

VIRGINIA LOTTERY
Board Meeting
January 12, 2022

The Virginia Lottery Board met on January 12, 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 (Town Hall) website. A video recording of the meeting can be viewed here:
<https://youtu.be/Kq4ygcLXPH0>

MEMBERS PRESENT: Ferhan Hamid, Chairman
Cynthia Lawrence, Vice Chairman
Orrin Gallop
Kimberley Martin
Scott Price

PARTICIPATING VIA ELECTRONIC MEANS: Vonda Collins, Board Member
Robert Fontaine, Deputy General Counsel for Gaming

STAFF PRESENT: Kevin Hall, Executive Director
Deborah Courtney, Director of Finance
Amy Dilworth, General Counsel
Jennifer Mullen, Director of Public Affairs and Community Relations
Terri Rose, Director of Marketing
Gina Smith, Deputy Director of Gaming Compliance
Rob Wesley, Director of Digital

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, Mr. Price and Chief Gallop, met on January 5, 2022, and proposed the following slate of officers and committee members for calendar year 2022:

Board:

Chairman	Ferhan Hamid
Vice Chairman	Cynthia Lawrence

Audit Committee:

Chairman	Vonda Collins
Member	Cynthia Lawrence
Member	Kimberley Martin

ELECTION OF OFFICERS

Mr. Hamid opened the floor for further nominations. There were none. On motion duly made by Mrs. Martin and seconded by Ms. Lawrence, the members of the Board unanimously elected the slate of officers and committee members for calendar year 2022 as presented.

Mr. Hamid presided over the remainder of the meeting.

MINUTES OF LAST MEETING

On motion duly made by Ms. Lawrence and seconded by Chief Gallop, the minutes from the regular meeting held on October 27, 2021, were approved as distributed.

DIRECTOR'S REPORT

Mr. Hall congratulated Mr. Hamid on his recent Board reappointment and his reelection as Chairman. He also congratulated Ms. Lawrence on her reelection as Vice Chairman.

Mr. Hall said that John "JP" Powell's appointment to the Board was announced by Governor Northam on January 8, 2022. Mr. Powell is the owner of two restaurants in Roanoke. He is also a professional musician. Mr. Hall is confident that Mr. Powell will be a strong addition to the Board.

Mr. Hall said that the Lottery continues to adapt to the constantly changing public-health situation. The overwhelming majority of the Lottery's nearly 400 employees are vaccinated. Approximately 30 employees who chose not to vaccinate have been complying with state requirements to test weekly. Mr. Hall said that we have seen a recent increase of exposures due to the Omicron variant. Most of our Omicron cases have resulted in no or mild symptoms and no

DIRECTOR'S REPORT (Continued)

hospitalizations. Each one of those cases carries specific responsibilities for testing, contact tracing, isolation and masking. Members of our HR team are staying on top of the latest guidelines, and we continue to do all we can to keep our employees safe and healthy.

Mr. Hall said that, despite this latest disruption, our employees continue to get the job done. The Lottery just crossed the halfway point of FY22, and our overall sales are more than 33% ahead of last year. He said that we remain on track to meet the ambitious sales and revenue goals the Board approved at its October 27, 2021, meeting. Mr. Hall noted the strong improvement in the scratch category. Scratch represents more than 50% of all retail sales, and we are seeing an 18% improvement over last year. Daily games remained on par with last year. We also are seeing strong sales in the jackpot games category.

Mr. Hall said that our Digital team continues to light up the industry with its success in iLottery games. Digital sales are up 124% over the same period last year. He said that, in calendar year 2021, more than 250,000 Virginians played iLottery and won a combined total of nearly \$1 billion in prizes. Later in 2022, we are launching a sleek new mobile app to accompany the online games. The Lottery is working with our iLottery partners, NPi and WillowTree, and Mr. Hall said that he believes the mobile app will set a new industry standard in design, convenience and functionality.

Mr. Hall said that, on January 24, 2022, we will add a new game, CASH POP, that is designed to fill a niche in our daily draw portfolio. CASH POP is easy to understand and play. Players will pick one number ranging from 1 to 15. There will be five draws a day. Prizes range from \$5 to \$2,500. We are forecasting a \$30 million a year boost after the launch of CASH POP.

