

VIRGINIA LOTTERY
Board Meeting
October 30, 2024

The Virginia Lottery Board met on October 30, 2024, 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/DSLEd31n0YY?feature=shared>

MEMBERS PRESENT: Ferhan Hamid, Chairman
Cynthia Lawrence, Vice Chairwoman
Jonathan Comer
Scott Price
Adam Tolbert
Sherry Williams

MEMBER ABSENT: Orrin Gallop

STAFF PRESENT: Khalid R. Jones, Executive Director
Amy Dilworth, General Counsel
Deborah Courtney, Deputy Executive Director of Finance and
Administration
Ray Dunkle, Deputy Executive Director of Gaming Compliance
Tony Russell, Deputy Executive Director of ITS and Operations
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.

GAMING COMPLIANCE COMMITTEE REPORT

Mr. Comer provided the report in Chief Gallop's absence. He said that the Gaming Compliance Committee met on October 2, 2024. Discussion topics included an update on the Norfolk and Portsmouth casinos as well as an update on the Joint Subcommittee to Study the Feasibility of Establishing the Virginia Gaming Commission. Updates on sports betting and casino sanctions were provided during the closed portion of the meeting.

On motion duly made by Mr. Price and seconded by Ms. Williams, the minutes from the Gaming Compliance Committee meetings held on June 18, 2024, and October 2, 2024, were approved as recommended by the committee.

GAMING COMPLIANCE COMMITTEE REPORT (Continued)

On motion duly made by Mr. Price and seconded by Mr. Comer, the revised Gaming Compliance Committee charter was approved as recommended by the committee.

OPERATIONS COMMITTEE REPORT

Ms. Lawrence said that the Operations Committee met on October 2, 2024. Discussion topics included retailer compensation and problem gambling. Recommended revisions to the Procurement Manual and procedures also were presented.

Ms. Lawrence said that Chris Whitney, Internal Audit Manager, provided an overview of internal audit activities. As part of her update, Ms. Whitney shared the 2025 Internal Audit Plan, the status of open audit issues and a general overview of an update to the Institute of Internal Auditors Standards that will necessitate an update to the Internal Audit Charter. The new standards take effect in January 2025, so the recommended updates to the charter will be presented at the next Operations Committee meeting. Upon the committee's recommendation, the updated charter will be recommended for approval at a subsequent Board meeting. Ms. Whitney confirmed the organizational independence of the department as required by the Institute of Internal Auditors Standards.

On motion duly made by Ms. Lawrence and seconded by Mr. Price, the 2025 Internal Audit Plan was approved as recommended by the committee.

On motion duly made by Ms. Lawrence and seconded by Mr. Price, the minutes from the Operations Committee meeting held on June 18, 2024, were approved as recommended by the committee.

On motion duly made by Ms. Lawrence and seconded by Mr. Comer, the minutes from the Operations Committee meeting held on October 2, 2024, were approved as recommended by the committee.

On motion duly made by Ms. Lawrence and seconded by Ms. Williams, the revised Operations Committee charter was approved as recommended by the committee.

MINUTES OF LAST MEETING

On motion duly made by Ms. Lawrence and seconded by Mr. Price, the minutes from the regular Board meeting held on August 7, 2024, were approved as distributed.

DIRECTOR'S REPORT

Mr. Jones said that FY25 sales are \$1,352,357 to date, which is 5.1% higher than last year at this time. He said that Scratcher sales are up significantly. iLottery is outperforming last year, but the growth is slowing. National jackpot game sales are down significantly, due to lower jackpots compared to the first quarter of last year.

Mr. Jones said that the Lottery's top issues and areas of focus are social establishments, retailer compensation, jackpot variances, increased game-type variety on the iLottery platform, and sports sponsorships.

Mr. Jones said that there are several employees that have more than 30 years of service at the Lottery, and they will be retiring soon. He said that he feels confident that we have a strong bench. He also said that we continue to bring in new people with strong talent that can balance the experience that we are losing. Mr. Jones said that he recently attended a NASPL conference, G2E and the World Lottery Summit.

Mr. Jones provided a brief overview of casinos and sports betting.

Mr. Jones said that he provided an update on the status of the Joint Subcommittee to Study the Feasibility of Establishing the Virginia Gaming Commission at the October 2, 2024, Gaming Compliance Committee meeting. The discussions are ongoing at the legislative level, and we are awaiting decisions. He said that we also are awaiting the outcome of the skill games discussion. Mr. Jones described a new sports betting category, betting exchange, which is essentially peer-to-peer betting. Lastly, he provided an update on the Lottery's responsible gaming efforts.

Mr. Hamid asked if the betting exchange category would require new regulations. Mr. Jones said that it would require an update to the regulations. Mr. Hamid asked about the social establishment project. Mr. Jones said that we will provide further information on this project at a future Lottery Board committee meeting.

