

VIRGINIA LOTTERY
Board Meeting
July 12, 2023

The Virginia Lottery Board met on July 12, 2023, 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/i0BmP8FwM8I>

MEMBERS PRESENT: Ferhan Hamid, Chairman
Cynthia Lawrence, Vice Chairman
Vonda Collins
Jonathan Comer
Orrin Gallop
Scott Price
Adam Tolbert

STAFF PRESENT: Kelly T. Gee, Executive Director
Lee Jackson, 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
Robert Fontaine, Deputy General Counsel for Gaming
Jennifer Mullen, Director of Communications and Customer
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 Chief Gallop, the minutes from the regular meeting held on April 26, 2023, were approved as distributed.

DIRECTOR'S REPORT

Ms. Gee shared some of the Lottery's accomplishments for FY23. The Lottery set several records, including all-time sales records for CASH POP, raffle, Mega Millions, Powerball and instants (iLottery). The unofficial year-end result is about 23% sales growth over last year. She

DIRECTOR'S REPORT (Continued)

said that retail sales were up less than 1% year-over-year. Most of the growth in FY23 was from online sales. Online purchases accounted for almost 45% of total Lottery sales. Ms. Gee said that we must home in on retail best practices in the coming year to see growth on the traditional side.

Ms. Gee said that we were focused on assisting in the successful opening of Virginia's first casinos. Forty-two new employees were hired in FY23, and 25 of them were in the Gaming Compliance department. Recruiting and training staff took considerable time and effort. Sports betting saw over \$5 billion in wagers.

Ms. Gee said that, for the first time in nearly 35 years, Lottery sales will exceed \$4.5 billion. She said that it took 13 years to sell the first \$1 billion in Lottery products. She also said that we anticipate generating over \$850 million in FY23 for Virginia's K-12 public schools.

Ms. Gee said that casinos collectively generated almost \$46 million in tax revenue. A key beneficiary of those taxes is the host localities. About one-third of casino taxes, or around \$15 million this fiscal year, have gone to support the local economy. The largest recipient of casino tax revenues is the School Construction Fund, so casino tax dollars also will be used to support K-12 public education by helping with infrastructure costs.

Ms. Gee shared the FY24 strategy map. The map illustrates that we are one agency that has two distinct responsibilities - the Lottery business and a gaming-compliance regulatory program. At the heart of all of it is our employees. For the Lottery business, the focus in FY24 is on building stronger relationships with our players and driving same-store sales growth at retail locations. On the compliance side, the Gaming Compliance department will go through the first-ever round of sports betting permit renewals, and Bristol will move into their permanent casino facility. For our employees, we will prioritize professional development opportunities and look for new ways to engage our workforce. Ms. Gee said that we recognize that we will have challenges and complex situations to navigate in the coming year. She also said that she feels confident in the team's ability to meet the goals.

Ms. Mullen said that the National Council on Problem Gambling administers the Responsible Gambling Verification program, the goal of which is to set industry standards for lotteries to plan and implement effective responsible gaming practices in all aspects of operations. She said that the Lottery first earned recognition at the Planning Level and then the next level - Implementation. The goal was to reach the Sustaining Level. Ms. Mullen was pleased to announce that we have officially been granted that status, and we are just one of three lotteries to do so. She said that the Lottery remains committed to continuing to enhance our efforts in support of this initiative.

Ms. Mullen provided an update on the Thank a Teacher campaign. She shared a video highlighting four randomly selected teachers who won a Virginia-themed vacation, gift cards and

DIRECTOR'S REPORT (Continued)

supplies for their school. She said that we received 700 art contest entries, helped distribute nearly 70,000 thank you notes, had 90 Lottery employees participate by delivering some of those notes, and had 250 schools that received cards and had teachers participate in some way. She thanked our partners at IGT, NPi and The Supply Room.

Ms. Gee provided a recap and update on the Richmond casino. The initial legislation legalizing casinos outlined the criteria for an eligible host city. Richmond met the criteria. The city-wide voter referendum to allow the casino failed in November 2020. It was close - 51% said no, 48% said yes. She said that the law does not limit a city from holding a second voter referendum, so, in response to local leaders starting to coalesce efforts again, legislators wrote in the budget that Richmond was not allowed to hold another casino referendum in 2022. Since then, a push to allow a casino in Petersburg entered the conversation. Legislators have been faced with whether to allow Richmond, Petersburg or both to pursue a casino. During the 2023 session, the General Assembly killed legislation allowing Petersburg to host a casino, but they were silent on whether Richmond gets to try again. Ms. Gee said that, because the budget language only prevented Richmond from trying again in 2022 and the law does not limit how many times an eligible host city can hold a casino referendum, Richmond is again in a place to seek pre-certification from the Lottery. Pre-certification is a preliminary review by agency staff of the preferred operator to ensure it is financially viable to meet the \$300 million investment required by law. If approved, the host city can seek a voter referendum during the fall general election. Ms. Gee said that we are in receipt of Richmond's pre-certification materials and are reviewing the contents now. We anticipate department action in the coming weeks.

