretionary spending. About two-thirds go to specific programs as outlined in the commonwealth's budget. Mr. Hamid asked if the proceeds are distributed on a per-capita basis. Ms. Courtney said that the distribution can vary, but, constitutionally, all Lottery profits go to public education. The Department of Education has a complex formula for determining the distribution, and some of it is discretionary on the part of the General Assembly. Ms. Collins asked if the sales and profit totals included casinos and sports betting. Ms. Gee said that casinos and sports betting are taxed on a portion of their profits. The General Assembly dictates where those tax dollars go. Mr. Price asked if the Board could recommend to the legislature where they think the funds should go. He mentioned that some schools were built in the 1900s. He said that poorer districts could benefit from the funds. Ms. Dilworth said that statutorily the Lottery does not have that authority. Ms. Lawrence said that she recommends that the Board and the Executive Director have a discussion to devise an opinion

DIRECTOR'S REPORT (Continued)

about strategy on possible action. Mr. Hamid agreed that meeting would be a good idea. He said that the Board, as the body that approves casinos, should have a say in where the money goes or at least make recommendations. Ms. Gee respectfully cautioned the Board about proceeding. She said that the statutory rules have limitations as to the Board's role. Ms. Lawrence said that the Board understands and does not want to put the Lottery in a bad position. She further said that they would like to pursue making a recommendation or sharing their thoughts on this issue in an acceptable manner.

Ms. Gee said that the Lottery faces several external factors that might affect sales - inflation, gas prices and competition in the marketplace. She said that, while we do not control those things, we will focus on executing things we do control. Ms. Gee shared the Lottery's current strategy map. She said that we have set strategic goals in the following categories: strengthening our product portfolio, aligning our digital, sales and marketing teams, improving the omnichannel experience and leveraging retail partnerships. Lastly, Ms. Gee said that she is confident that we will deliver on the General Assembly's expectation that casino gaming and sports betting in Virginia be of the highest quality, honesty and integrity.

Ms. Gee shared the recently revised organizational chart that makes up the executive leadership team tasked with executing the Lottery's strategic plan. The team consists of Frank Wagner, Deputy Director, Amy Dilworth, General Counsel, Gina Smith, Deputy Executive Director of Gaming Compliance, Rob Wesley, Deputy Executive Director of Lottery, Deborah Courtney, Deputy Executive Director of Finance and Administration and Tony Russell, Deputy Executive Director of ITS and Operations.

Ms. Gee said that the first casino, Hard Rock Bristol, held its grand opening at its temporary facility on July 8, 2022. Ms. Lawrence, Ms. Collins and Mr. Price attended along with Ms. Gee. She also said that the Gaming Compliance department worked nonstop for months to set up the systems, implement the workflows and establish the procedures. Ms. Gee will invite the president of Hard Rock Bristol to a future Board meeting to provide an update on its progress.

Chief Gallop asked if the current Board would stay as is or if it will split into a Lottery Board and a Casino Board. Ms. Gee said that she does not foresee any changes in the near future, but there are ongoing conversations as a part of the Joint Legislative Audit and Review Commission (JLARC) study.

Ms. Gee reminded the Board that JLARC was tasked with a study to assess the advantages and disadvantages of consolidating the administration of Virginia's gaming activities into a single agency. Currently, there are three gaming agencies: the Lottery, the Office of Charitable and Regulatory Programs and the Virginia Racing Commission. Since the Board meeting on April 27, 2022, the Lottery has met with JLARC several times as it seeks to understand the Lottery's structure, protocols, compliance measures, investigative proceedings and a host of other

DIRECTOR'S REPORT (Continued)

information. JLARC is asking all gaming agencies to identify any potentially duplicative roles and responsibilities. Ms. Gee said that she anticipates that JLARC will present its report and recommendations in the fall of 2022 at a public meeting. Ultimately, any changes to regulatory oversight would have to go through the legislative process during the 2023 General Assembly session. Mr. Hamid asked if JLARC intends to speak with the Board. Stefanie Papps, JLARC's Principal Legislative Analyst, Project Leader, said they are happy to speak with the Board. She said they can discuss it later.