PROCUREMENT RESEARCH AND RECOMMENDATIONS DISCUSSION

Mr. Jones said that, in May 2024, the Board asked the Lottery to undertake a study related to its procurement processes. He said that we researched best practices among other Virginia agencies and state lotteries. The following recommendations were made at the October 2, 2024, Lottery Board Operations Committee meeting:

- Section M(1) on Page 21 of the Procurement Manual to be amended to say the following (recommended changes in *bold italics*):

PROCUREMENT RESEARCH AND RECOMMENDATIONS DISCUSSION
(Continued)

“The Procurement Team will post the Request for Proposal for no less than 10 calendar days on valottery.com and eVA.virginia.gov websites (day one being the first calendar day **after** it is posted and day 10 being the earliest day it is due) **and give concurrent notice of such posting to the Lottery Board**. Proposals cannot be opened and unsealed until the due date and time.”

- The following language to be added in the “Policy” Section on Page 1 of the Procurement Policy:

“The Virginia Lottery establishes annual goals for small, Women-owned and Minority-owned (SWaM) Business participation and reports activity to the Virginia Department of Small Business and Supplier Diversity. The Virginia Lottery Executive Director will provide annual reporting to the Virginia Lottery Board related to SWaM goals and activity for each fiscal year, not later than the date of the 2nd meeting of the Board after the beginning of the calendar year.”

Mr. Hamid thanked Mr. Jones for the hard work on the procurement issue. Mr. Hamid also said that he thinks important changes were made.

On motion duly made by Ms. Williams and seconded by Mr. Price, pursuant to 11 VAC 5-20-200, the proposed changes to the Virginia Lottery’s Procurement Manual and Procurement Policy were approved as presented.

BOARD ISSUES

Financial Report

Ms. Courtney provided preliminary results for the first quarter of FY25. She said that total sales were a record \$1,352.4 million, which is \$50.9 million (3.9%) more than last year at this time. Scratcher sales were \$325.3 million, which is \$36.9 million (12.8%) more than last year at this time. Ms. Courtney also provided updates on Mega Millions and Powerball. She said that e-Instants and iRaffle sales were \$741.2 million, which is \$77.6 million (11.7%) more than last year at this time.

Ms. Courtney reviewed sales versus prior years. She also reviewed expense rates versus the prior year. Prize expense was 77.4%, which was 1.6% more than last year (75.8%). Retailer compensation was 5.6%, which was 0.1% more than last year (5.5%). Operating expenses were 4.0%, which was 0.4% more than last year (3.6%).

Ms. Courtney provided an update on the first-quarter profits.

BOARD ISSUES (Continued)

Ms. Courtney provided an update on taxes from sports betting. She also provided an update on taxes from casinos. 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, for the first \$200 million in taxable revenues each calendar year. The remaining tax revenue goes to the Gaming Proceeds Fund to be appropriated for public-school construction, renovations or upgrades.

Ms. Courtney provided the tax breakdown for Hard Rock Bristol (HR Bristol), Rivers Casino Portsmouth and Caesars Virginia (Danville).

Gaming Compliance Update

Mr. Dunkle said that there are currently 16 approved operators, but four operators are nonoperational. VHL VA, LLC (aka 888) closed on June 3, 2024, and will not renew. Digital Gaming Corporation VA, LLC closed on July 31, 2024, and will not renew. PlayLive Virginia LLC (aka Superbook) closed on July 19, 2024. DC Sports Facilities Entertainment, LLC (d/b/a Betfred) closed July 31, 2024. PlayLive Virginia LLC and DC Sports Facilities Entertainment, LLC may explore engaging another supplier platform provider. Unibet Interactive Inc.'s permit expired in April 2024.

Mr. Dunkle provided an update on sports betting renewals for permit holders. He also provided an update on supplier renewals and vendor renewals.

Mr. Dunkle provided the market share by operator. He also provided a breakdown of total wagers by sport.

Mr. Dunkle provided an update on the Voluntary Exclusion Program. As of October 15, 2024, 1,468 individuals are enrolled in the program. He provided the number of active (1,305), inactive (163) and those who have reapplied (15). Mr. Dunkle also provided a breakdown of enrollees by gender and by age.

Mr. Dunkle provided an update on casinos. The following casino-related permits have been issued as of September 30, 2024:

BOARD ISSUES (Continued)

Service Permits:

Gaming and non-gaming	4,008
Vendors	750

Supplier Permits:

Key Manager	87
Manufacturer	22
Contractor	3

Mr. Dunkle provided an update on HR Bristol. He said that, during the last quarter, his department approved two scheduled projects, which involved 70 games. He said that HR Bristol is actively installing slot machines on the permanent casino floor. Mr. Dunkle said that the permanent casino is slated to open on November 14, 2024.

