

VIRGINIA LOTTERY

Board Meeting

February 3, 2021

As a result of the state of emergency declared in the Commonwealth of Virginia by order of the governor on March 12, 2020, the Virginia Lottery Board met on February 3, 2021, at 9:30 a.m. by electronic-communication means pursuant to Executive Amendment 28 to HB29 (2020). A video recording of the meeting can be viewed here: https://youtu.be/iAV_Q-bMcKY

PARTICIPATING MEMBERS:

All Board members participated through electronic-communication means in separate locations.

Ferhan Hamid, Chairman
Cynthia Lawrence, Vice Chairman
Vonda Collins
Orrin Gallop
Kimberley Martin
Scott Price
Chris Tsui

PARTICIPATING STAFF: The following Lottery staff participated through electronic-communication means in separate locations.

Kevin Hall, Executive Director
Deborah Courtney, Director of Finance
Amy Dilworth, General Counsel
Bob Fontaine, Deputy General Counsel - Gaming Compliance
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

The following Lottery staff monitored the meeting through electronic-communication means in separate locations.

Frank Wagner, Deputy Director
Ted Maxwell, Director of Information Technology Services
Tony Russell, Director of Administration
Tom Sawyer, Director of Sales
Beth Smith, Director of Audit and Security
Jo Murphy, Executive Assistant

As required, a livestream link to the meeting was available on the Virginia Regulatory Town Hall website.

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, Scott Price and Chris Tsui, met on January 27, 2021, and proposed the following slate of officers and committee members for calendar year 2021:

Board:

Chairman	Ferhan Hamid
Vice Chairman	Cynthia Lawrence

Audit Committee:

Chairman	Chris Tsui
Member	Scott Price
Member	Cynthia Lawrence

ELECTION OF OFFICERS

Mr. Hamid opened the floor for further nominations. There were none. On motion duly made by Mr. Price and seconded by Mrs. Martin, the members of the Board unanimously elected the slate of officers and committee members for calendar year 2021 as presented.

Mr. Hamid presided over the remainder of the meeting.

MINUTES OF LAST MEETING

On motion duly made by Mr. Price and seconded by Ms. Collins, the minutes from the regular meeting held on November 4, 2020, were approved as distributed.

DIRECTOR'S REPORT

Mr. Hall congratulated Chairman Hamid and Vice Chairman Lawrence on their reelections.

DIRECTOR'S REPORT (Continued)

Mr. Hall said the agency has remained largely in a work-from-home posture since March 20, 2020, and will continue to do so until at least the end of March 2021. In mid-March, we will determine where we are in terms of vaccine availability and shots-in-arms and decide about work arrangements going forward.

Mr. Hall said we, like most organizations, have recently begun to see an acceleration in the number of employees reporting potential exposure to COVID and an increase in positive test results and some illness among our workforce. We are responding quickly and responsibly and following the appropriate guidelines on employee notifications and quarantines. The Lottery continues to do everything we can to be supportive of all 300 of our employees and their families.

Mr. Hall said only essential employees are reporting to work at headquarters. Our Customer Service Centers (CSCs) across Virginia were shut down in April and May and reopened after we redesigned the process and reconfigured customer-traffic patterns. We safely reopened CSCs on June 1.

Mr. Hall said members of the Sales team worked remotely beginning in April and started a safe, gradual return to on-site visits to retail stores in September. We initially focused on high-volume retailers and those with vending. We recently launched some new incentives and special promotions to further reinforce our partnerships with retailers.

Mr. Hall acknowledged the resiliency and commitment shown by all our employees and business partners. Across the organization, we have adapted and reengineered most of our processes to continue running our business safely and efficiently. He said the priority always has been to keep our customers, employees and their families as safe as possible.

Mr. Hall reported that we are not only operating our business safely and efficiently, but we also are operating successfully despite the economic and operational challenges. The Lottery posted strong sales and profit numbers for the first half of the fiscal year compared to the same six-month period a year ago; sales have increased 38%, and Lottery profits for K-12 public schools increased 21%. Much of the increase was fueled by the July 1 launch of online iLottery sales.

Mr. Hall said we continue to freshen up the product mix and fine-tune our product launch schedule. January sales and profits appear to be very strong. The recent Powerball and Mega Millions jackpot runs helped; both games rolled in tandem for months before jackpots were won. Powerball peaked at \$738 million, and Mega Millions hit \$1 billion in January. Both games then reset to their \$20 million beginning jackpots.

Mr. Hall said a lot of our overall growth is coming from iLottery online sales. iLottery launched on July 1, which was sooner than anyone expected, and it launched more successfully than it has for any other lottery in the country. He said iLottery's performance continues to amaze us. Six

DIRECTOR'S REPORT (Continued)

months into the fiscal year, we have seen \$264 million in iLottery sales. That is more than we expected for the entire first year when we launched. Based on the tremendous early success, we doubled the iLottery sales forecast last fall, and we are still running 7% ahead of that. Gaming revenue (sales minus prizes) after six months is around \$35 million.

Mr. Hall said that, though online sales represent a vital new tool for the Lottery, it is important to point out that sales also have increased for traditional lottery products sold only at brick-and-mortar retailers. Scratcher sales are up almost 9% year-over-year since iLottery launched, and daily draw games sold at the retail counter are up around 21% compared to last year. Mr. Hall said we are pleased to see online sales are not cutting into retail sales. Similar to what happens in other states with an online sales platform, iLottery appeals to a different customer who is comfortable in the digital space and places a premium on convenience. We are continuing to work closely with our retailers. We value those partnerships and appreciate all they do to help us be successful.