Ms. Gee said that, after 31 years of state service, Deputy Director Frank Wagner will retire on July 31, 2022. She said that he spent 28 years in the General Assembly as a representative from the Virginia Beach area, and the last three years of his service have been at the Lottery. Mr. Wagner was instrumental in helping the Lottery get online sales approved by the legislature and winning oversight of casinos and sports betting. She thanked him for being an exceptional advocate for the Lottery.

Mr. Wagner said that it has been a pleasure to be a small part of such a great organization. He said that the Lottery has the most professional staff, and he was impressed from his first day. One of his greatest joys was attending events at public schools honoring teachers and students. Mr. Hamid thanked him for his service.

BOARD ISSUES

Audit Committee Report

Ms. Collins said that the Audit Committee met at 9 a.m. on July 20, 2022. Ms. Collins, Ms. Lawrence, Mrs. Martin, Ms. Gee and Ms. Whitney attended the meeting.

The Audit Committee approved the audit plan for FY23, which includes working on audits with a continued emphasis on information security.

The audit department follows up semiannually to determine the status of management actions to address audit reports. As of July 20, 2022, there were two open findings with corrective action dates in FY23.

Ms. Whitney confirmed the organizational independence of the department as required by the International Standards for the Professional Practice of Internal Auditing.

The committee plans to hold its next scheduled meeting on October 26, 2022, to review the results of the APA FY22 audit and progress on achieving the FY23 audit plan.

BOARD ISSUES (Continued)

Finance and Administration Department Update

Ms. Courtney provided preliminary results for FY22. She stated that the results are not final, nor have they been audited, but we are actively working to close the books. Total sales were \$3,752.4 million, \$493.4 million (15.1%) more than last year and \$1.3 million less than expected. Scratcher sales were \$1,325.1 million, \$23.0 million (1.8%) more than last year and \$70.1 million (6.9%) less than expected. Scratcher sales typically represent more than half of retail sales. Daily games sales typically represent about a third of retail sales but over 40% of profits. Daily games sales were not as strong as in FY21. Jackpot games in total sold about the same as FY21 and typically represent about 15% of retail sales and 15% of profits.

Instants (iLottery) sales were \$1,279.7 million, \$521.3 million (68.7%) more than last year and \$146.6 million (12.9%) more than expected.

Ms. Courtney reviewed FY22 sales versus the forecast and versus prior years. She also reviewed expense rates versus the prior year and versus the forecast. Prize expense was 71.3%, which was 4.2% more than last year (67.1%) and 0.6% less than expected (70.7%). Retailer compensation was 5.7%, which was 0.1% more than last year (5.6%) and as expected. Operating expenses were 4.2%, which was 0.3% less than last year (4.5%) and 0.4% less than expected (4.6%).

Ms. Courtney said Lottery Proceeds Fund transfers totaled \$843.4 million in FY22. This represented the expected profits included in the budget from sales that occurred in FY22 (\$776 million) plus the residual transfer (excess profits earned in FY21) above the expected FY21 budget. The auditors must complete their review of FY22 activity and certify the results by August 15. Our residual transfer for FY22 will become part of our estimated total transfers for FY23. Ms. Courtney does not anticipate the residual amount to be significant. Other contributions to the state budget from the Lottery are the Literary Fund, the Debt Setoff Fund and Virginia tax withholdings from prize winnings.

Ms. Courtney said that the areas now under her purview include finance, procurement, Customer Service Centers, Public Affairs and Community Relations, retailer licensing and internal audit. She shared several fourth-quarter key accomplishments for her department, one of which was the selection of the Thank a Teacher winners. Ms. Mullen provided a wrap-up of another successful Thank a Teacher campaign and shared a video of the winners. Lastly, Ms. Courtney shared several goals for the first quarter of FY23.

Chief Gallop asked if we expect the opening of the casinos to affect Lottery sales. Ms. Courtney said that we have looked at other jurisdictions, and JLARC also studied this in the past. The popular opinion is that it may have a one-time impact within a radius of the casino; then, the sales would go back to normal levels.

