

VIRGINIA LOTTERY
Board Meeting
January 25, 2023

The Virginia Lottery Board met on January 25, 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/xrlcguGMrvA>

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

STAFF PRESENT: Kelly T. Gee, Executive 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.

REPORT OF NOMINATING COMMITTEE

The nominating committee, Ms. Collins and Mr. Powell, met on January 23, 2023, and propose the following slate of officers and committee members for calendar year 2023:

Board:

| | |
|---------------|------------------|
| Chairman | Ferhan Hamid |
| Vice Chairman | Cynthia Lawrence |

Audit Committee:

| | |
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| Chairman | Vonda Collins |
| Member | Cynthia Lawrence |
| Member | Orrin Gallop |

ELECTION OF OFFICERS

Mr. Hamid opened the floor for further nominations. There were none. On motion duly made by Mr. Price and seconded by Mr. Powell, the members of the Board unanimously elected the slate of officers and committee members for calendar year 2023 as presented.

Mr. Hamid presided over the remainder of the meeting.

AUDIT COMMITTEE REPORT

Ms. Collins said that the Audit Committee met at 9 a.m. on January 25, 2023. Ms. Collins, Ms. Lawrence, Ms. Gee and Ms. Whitney, Internal Audit Manager, attended the meeting.

The Auditor of Public Accounts issued the FY22 Report on Internal Controls. There were four internal control findings noted. The committee discussed the findings and the Lottery's responses. One item has been completed, and the remaining items are in progress. All corrections should be completed by May 2023.

The Lottery's Internal Audit Department follows up with responsible persons to determine the status of management actions to address audit reports. As of January 25, 2023, there were three open findings.

Ms. Whitney provided a report on Internal Audit's progress in completing the audit plan for FY23.

In accordance with the International Professional Practices Framework for Internal Auditors, Internal Audit conducted a quality self-assessment of the internal audit activity, and the self-assessment was subsequently reviewed by an independent validator. The Internal Audit Department received the highest rating; that rating is Generally Conforms.

The committee will hold its next scheduled meeting on July 12, 2023.

Discussion ensued regarding having the Director of Casino Audit and the Director of Gaming Audit attend a future Audit Committee meeting.

MINUTES OF PREVIOUS MEETINGS

On motion duly made by Ms. Lawrence and seconded by Mr. Powell, the minutes from the regular meeting held on October 26, 2022, and the special meeting held on November 16, 2022, were approved as distributed.

DIRECTOR'S REPORT

Ms. Gee congratulated Mr. Hamid on his reelection as chairman of the Board.

Ms. Gee acknowledged the recent service milestones for the following employees: Rob Pollard - 10 years of Lottery service, Jennifer Mullen - 20 years of Lottery service, Beth Smith - 30 years of Lottery service and Deborah Courtney - 35 years of state service. Mr. Hamid acknowledged Ms. Gee's 10 years of state service.

Ms. Gee said that total sales are up more than 16% over last year at this time. This increase has been driven by two jackpots that each exceeded \$1 billion in a six-month period. She said that the sales increase also was driven by exceptional iLottery instant-games performance. There was more than 50% year-over-year growth in this product category alone. Without the unexpected jackpot runs and growth in online sales, our business would be relatively flat in year-over-year growth. Ms. Gee said that some of that is attributable to the direct competition we are experiencing from the thousands of skill machines in the same places where we sell our products. The lawsuit about whether the skill machines can be banned has been continued until the spring of 2023. Until then, the machines are unregulated and untaxed.

Ms. Gee said that, regardless of the outcome of the lawsuit, we will be as innovative and agile as ever. Two new features will be launched for players. Players will be able to cash winning tickets in the Lottery mobile app. They also will be able to withdraw winnings from their account by creating a digital voucher with a barcode that can be scanned directly from their phone at any Lottery retailer. Virginia is one of the first lotteries to offer these features.