Ms. Gee said that Rob Wesley is leaving the Lottery. She said that he has an exciting opportunity to stay in the lottery industry but move to the vendor side. Mr. Wesley has worked at the Lottery for 25 years, and, during that time, he held several different positions. He started as an employee in the IT department. His talent was quickly recognized, and he became the Director of Sales, started our Digital department a few years ago and, for the past year, has been running both the Sales and Marketing departments. Ms. Gee and Mr. Hamid wished him luck in the future.

BOARD ISSUES

Financial Update

Ms. Courtney provided preliminary results for FY23. She stated that the results are not final, nor have they been audited, but we are actively working to close the books.

Ms. Courtney said that total sales were a record \$4,611.6 million. She said that there were three separate jackpot runs in Mega Millions and Powerball with jackpots that crossed over \$1 billion. Mega Millions sales were almost twice as much as last year. Ms. Courtney said that we were faced with challenges this year with increased competition. We focused on a new way to plan and deliver products, and we also introduced the first \$50 Scratcher. We expected a softening of

BOARD ISSUES (Continued)

sales in Pick 3 and Pick 4, but the softening was even more than expected. Instants (iLottery) sales were \$2,062.1 million. The success of instants (iLottery) was partly attributed to the introduction of a new mobile app and a convenience feature for registered players to cash their retail tickets into the player's online player wallet. We are focusing on player experience and convenience.

Ms. Courtney reviewed FY23 sales versus the forecast and versus prior years. She also reviewed expense rates versus the prior year and versus the forecast. Prize expense was 74.1%, which was 2.8% more than last year (71.3%). Retailer compensation was 5.7%. Operating expenses were 4.2%.

Ms. Courtney said Lottery Proceeds Fund transfers totaled \$784.7 million in FY23. This represented the expected profits included in the budget from sales that occurred in FY23 plus the residual transfer (excess profits earned in FY22) above the expected FY22 budget. The significant residual transfer for FY23 will become part of our estimated total transfers for FY24.

Ms. Courtney provided an update on taxes from sports betting. Total taxes for FY23 were \$68,833,816. Effective in FY23, operators can deduct only promotional credits that occur in the first 12 months of operation.

Ms. Courtney provided an update on taxes from casinos. The statutory tax rate on casino gaming is a graduated rate of 18% on the first \$200 million of annual adjusted gaming revenue. The next \$200 million is taxed at 23%. Approximately one-third of the tax (6% of adjusted gaming revenue) goes to the host locality, 0.8% of the tax goes to the Problem Gambling Treatment and Support Fund, and 0.2% of the tax goes to the Family and Children's Trust Fund. The remaining tax revenue goes to the Gaming Proceeds Fund to be appropriated for public school construction, renovations or upgrades.

Ms. Courtney said that Hard Rock Bristol (HR Bristol) opened in July 2022, Rivers Casino Portsmouth opened in January 2023, and Caesars Virginia (Danville) opened in May 2023.

Ms. Courtney said that the 2019 Joint Legislative Audit and Review Commission (JLARC) gaming study estimated \$130 million in annual net gaming revenue from a Bristol casino at maturity. In its first 11 months of operation, HR Bristol's taxable revenue totaled \$130 million, and its FY23 taxes are \$25,969,910.

Ms. Courtney said that the 2019 JLARC gaming study estimated \$167 million in annual net gaming revenue from a Portsmouth casino at maturity. In its first partial year of operation, Rivers Casino Portsmouth's taxable revenue totaled \$99 million, and its FY23 taxes are \$17,870,011.

BOARD ISSUES (Continued)

Ms. Courtney said that the 2019 JLARC gaming study estimated \$190 million in annual net gaming revenue from a Danville casino at maturity. In its first month of operation, Danville's taxes are \$2,146,565.

Gaming Compliance Update

Ms. Smith provided an update on sports betting. She shared the list of approved operators. Since the April 26, 2023, Board meeting, one additional operator went live: Betr VA, LLC.

Ms. Smith provided the market share and promotions by operator. She also provided a breakdown of total wagers by sport.

Ms. Smith provided an update on the Voluntary Exclusion program. As of July 1, 2023, there are 717 individuals currently enrolled in the program. The majority selected the five-year exclusion. Nineteen people have selected the lifetime exclusion. She also provided a breakdown by age. Most of the enrollees are between the ages of 31 and 40.

Ms. Smith provided an update on casinos. The following casino-related permits have been issued as of July 4, 2023:

Service Permits:

Gaming and non-gaming	3,850
Vendors	438

Supplier Permits:

Key Manager	92
Manufacturers	20

Ms. Smith said that HR Bristol opened for business on July 8, 2022. She said that her team is working closely with HR Bristol to prepare for the opening of the permanent casino in the summer of 2024.