BOARD ISSUES (Continued)

Sales and Marketing Department Update

Mr. Wesley said that the areas now under his purview include sales, product, advertising, customer strategy and digital operations.

Mr. Wesley provided an update on promotional strategy. The strategy is to continually test a mix of promotions across a player's lifestyle to identify the most impactful offers. In the past, the Board approved marketing promotions each time they arose. Mr. Wesley is requesting budget approval for up to one-tenth of one percent of retail sales to be used for retail promotions. The Board previously gave blanket approval for iLottery promotions, so this is the only outlier. Mr. Hamid asked for the dollar amount of one-tenth of one percent of retail sales. Mr. Wesley said that it is approximately \$2 million. He also said that amount is consistent with past requests. Mr. Hamid asked Mr. Wesley to provide a follow-up later as to how much is being spent.

On motion duly made by Ms. Lawrence and seconded by Ms. Collins, the promotional funding for retail promotions was approved as presented.

Mr. Wesley shared several fourth-quarter key accomplishments for his department. Lastly, he shared several goals for the first quarter of FY23.

ITS and Operations Department Update

Mr. Russell said that the areas now under his purview include information technology, human resources, project management and security. He introduced Rob Pollard, who is the new Director of Information Technology Services.

Mr. Russell provided an update on the Lottery's Diversity, Equity and Inclusion program. He shared the demographics of the entire workforce. Opportunity exists in the Hispanic or Latino category. He also shared the demographics of the Lottery's leadership. He said that increases in diversity have occurred over the past two years.

Mr. Russell provided an update on Small, Women-owned, and Minority-owned Business (SWaM). He shared the Lottery's total SWaM spending through the third quarter of FY22 as reported by the Virginia Department of Small Business and Supplier Diversity (SBSD). He explained that the percentage varies substantially when our gaming-related spending is removed. With gaming-related spending removed, we far exceed our SWaM goal. He said that there are fewer than five vendors that can provide ticket printing. He also said that several internal policies were updated in FY22 that make the Lottery easier to do business with. Discussion ensued regarding the Board's thoughts on requiring vendors to use SWaM subcontractors. Mr. Russell

BOARD ISSUES (Continued)

said that we have assisted subcontractors in becoming a SWaM vendor. Mr. Hamid suggested that the Lottery look at its procurement practices and do some outreach (i.e., vendor fairs). He asked what steps can be taken short of legislation to influence decisions on SWaM vendors in regard to casinos. Ms. Dilworth said that statutorily we do not have that authority. Lastly, Mr. Russell said that a tab entitled Vendor Opportunities will be added to the Lottery's website in August 2022. It will contain all current open solicitations.

Mr. Russell shared several fourth-quarter key accomplishments for his department. Lastly, he shared several goals for the first quarter of FY23.

Gaming Compliance Department Update

Ms. Smith said that the areas under her purview include gaming licensing, operations, audit and responsible gaming.

Ms. Smith provided an update on sports betting. Since the April 27, 2022, Board meeting, two sports betting operators have been approved - VHL, VA LLC and Digital Gaming Corporation VA, LLC.

Ms. Smith provided a sports betting financial update through May 2022. The data is based on preliminary estimates. For the time period from January 2022 through May 2022, there have been \$2.1 billion in wagers made on the various platforms. The operators have given away approximately \$68 million in promotional play and paid just over \$13 million in taxes. Ms. Smith said that, since the inception of the program, there have been \$5.3 billion in wagers made on the various platforms. The operators have given away approximately \$190 million in promotional play and paid almost \$34 million in taxes.

Ms. Smith shared details of the market share by operator: FanDuel - 40.97%, Draft Kings - 21.17% and BetMGM - 19.70%; the rest is divided among the remainder of the operators. She also shared the promotions by operator. Total tax paid is \$13,335,774. Of that amount, \$13,002,380 million will go to the General Fund, and \$333,394 will go to the Problem Gambling and Treatment Support Fund. She also shared a breakdown of tax payments by operator. Lastly, she provided a breakdown of total wagers by sport.