Ms. Gee said that the latest audited activity for sports betting is through November 2022. For the first half of the fiscal year, over \$2 billion has been wagered on sporting events. Sports betting is a high-volume business, and a lot goes back to players in winnings. Operators only hold about 10% of gross wagers after paying winners. Virginia statute allows certain deductions from taxable revenue. For example, permit holders can deduct what they pay in federal excise taxes, and, for the first 12 months of operation, they can deduct from taxable revenue all the free bets they utilize as a player-acquisition tool. After the first 12 months of operation, free bets are considered sales and calculated in their adjusted gross revenue, which is taxed at 15%. To date, roughly \$200 million in adjusted gross revenue receipts have been taxed.

Ms. Gee said that tax collections, which predominately go to the General Fund, have been slightly over \$31 million for the fiscal year to date. She said that, with some high-wagering-activity sporting events on the horizon, we estimate that we are on track to collect about \$61 million in taxes this fiscal year.

Ms. Gee said that Rush Street Gaming celebrated the grand opening of its casino in Portsmouth on January 23, 2023. Mr. Powell attended with Ms. Gee and the Gaming Compliance team. He said that local officials and business owners called the casino an "economic win" that will

DIRECTOR'S REPORT (Continued)

improve their community. Ms. Gee thanked Ms. Smith and her team for working nights, weekends and holidays on this project. Discussion ensued about the fact that smoking is permitted in the casino. Ms. Smith said that smoking is not a regulatory issue.

Ms. Gee said that the 2023 General Assembly session commenced on January 11, 2023. She said that we will track key legislation that impacts our agency or Lottery business. Legislation was filed to increase the retail sales commission. Ms. Gee reminded the Board that the Board has the authority to approve retail sales commission, and it has been set at 5% since the Lottery's inception. The legislation would require that the retail sales commission be no less than 6% and include a 1% cashing bonus. Retail sales are projected to total \$2.5 billion annually, so the additional 1% sales commission equates to a reduction of \$25 million in Lottery profits. She said that our 5,300 retailers are our partners, and we are deeply invested in our relationship with them. She said that we will continue the conversation about opportunities to strengthen that partnership.

Ms. Gee said that several pieces of legislation have been introduced to continue the discussion on gaming oversight regulation. Legislators have introduced bills that largely follow the Joint Legislative Audit and Review Commission (JLARC) recommendations that were published and presented on October 17, 2022. The legislation would place oversight of charitable gaming and historical horse racing machines with the Lottery. She said that legislation has been filed to create another study about whether a new, separate executive branch agency would be best equipped to handle all gaming regulations; that would leave the Lottery to remain just a business that sells lottery games.

Ms. Gee said that legislation has been filed to resume some regulatory oversight of skill machines. Virginia Alcoholic Beverage Control Authority (ABC) would handle oversight. A \$1,200 fee per machine would be imposed with the money generated going to different beneficiaries such as the host locality, various law enforcement agencies to assist with enforcement, and the General Fund. She said that the number of machines would be capped at five machines in a retail store, 10 in a truck stop and approximately 10,000 statewide.

Ms. Gee said that legislation has been filed to regulate video gaming terminals. She said that video gaming terminals are essentially slot machines at retail locations. The legislation requires that the Lottery handle licensing and regulation of the machines.

Ms. Gee said that we also will track legislation that will impact the entities we regulate. Proposed legislation would restore the deductibility of sports betting promotions from operators' taxable revenue but caps the amount deductible to a percentage of the operator's total wagers.

Ms. Gee said that legislation was filed that would allow Petersburg to pursue a casino. Separately, legislation was filed that would allow Fairfax County to pursue a casino. There are

DIRECTOR'S REPORT (Continued)

also two problem gambling initiatives: (1) establishing an advisory committee made up of gaming operators and treatment professionals to collaborate on efforts to reduce the negative effects of problem gambling, and (2) permanently naming March Problem Gambling Awareness Month in Virginia.

BOARD ISSUES

Financial Update

Ms. Courtney provided preliminary results through the first half of FY23. Total sales were \$2,220.1 million, \$316.7 million (16.7%) more than last year at this time and \$150.9 million (7.3%) more than expected. Scratcher sales were \$646.0 million, \$78.7 million (10.9%) less than last year at this time and \$22.2 million (3.6%) more than expected. Instants (iLottery) sales were \$905.5 million, \$318.2 million (54.2%) more than last year at this time and \$59.3 million (6.6%) more than expected.