Mr. Hall said that we joined the rest of the U.S. lottery industry in November 2021 and December 2021 in an extensive "Gift Responsibly" campaign. We used all of our messaging assets to remind people during the holiday season that, even though Lottery games make great gifts for adults, it is illegal in Virginia to give a Lottery ticket to anyone younger than 18. Mr. Hall said that we are gearing up for National Problem Gambling Awareness Month in March 2022 when we will deploy a broad, multichannel campaign to raise public awareness about gambling addiction and resources that are available to help those affected. He said that our team also remains heavily engaged year-round in promoting the Lottery's significant support for students, teachers and schools.

Ms. Mullen highlighted recent initiatives that promote the Lottery's important role in support of public education. She reminded the Board that, in October 2021, we were in the middle of the Virginia Lottery Fall Teacher Tour. In partnership with The Tommy + Kelly Show in Northern Virginia, we expanded the tour to include Roanoke and Hampton Roads. Ms. Mullen shared a video that contained end-of-campaign numbers.

DIRECTOR'S REPORT (Continued)

Ms. Mullen said that we do not limit our interaction with educators to specific campaigns; we are out and about all year long. She provided several examples covering the time-period of October 2022 through December 2022:

- Attended 11 conferences and/or education-related events
- Traveled 700+ miles
- Close to 1,500 in-person interactions
- More than 1,000 virtual connections with educators across Virginia
- Over 2,500 promotional education Scratchers distributed and five online promotional codes
- Conference audiences included Virginia School Board members, education advocates, superintendents, principals, department chairpersons, teachers and support staff

Ms. Mullen said that we have partnerships with over 60 organizations across Virginia. She also said that we are poised for a busy future. She provided several examples covering the time-period of January 2022 through April 2022:

- Positioned to attend 35 conferences and/or education-related events
- Partnering with 22 organizations
- Traveling to all eight regions of the commonwealth
- Will engage with close to 5,000 educators through both virtual and in-person interactions
- Outreach partnerships with more than 4,000 community leaders and education advocates

Ms. Mullen said that we are currently accepting submissions for the fifth annual Thank a Teacher Art Contest. Mr. Hamid said that he is pleased to see that we are sharing our message and engaging with teachers and students.

Mr. Hall said that Virginia continues to show that it is a healthy and competitive market for sports betting. In October 2021, the ninth month of legal sports wagering in Virginia, we crossed the \$2 billion mark in wagers. So far, no other state with legal sports betting has reached \$2 billion in wagers that quickly. Mr. Hall said that sportsbooks have reported numbers through the end of November 2021. From January 21, 2021, through November 30, 2021, operators have posted \$2.8 billion in total wagers, minus \$2.5 billion in total winnings, minus \$133 million in bonuses, promotions, and U.S. tax, which leaves close to \$121 million in taxable revenue. State tax collections on that revenue through November 30, 2021, were almost \$19 million. Mr. Hall said that Virginia will easily top \$3 billion in sports wagering when operators report their December 2021 numbers.

DIRECTOR'S REPORT (Continued)

Mr. Hall said that we remain on track in standing up the casino-oversight program. He said that later in this meeting the Board will review the proposed changes to the regulations adopted in July 2021. Mr. Hall said that these are changes suggested by industry stakeholders and others during the 60-day public comment phase of the process.

Mr. Hall said that the first of what will be hundreds of licensing investigations are currently underway. Ms. Smith and her team are traveling to Bristol later today for another onsite meeting with the Hard Rock Bristol casino group.

Mr. Hall said that this will be his 16th and final Board meeting as Executive Director. He also said that he respects the Governor-elect's prerogative to put his own team in place. Mr. Hall said that he is proud of what we have accomplished at the Lottery in the last four years. He credits the dedication of every member of our team and the support from members of this Board. In closing, Mr. Hall said that the Lottery is on strong footing, and he cannot wait to see what the agency does next.