Ms. Smith said that Rivers Casino Portsmouth opened for business on January 23, 2023. She said that her team continues to work with Rivers on day-to-day operations. She also said that a technical field representative was recently hired to assist with the slot floor.

BOARD ISSUES (Continued)

Ms. Smith said that Caesars Danville opened for business on May 15, 2023. She said that her team is working with Caesars to add additional slot machines. Her team also is continuing to work with Caesars on the permanent facility.

Ms. Smith said that we continue to monitor the activity of Headwaters Resort and Casino.

Ms. Allie Evangelista, President of HR Bristol, provided the number of team members, day one team members, transfers, promotions and open positions. She also provided the total amount of taxes paid to the Commonwealth of Virginia, charitable giving to local nonprofit organizations, wages paid to team members, wage adjustments and annual merit increases. Ms. Evangelista provided the number of Unity Card sign-ups, slots and table games jackpots paid, total attendance and the number of local hotel room nights purchased. She provided statistics on food and beverage sales. She also provided an overview of community engagement. Ms. Evangelista said that every member of their executive team is on a local community board. She shared a list of community events that they have participated in as well as upcoming events and sponsorships. In closing, she gave an update on the permanent facility.

Mr. Roy Corby, General Manager of Rivers Casino Portsmouth, provided an overview of their first six months. He shared the total gaming revenue produced, food and beverage revenue and the amount of taxes (state, local, real estate, personal property and local business) generated. He also shared building permit and business license costs. Mr. Corby provided a breakdown of guest origination. He also provided the total amount of vendor and supplier expenditures including expenditures to Women & Minority-Owned businesses and Portsmouth-based businesses.

He said that Rivers Casino has created 1,300 jobs. Mr. Corby provided an overview of their volunteerism, board service, donation drives, in-kind contributions and corporate giving. Lastly, he said that they welcomed their one-millionth customer on June 30, 2023.

Mr. Chris Albrecht, Senior Vice President and General Manager of Caesars Virginia, said that Caesars Virginia successfully opened on May 15, 2023. He thanked Ms. Smith and her team for their support. He said that they are adding additional slot machines, electronic table games and sports betting kiosks based on initial demand. He also said that the temporary facility has had approximately 200,000 visitors. Mr. Albrecht said that Caesars is utilizing local hotels and restaurants to accommodate guests. They also are the presenting sponsor of the local minor league baseball team and a local concert series. Lastly, he provided highlights of hiring, training and community efforts.

Ms. Lawrence thanked the three presenters for their thorough reports and transparency.

BOARD ISSUES (Continued)

Waiver

Mr. Fontaine said that 11VAC5-90-30 allows the Board to authorize a request for a waiver of a regulation. Rivers Portsmouth Gaming, LLC has asked the Board to permit a waiver of 11VAC5-90-110.U.2.a (4) and (5) (player's phone number and active email address as a requirement to establish a player account). Mr. Fontaine said that Rivers is finding that some people do not want to share their phone number or email address to establish a player account. He said that we have discovered that it is an unusual requirement from an industry-wide perspective. It is more applicable for sports betting. He also said that this request is balanced by having equally effective methods to identify players. Rivers would comply with all other regulatory requirements for identifying the player. Consistent with the Board's decision on April 26, 2023, we would recognize the previously delegated authority of staff to approve, when appropriate, a subsequent similar request from another facility operator and report any such subsequent approval to the Board.

Ms. Collins asked what information is considered a unique identifier, so a person can conveniently set up an account if they are concerned about sharing their personal information. Ms. Smith said that critical information is obtained when a player signs up and presents a valid driver's license. A player's account card cannot be obtained without a valid driver's license. She also said that email addresses and phone numbers are not that important. Ms. Lawrence asked how many people have had an issue. Mr. Fontaine did not know, but he said that it was enough for Rivers to make this request. Ms. Collins asked if the Board must act on this today or if there is time to think about it. Mr. Hamid said that he thinks approving the request today is important, and it will bring us in-line with other states.

On motion duly made by Mr. Tolbert and seconded by Mr. Comer, pursuant to 11VAC5-30, Mr. Hamid, Mr. Comer, Chief Gallop, Mr. Price and Mr. Tolbert voted yes to approve the request of Rivers Portsmouth Gaming, LLC to waive Lottery regulation 11VAC5-90-110.U.2.a (4) and (5), which concerns requiring a player's phone number and active email address in order to establish a player account. Ms. Collins and Ms. Lawrence voted no. Ms. Lawrence said that her position reflects her support of the Lottery's Sustaining Level in the Responsible Gambling Verification program.

PUBLIC COMMENT

None.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on October 25, 2023.

BOARD MEMBERS' OPEN DISCUSSION

None.

CLOSED MEETING

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

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. Mr. Price 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.

On motion duly made by Ms. Lawrence and seconded by Mr. Price, the Board approved, as presented in the closed meeting, the prize structure for Mega Money Multiplier - \$10 Scratcher (Game #2245).

ADJOURNMENT

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

Tony R. Russell, Secretary

Ferhan Hamid, Chairman