Ms. Courtney reviewed FY23 sales versus prior years. She also reviewed expense rates versus the prior year and versus forecast. Prize expense was 73.4%, which was 3.1% more than last year at this time (70.3%) and as expected. Retailer compensation was 5.7%, which was the same as last year at this time and 0.1% less than expected. Operating expenses were 4.2%, which was the same as last year at this time and 0.4% less than expected.

Ms. Courtney said year-to-date profits are \$430,183,594 compared to \$413,823,108 last year at this time.

Ms. Courtney provided an update on taxes from sports betting. FY23 year-to-date total wagers were \$2,008,795,162. She said that sports betting operators file a monthly tax statement with the Lottery by the 20th of the following month and make a tax payment on the 20th as well. Total taxes to date are \$31,403,081.84. Once the amounts are validated and verified, the amounts are transferred to the General Fund and the Problem Gambling Treatment and Support Fund.

Ms. Courtney provided an update on the change in the deductibility of promotional credits. She said that every \$10 million in promotions that is no longer deducted equates to approximately \$1.5 million more per month in taxes paid. She said that equates to almost \$18 million per year, and it is a significant difference in the tax collections. Ms. Courtney said that we ensure that the sports betting operators are meeting the requirements of the law.

Ms. Courtney said that Hard Rock (HR) Bristol opened in July 2022, and she provided an update on the taxes. The statutory tax rate on casino gaming is a graduated rate of 18% on the first \$200 million of annual adjusted gaming revenue. Approximately one-third of the tax (6% of adjusted gaming revenue) goes to the Bristol Regional Improvement Commission, 0.8% of the tax goes to

BOARD ISSUES (Continued)

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.

The 2019 JLARC gaming study estimated \$130 million in annual net gaming revenue from a Bristol casino at maturity. In the first six months, HR Bristol’s taxable revenue totaled \$82 million. The casino is on pace to meet the JLARC estimate in fewer than five years if the current activity holds. FY23 year-to-date taxes are \$14,755,607.

Ms. Courtney provided an update on the budget process. The sales and revenue forecast that was recommended by the Board was included in the governor’s budget, and it will be considered by the General Assembly.

Gaming Compliance Update

Ms. Smith provided an update on sports betting. She shared the list of approved operators. Since the October 26, 2022, Board meeting, one additional operator went live - DC Sports Facilities Entertainment, 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 January 20, 2023, there are 514 individuals currently enrolled in the program. The majority selected the five-year exclusion. Ten people have selected the lifetime exclusion. She also provided a breakdown by age. Most of the enrollees are between the ages of 18 and 50.

Ms. Smith provided an update on casinos. The following casino-related permits have been issued as of January 21, 2023:

Service Permits:

| | |
|-----------------------|-------|
| Gaming and non-gaming | 2,104 |
| Vendors | 320 |

Supplier Permits:

| | |
|-------------------------|----|
| Key Manager (Principal) | 52 |
| Manufacturers | 20 |

BOARD ISSUES (Continued)

Ms. Smith provided an update on Headwaters Casino. Monthly meetings are held to discuss overall progress. Headwaters Casino anticipate opening a temporary casino in the future.

Ms. Smith provided an update on Caesars Danville. The temporary structure is now in place. A Table Games hiring event took place in early February 2023. Several Key Manager Licenses have been submitted. Caesars Danville is beginning to submit the required operational information.

Ms. Smith provided an update on Rivers Casino Portsmouth. The casino opened for business on January 23, 2023. Rivers Casino Portsmouth has donated over \$500,000 to charity from the two soft openings. Coin-in from slot machines on the first day exceeded \$11 million. Ms. Smith thanked her team for all their hard work.