FINANCIAL REPORT

Ms. Courtney provided preliminary results through the first half of FY22. Total sales were \$1,903.4 million, \$472.1 million (33.0%) more than last year and \$9.5 million (0.5%) more than expected. The growth is due primarily to the success of iLottery. She said that we do not expect the sales growth to continue at that magnitude. Scratcher sales were \$724.7 million, \$112.0 million (18.3%) more than last year and \$4.8 million (0.7%) less than expected. Print 'n Play sales were \$30.4 million, \$0.2 million (0.7%) less than last year and \$1.5 million (4.6%) less than expected. Keno sales were \$28.0 million, \$6.1 million (27.7%) more than last year and \$1.1 million (3.9%) less than expected. Daily games sales were \$392.5 million, \$5.7 million (1.4%) less than last year and \$5.4 million (1.4%) less than expected. Jackpot games sales were \$140.5 million, \$36.2 million (34.7%) more than last year and \$2.4 million (1.7%) more than expected. Instants (iLottery) sales were \$587.4 million, \$323.8 million (122.8%) more than last year and \$19.9 million (3.5%) more than expected.

Ms. Courtney reviewed FY22 sales versus the prior year and versus the forecast.

Ms. Courtney reviewed expense rates versus the prior year and versus the forecast. Prize expense was 70.3%, which was 3.7% more than last year (66.6%) and 0.5% less than expected (70.8%). 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%).

FINANCIAL REPORT (Continued)

Ms. Courtney said year-to-date profits are \$412.9 million compared to \$349.7 million last year.

Ms. Courtney provided an update on the budget process. The amount that the Board recommended for our transfer to the Lottery Proceeds Fund, \$843,361,811, includes the residual profits from FY21. That transfer amount was included in the governor's introduced budget, and it will be considered by the General Assembly. The General Assembly session convenes on January 12, 2022. The transfer amounts expected for FY23 and FY24 are \$764,671,715 each year.

BOARD ISSUES

Audit Committee Report

Mr. Price said that the Audit Committee met at 9 a.m. on January 12, 2022. Mr. Price, Ms. Lawrence, Ms. Collins, Mr. Hall, Ms. Smith and Ms. Whitney attended the meeting.

The audit department follows up semi-annually to determine the status of management actions to address audit reports. As of January 1, 2022, there was one open finding.

Ms. Smith provided a report on Internal Audit's progress in completing the audit plan for FY22.

The committee reviewed the Auditor of Public Accounts FY21 Draft Report on the Virginia Lottery. This report indicates that the financial statements are presented fairly in all material respects, there was one internal control finding which was not a material weakness, and there were no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

The committee will hold its next scheduled meeting on April 27, 2022.

Marketing Promotions

Ms. Rose presented the Powerball First Millionaire of the Year promotion. The objectives are to generate trial play from infrequent players, increase Lottery brand awareness and increase overall sales. An entry form is obtained upon a qualifying purchase of \$10 or more of Powerball on a single ticket. There are five VIP packages for five individuals. The five winners and a guest each will receive round-trip transportation to New York, a three-night stay at a hotel in Times Square and an exclusive New Year's Rockin' Eve VIP experience. One finalist, chosen from the five winners, has a chance to become Powerball's first millionaire of 2023 via a live drawing during the New Year's Rockin' Eve show.

BOARD ISSUES (Continued)

Ms. Rose presented the Print 'n Play X Marks The Money promotion. The objectives are to promote the new Print 'n Play X The Money family of games and to encourage multiple purchases. The grand prize is \$20,000. There will be four top-prize winners, 100 runners-up and one grand-prize winner.

On motion duly made by Mrs. Martin and seconded by Ms. Lawrence, the Board approved the promotional funding for the Powerball First Millionaire of the Year promotion #011222 as presented.

On motion duly made by Mrs. Martin and seconded by Chief Gallop, the Board approved the promotional funding for the Print 'n Play X Marks The Money promotion #011222 as presented.

Casino Licensing Status

Ms. Smith provided an update on sports betting. Since the October 27, 2021, Board meeting, Twin River Management a/k/a/ Bally's Corporation went live. Temporary permits were awarded to Digital Gaming Corporation VA, LLC (11/24/2021) and VHL, VA LLC (11/25/2021), and these operators are expected to launch in the first quarter of calendar year 2022. Three additional operators are under review, and approval is anticipated in the first quarter of calendar year 2022. Chief Gallop asked if any applicants have been denied. Ms. Smith said no.

Ms. Smith provided a sports betting financial update. All financial data presented in this update was through the month of November 2021. December 2021 data is not due from the respective operators until January 20, 2022.

Ms. Smith said that, since the inception of the program, there have been \$2.8 billion in wagers made on the various platforms. The operators have given away approximately \$105 million in promotional play and paid over \$18 million in taxes.