Ms. Smith provided an update on the voluntary exclusion program. As of July 14, 2022, there are 323 individuals currently enrolled in the program. The majority selected the five-year exclusion.

BOARD ISSUES (Continued)

Ms. Smith provided an update on casinos. The following casino-related permits have been issued as of July 14, 2022:

Service Permits:

Gaming and non-gaming	957
Vendors	192

Supplier Permits:

Key Manager (Principal)	20
Manufacturers	18

Ms. Smith said that being a part of the Gaming Compliance team is the highlight of her career. She said that she has never worked with a better team. She provided an update on the gaming revenue for Hard Rock Bristol for the time period July 5 - 14, 2022. The revenue totals included two test days that were devoted to VIPs and “friends and family.” Total sales for those two days (\$100,000) were donated to charity. Almost \$700,000 in taxes was raised in one week.

Ms. Smith provided an update on Hard Rock Bristol’s community involvement. Hard Rock Bristol has identified 46 Virginia-based companies and 45 small, minority and women-owned businesses for potential business. Hard Rock Bristol has donated the gaming proceeds from the soft opening to the United Charities of Bristol.

Ms. Smith provided an update on Hard Rock’s senior leadership committee: five women, two Asian Americans, three African Americans and one Seminole Tribe member. She provided a diversity breakdown for the entire Hard Rock organization (24,566 people). She also shared a diversity breakdown for Hard Rock Bristol. She said the breakdown is in line with the demographics of the Bristol community.

Ms. Smith said that she and her team are meeting monthly with Rivers Casino Portsmouth to discuss items such as licensing, floor plans and the overall construction progress. Dealer school training begins on August 9, 2022. Monthly meetings also are being held with the Pamunkey Casino to discuss overall progress. They anticipate opening a temporary casino in March 2023. Monthly meetings also are being held with Caesars Danville. They anticipate opening in 2024.

PUBLIC COMMENT

None.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on October 26, 2022.

BOARD MEMBERS' OPEN DISCUSSION

Mr. Price recently saw a TV commercial for Rosie's Gaming Emporium. He said it appeared to be a casino. Ms. Smith said that Rosie's offers a different class of slot machines - historical horse racing versus the software in casinos.

CLOSED MEETING

Ms. Collins made the following motion, which was seconded by Ms. Lawrence.

In accordance with the provisions of Section 2.2-3712 of the Code of Virginia, I move that the Board convene a closed meeting for the purpose of discussion, consideration or review of:

Pursuant to subdivision A 17 of Section 2.2-3711, matters relating to specific lottery game design, prize structure and odds of winning; and matters related to proprietary lottery game information excluded from disclosure under subdivision 11 of Section 2.2-3705.7.

RECONVENED MEETING

Following its closed meeting, the Board reconvened in open session. Ms. Lawrence read the following certification for the closed meeting:

WHEREAS, the Virginia Lottery Board has convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and

WHEREAS, Section 2.2-3712 of the Code of Virginia requires a certification by this Board that such closed meeting was conducted in conformity with Virginia law and the motion by which the closed meeting was convened;

NOW, THEREFORE, BE IT RESOLVED that the Virginia Lottery Board certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed, or considered by the Board.

By roll call, all members in the room voted in the affirmative that the certification was accurate as read.

RECONVENED MEETING (Continued)

On motion duly made by Mrs. Martin and seconded by Ms. Collins, the Board approved the prize structure ranges for the scratch games, Print 'n Play and instants as presented in the closed meeting.

On motion duly made by Mrs. Martin and seconded by Chief Gallop, the Board approved Virginia's New Year's Millionaire Raffle as presented in the closed meeting.

On motion duly made by Mrs. Martin and seconded by Mr. Powell, the Board approved \$100K New Year Raffle - online only as presented in the closed meeting.

ADJOURNMENT

There being no further business to come before the Board, the chairman declared the meeting adjourned.

Kelly T. Gee, Secretary

Ferhan Hamid, Chairman