Ms. Smith said that HR Bristol opened in July 2022. During the first six months, property attendance was 661,796, contributions to charitable and local organizations totaled \$286,000, 49 team members took on new roles, and slot jackpots paid \$45,334,929. New Year's Eve saw the highest coin-in and table drop since opening day; attendance was 8,874, and 742 new members signed up for the Unity Player's Club (global loyalty program). HR Bristol broke ground on its permanent casino in December 2022. Ms. Smith further elaborated on HR Bristol's community engagement and provided an update on its labor and recruiting.

Ms. Lawrence asked if a representative from HR Bristol can attend a future meeting to provide an update to the Board. Ms. Smith said she will schedule a representative's attendance for a future meeting.

Lottery Mission Messaging Update

Ms. Mullen said that the Lottery works diligently to remind Virginians and key education stakeholders that all Lottery profits support K-12 public schools. The Thank a Teacher Art Contest campaign is in progress, and artwork submissions are currently being accepted from public school students. Three designs will be selected to be featured on thousands of thank-you notes that will be distributed in May 2023. She elaborated on the prizes.

Ms. Mullen said that there are many opportunities to interact directly with superintendents, principals and teachers. We continue to expand our reach by strategically adding new partners each year. She shared a list of more than 20 in-person sponsorships of professional development organizations where the Lottery will have a presence during the remainder of the fiscal year.

Ms. Mullen said that this year marks the fourth year of the Virginia Lottery Fall Teacher Tour with The Tommy + Kelly Show. This year, she said we were able to visit 10 schools in Northern Virginia. She shared a video of some of the events.

BOARD ISSUES (Continued)

Ms. Mullen said that the promotional Lottery ticket shown in the video was launched several years ago with the objective of reminding key stakeholders about our mission. The tickets are also used at Teacher Appreciation Week, education-related and other community events. The ticket has a top prize of \$50, and it is a low-cost way to engage with educators. Ms. Mullen shared the refreshed design of the promotional Lottery ticket and said the plan is to print 100,000 tickets, which will last for approximately two years. Even though the ticket is not sold at retail, because it offers players the chance to win prizes, it falls within the Board's authority to approve the ticket.

On motion duly made by Mr. Price and seconded by Ms. Collins, the \$210,000 promotional prize funding for the "A Win for Education" Scratcher (Game ID 2225) was approved as presented.

Remote Participation Policy

Ms. Dilworth said that, pursuant to Virginia Code section 2.2-3708.3 (updated in 2022), individual members of a public body may use remote participation instead of attending a public meeting in person if, in advance of the public meeting, the public body has adopted a policy as described in the statute and the member receives approval to participate remotely from the chairman after complying with the statutory notice requirements.

Ms. Dilworth said that a Lottery Board member may participate remotely by electronic means in a public Board meeting or a public meeting of a committee of the Board by submitting a written request (email is acceptable) to the Board chairman for approval at least three business days in advance of the meeting and specifying the basis for the request. The Board member's request must be based upon one of the following four allowable circumstances: member's disability, family member's medical condition, principal residence location or a specified personal matter.

Ms. Dilworth brought the principal residence location item to the Board's attention for discussion. Here is the item directly from the Code of Virginia: "The member's principal residence is more than 60 miles from the meeting location identified in the required notice for such meeting." She noted that most of the members live more than 60 miles from the meeting location. Ms. Lawrence said that, while she appreciates the opportunity to consider the 60-mile radius exception, she endorses the idea of maintaining the members' physical presence at the meetings. She said that she thinks the significance of the Board and the matters before it dictate a physical presence. Mr. Hamid agreed. He recommended adopting the policy and revisiting it should any issues arise in the future.

On motion duly made by Mr. Price and seconded by Ms. Collins, the Board Member Remote Participation Policy was approved as presented.

PUBLIC COMMENT

None.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on April 12, 2023.

BOARD MEMBERS' OPEN DISCUSSION

Mr. Hamid thanked the Board for his reelection as chairman. He further said that he has never seen a government agency more well-run than the Lottery.

Ms. Lawrence congratulated the Gaming Compliance team for all their hard work.

ADJOURNMENT

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

Kelly T. Gee, Secretary

Ferhan Hamid, Chairman