Mr. Dunkle provided an update on Rivers Casino Portsmouth (Rivers). He said that, during the last quarter, his department approved 17 scheduled projects, which involved 1,095 slot machines and 11 table game moves. Rivers configured five zones on their gaming floor. He also said that his team is continuing to work with Rivers on day-to-day operations.

Mr. Dunkle provided an update on Caesars Virginia (Danville). He said that, during the last quarter, his department approved seven scheduled projects, which involved 84 slot machines. Caesars Danville is actively receiving and installing new slot machines. The permanent casino opening date will be announced soon.

Mr. Dunkle said that the City of Norfolk has approved the casino plans. The structure of Golden Eagle Consulting II, LLC (GEC) has changed, but GEC is the preferred operator. The Lottery is currently receiving licensing applications. The groundbreaking ceremony is being held on October 30, 2024.

Mr. Dunkle said that, at the August 7, 2024, Board meeting, the Board approved a waiver to 11VAC5-90-180.B(3), which relates to the maximum number of table games a floor person may supervise. The Board delegated to Lottery staff the authority to approve such a request from any other licensed casino-gaming establishment in Virginia with Lottery staff to report any approvals to the Board at its next scheduled meeting. Mr. Dunkle said that Caesars Danville submitted a waiver request for 11VAC5-90-180.B(3), and the waiver request was approved by Lottery staff.

BOARD ISSUES (Continued)

Appointment of Nominating Committee

Lottery regulations require the Board to elect a chairman and vice chairman at the first meeting of the year. Mr. Hamid appointed Chief Gallop and Mr. Comer to serve on the Nominating Committee. They will develop a slate of officers and committee members to be presented to the Board at the January 2025 meeting.

2025 Board Meeting Dates (proposed)

Mr. Hamid asked the members if they had any conflicts with the proposed Board meeting dates for 2025. Hearing none, he said that the next Board meeting would be held on January 8, 2025.

PUBLIC COMMENT

Mr. Hamid provided the public comment guidelines. Noah Goodall with Open Book Research provided public comment. He provided the Board members with a handout entitled “Virginia Lottery’s iLottery Instant Games - Explosive Growth at a Price.” Mr. Goodall shared his opinion that the iLottery instants app design and marketing is putting Virginians at risk. He said that there are massive single bets (\$50) that are five times higher than the maximum bet at Rosie’s in Richmond. He also said that there is no way to refuse notifications. Mr. Goodall said that all deposits must be gambled, and only winnings can be withdrawn. He also said that the monthly deposit limits are extremely high. He offered near-term solutions and long-term strategies.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on January 8, 2025, in Richmond.

BOARD MEMBERS’ OPEN DISCUSSION

Mr. Hamid provided an update on the recent G2E conference that he attended. He said that the conference focused on casinos, sports betting and emerging trends such as iGaming. On the casino side, his takeaway was that land-based casinos continue to grow both nationally and internationally. Mr. Hamid said that one of the main conference topics was responsible gaming. He said that a recent report stated that, beyond financial losses, gamblers can lose their jobs, relationships or health. Mr. Hamid said that he is pleased that the Board continues to focus on responsible gaming. Another main topic at the conference was cybersecurity. Mr. Hamid said that he also is pleased that the Board has been addressing that topic. However, he is still concerned about this issue, and the Board should continue to be vigilant in that area. Mr. Hamid said that another conference topic was the failure of states and the federal government to sufficiently address the unlicensed black-market, online gaming establishments including illegal sports books. He said that, though the Lottery does not deal with enforcement, enforcement is a key component of stemming the tide of illegal gaming. The illegal black market hurts licensed

BOARD MEMBERS' OPEN DISCUSSION (Continued)

operators that the Board has licensed. He also said that the Lottery should continue to engage with the Virginia State Police and other law enforcement agencies, including prosecutors, across Virginia to enforce the laws that are already in place.

Ms. Lawrence said that she appreciated his insights and comments and that she concurs with his observations.

Mr. Tolbert thanked the staff for their hard work in carrying out the Lottery's mission.

CLOSED MEETING

Mr. Comer 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:

discussion of records protected under subdivision 2 of Section 2.2-3705.7, prepared for the Office of the Governor for deliberative use.

RECONVENED MEETING

Following its closed meeting, the Board reconvened in open session. Ms. Williams 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 Mr. Tolbert and seconded by Mr. Comer, the Board accepted, as presented in the closed meeting, the proposed updates for the revenue projections and transfers to the Lottery Proceeds Fund for Fiscal Year 2025 and Fiscal Year 2026, and for each year of the 2026-2028 biennium. The projections will be forwarded to the governor.

ADJOURNMENT

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

Khalid R. Jones, Secretary

Ferhan Hamid, Chairman