Ms. Smith shared details of the market share by operator: FanDuel - 42.69%, Draft Kings - 26.77% and BetMGM - 17.82%; the rest is divided among the remainder of the operators. Promotional play is mostly in line with the market-share percentages. Total tax paid is \$18,610,886. Of that amount, \$18,145,614 will go to the General Fund, and \$465,272 will go to the Problem Gambling and Treatment Support Fund.

Ms. Smith provided a breakdown of tax payments by operator: FanDuel - \$11,872,153, DraftKings - \$3,426,065 and BetMGM - \$3,040,419; the rest has been paid accordingly by the remainder of the operators.

Ms. Smith also provided a breakdown of total wagers by sport. Football has now overtaken basketball and is the leader.

BOARD ISSUES (Continued)

Ms. Smith provided an update on the voluntary exclusion program. The program began in January 2021, and it continues to grow. There are 173 individuals currently enrolled in the program. The majority selected the five-year exclusion.

Ms. Collins asked if we are capturing demographic information regarding sports betting participants. Ms. Smith said we are not capturing that information because we are the regulators, and the sports betting participants are not our customers.

Ms. Smith provided an update on casinos. The following casino-related applications are currently under review:

Supplier Permits:

Contractor
Manufacturer
Principal/Key Manager
Slot Machine Management System Provider

Service Permits:

Gaming
Non-gaming
Vendor

Ms. Smith said that there are 13 combined Contractor and Manufacturer applications. Eight are under investigation, and five are in process by the applicant. There are 30 Key Manager applications. Twenty are under investigation, and nine are in process by the applicant. There are 67 Gaming employee applications. Twelve are under investigation, and 55 are in process by the applicant. There are 86 Vendor applications. Twelve have been licensed by the Lottery and are listed on our website, 13 are under investigation, and 61 are in process by the applicant. The number of applications will continue to increase over time.

Ms. Smith said that she and her team are meeting monthly with Hard Rock Bristol. These meetings have included touring the Bristol site, reviewing and approving construction plans and working with various teams (i.e., security and surveillance) to discuss overall operations. Plans are to open a temporary casino by the end of the second quarter of calendar year 2022. Ms. Smith anticipates the Board may be in a position to consider and possibly issue the first casino license at its April 27, 2022, meeting.

Ms. Smith said that she and her team attended the Portsmouth Casino groundbreaking on December 7, 2021. Monthly meetings with Portsmouth Casino will begin in January 2022. Mrs. Martin asked when they anticipate opening. Ms. Smith said that they have not yet provided a timeline.

BOARD ISSUES (Continued)

Casino Gaming Regulations

Mr. Fontaine provided an update on the casino gaming regulations. He reminded the Board that the emergency casino regulations they approved last year are currently in place. After the regulations were published, we accepted public comments through December 24, 2021. When the proposed permanent casino regulations were developed, we considered and incorporated several things based on those comments. The entities that provided public comments included combined casino groups, casinos, contractors, certified test labs and a couple of citizens. We recently provided the Board with a red-lined version of the revisions that are proposed for incorporation today.

Mr. Fontaine provided a few examples of how we responded to feedback. We provided a new definition for Facility General Manager to avoid confusion about the position. That term also was moved to the top of the definition section. We adjusted language at the request of the casino operators. Mr. Fontaine said that there were several comments related to operational issues. Those comments did not require a response, nor did they suggest a change in regulatory language. We expect that these items will be resolved as the program develops and matures.

Mr. Fontaine provided an example where a considerable amount of language was replaced due to concerns raised on the industry side. There was a belief that the “Cards” section was too specific. We agreed and replaced the original language after adjusting it to meet the proper regulatory structure.

Mr. Fontaine provided another example of a change made based on comments. Comments received from citizens and operators suggested lowering the minimum wager for poker from \$5 to \$1. The Code requires the Board to set in the regulations both minimum and maximum wagers. We kept the maximum of \$50,000 but lowered the minimum to \$1.

Mr. Fontaine said that we also eliminated some unnecessary language in the player account requirements section. There were elements that were more specific than necessary. We eliminated language that we did not feel was necessary.

Mr. Fontaine said that there were several requests for changes to items that are required by Virginia law; however, because these items are required by law, they cannot be changed. He shared several examples. He also said that some changes were not made because of policy decisions.

Lastly, Mr. Fontaine said that there were questions raised about the need for more specificity about the Responsible Gaming Regulation and Voluntary Exclusion Program, which will be set out in revisions to the self-exclusion regulations in Chapter 60 and brought to the Board at a subsequent meeting.

BOARD ISSUES (Continued)

Mr. Hamid asked if the changes to the regulations are complete or if this is an ongoing process. Mr. Fontaine said that it is an ongoing process, but the bulk of the changes are complete. Ms. Dilworth said the next step is to submit the permanent regulations to the Virginia Register for publication. The regulations are then published in the Virginia Register for 30 days. During that 30 days, public comment can be made again, but there will be no further changes to the regulations based on the comments received. Ms. Dilworth estimates that the permanent regulations will be in place in March 2022.

On motion duly made by Mr. Hamid and seconded by Ms. Lawrence, the Board approved the Permanent Casino Gaming Regulations implementing the provisions of the Virginia Casino Gaming Law, and as enacted by the Virginia General Assembly.

Mr. Hamid stated that the motion passes. The Department will submit the regulations to the Department of Planning and Budget in accordance with the Virginia Administrative Process Act.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on April 27, 2022.

BOARD MEMBERS' OPEN DISCUSSION

Mr. Price read a resolution on behalf of the Board recognizing Kevin Hall for his service as Executive Director over the past four years. The resolution is attached to and made a part of the minutes. Mr. Hamid said that it has been a pleasure serving with him. Mr. Hamid also said that Mr. Hall has done a phenomenal job as the results show.

CLOSED MEETING

Ms. Lawrence 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. 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.

On motion duly made by Ms. Martin and seconded by Chief Gallop, the Board approved, as presented in the closed meeting, the prize structures for Scratcher Games 2150, 2162, 2163, 2164, 2173, 2174, 2175, 2180, 2181 and 2182, as presented, including the 0.5% prize-structure variance.

On motion duly made by Mrs. Martin and seconded by Chief Gallop, the Board approved, as presented in the closed meeting, the prize structures for Instant Games 1165, 3227, 3228, 3230, 3717, 3728 and 3734, as presented, including up to 10% of gross gaming revenues from iLottery games to be allocated for online lottery promotional activity.

ADJOURNMENT

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

Kelly T. Gee, Secretary

Ferhan Hamid, Chairman

Board Resolution
January 12, 2022

WHEREAS, Kevin Hall served as the Virginia Lottery's Executive Director from January 12, 2018 until January 14, 2022; and

WHEREAS, during these four years the Lottery generated over \$10 Billion in sales and \$3 Billion in profits for K-12 public education in Virginia; and

WHEREAS, during these four years, Kevin fostered the trust and respect of elected and appointed officials, and demonstrated the agency's ability to successfully handle expanded responsibilities including regulatory oversight of mobile sports betting, land-based casinos, and the launch of online lottery sales on the first day legally allowed; and

WHEREAS, during these four years, Kevin served key leadership roles within the Lottery industry, including the Mega Millions Consortium and the North American Association of State and Provincial Lotteries; and

WHEREAS, Kevin's leadership of over 300 lottery employees was key in the successful productive and safe execution of all duties during the time of a public health crisis; and

WHEREAS, Kevin personally executed mic-drop moments at the Lottery's annual sales conference, and introduced and archived for Lottery history his own brand of humor by appearing in that same conference's opening video; and

WHEREAS, Kevin led the implementation of significant gaming changes throughout the Commonwealth, including the introduction of Keno, national game modifications, raffle offerings, and fabulous prize opportunities for all y'all Virginians; and

WHEREAS, Kevin personally coined the catchphrase that the Virginia Lottery is good fun for a great cause,

NOW, THEREFORE BE IT RESOLVED, that the members of the Virginia Lottery Board hereby extend their gratitude and sincere appreciation to Kevin Hall for his diligence in advancing the best interests of the Virginia Lottery, for his commitment to ensuring that the Virginia Lottery operated beyond reproach, for his dedication to maintaining the Virginia Lottery as an industry leader and for his invaluable service to the Commonwealth of Virginia.

Ferhan Hamid, Chairman

Vonda M. Collins

Cynthia D. Lawrence, Vice Chairman

Orrin K. Gallop

Scott A. Price

Kimberley L. Martin