Mr. Hall provided an update on the General Assembly session that is underway. He announced that Government Relations Manager Kelly Gee left the Lottery in December to join one of the 2021 statewide political campaigns. Mr. Hall reminded the Board that last year the agency was heavily involved as the legislature considered iLottery online sales, casino gaming and sports betting. It is much quieter this year as we are implementing these new products and regulatory programs.

Mr. Hall said we worked with stakeholders and legislators this year on technical fixes to both the casino and sports betting statutes. There were specific items where we and, in some cases, the stakeholders, determined more clarity or precision would be helpful. Both of those cleanup bills are now moving through the legislative process.

Mr. Hall said questions have resurfaced at this year's General Assembly about the future of skill machines (also known as gray machines). A year ago, the legislature voted to ban skill machines. At the time, thousands of these unregulated, untaxed skill machines had flooded into convenience stores, truck stops and restaurants, and we determined they were competing against Lottery sales. When COVID hit, the legislature agreed to delay the skill machine ban for one year, capped the number of skill machines at 10,000 devices, imposed a monthly fee on each machine and had ABC monitor the gaming activity. Those fees were expected to raise an estimated \$130 million for COVID relief programs. Mr. Hall said there is legislation in the current session to allow skill machines to remain in the market for one more year under the current ABC oversight and fee structure. He will keep the Board posted on what the legislature decides to do.

Mr. Hall provided the Board with an update last July on the agency's efforts to support small, women-owned and minority-owned (SWaM) businesses by being more intentional in our discretionary spending. At that time, Mr. Hall was pleased to report steady growth in SWaM

DIRECTOR'S REPORT (Continued)

spending in his time as executive director. In FY19, our SWaM spending was 34%. In FY20, we improved to 38%. We set an FY21 goal of 42%, and, through the first six months of the fiscal year, we are close to 41%. He said we expect these percentages will increase further as we continue to be more intentional about supporting SWaM businesses and receive additional reporting from our vendor partners. Mr. Hall said these initiatives have the complete support of agency leadership, and he is pleased with this progress in demonstrating our tangible support for small, women-owned and minority-owned business partners.

Mr. Hall said Lottery players help generate more than \$1.6 million per day for Virginia's K-12 public schools. In FY2020, Lottery players helped generate almost \$600 million in funding for public education. He said K-12 education has looked different since last spring. This year, especially, we have been blown away by the dedication and the creativity of our teachers, administrators and students. Mr. Hall asked Director of Public Affairs and Community Relations Jennifer Mullen to highlight how we have adapted our K-12 partnerships to continue celebrating Virginia's K-12 public schools, students and teachers.

Ms. Mullen said that Virginia's K-12 public schools transitioned to a remote-work environment at the same time that the Lottery did. That transition happened in March 2020. Yet, our partnerships with schools and education organizations across Virginia continued. Words such as "virtual" and phrases such as "Teams and Zoom calls" became part of the Lottery's everyday language just as they did in the education world. What didn't change is the Lottery's commitment to recognizing and supporting teachers and students across the Virginia.

Ms. Mullen said that we have been attending teacher professional-development conferences to continue our interaction with our educator stakeholder group. We have sprinkled in some fun and even played a few games of virtual Pictionary designed to remind them that our profits support our public schools.

Ms. Mullen noted a partnership we had with The Tommy + Kelly Show, a popular internet radio show in Northern Virginia that allowed us the opportunity to recognize teachers in that part of Virginia. This was our second year teaming up with this duo for a "fall teacher tour" and, like everything else, the presentations to teachers looked just a little bit different.

Ms. Mullen said the Virginia Lottery's own Thank a Teacher Art contest is back for a fourth year. She said that it continues to be more important than ever to thank teachers for all the creativity, dedication and perseverance they have shown in these unusual times. The Lottery appreciates the partnership with The Supply Room this year to allow us to offer gift cards to the three winning artists and \$2,000 to each of the three schools. The contest just closed, and we look forward to another round of surprise presentations coming in early spring.

DIRECTOR'S REPORT (Continued)

Mr. Hall moved to the Lottery's efforts to construct a regulatory program for expanded gaming.

Mr. Hall said that later on the agenda Deputy General Counsel Bob Fontaine will walk the Board through 300 pages of initial casino regulations. Mr. Fontaine spent about 12 years as lead counsel for Maryland's Lottery and Gaming Control Agency, which operates the Maryland Lottery and regulates Maryland's casinos. He is eminently qualified to help us get our casino gaming regulatory program going here in Virginia.

Mr. Hall said Deputy Director for Gaming Compliance Gina Smith has been working almost nonstop to build the sports betting program within the tight turnaround time mandated by the 2020 General Assembly. The legislation authorizing legal sports betting in Virginia took effect last July 1. Within two months, we came to the Board for your review and approval of comprehensive written regulations. Two months after that, we began accepting applications for mobile sports betting licenses. Today, seven months after sports betting became legal in Virginia, we have five qualified and licensed sportsbooks competing in Virginia under a responsible regulatory framework with strong consumer protections.

Ms. Smith provided an update on the sports betting program. From October 15, 2020, through October 31, 2020, we accepted applications for permits to offer sports betting. A total of 25 applications were received. The law provides for the issuance of up to 12 permits not including certain sports teams that do not count toward the cap.

To date, the approved operators are:

Betfair Interactive US, LLC (d/b/a FanDuel) in conjunction with the Washington Football Team - Started taking bets on January 20, 2021.

Crown Virginia Gaming, LLC (known as Draft Kings) - Started taking bets on January 24, 2021.

BetMGM, LLC - Started taking bets on January 27, 2021.

Portsmouth Gaming Holdings, LLC (d/b/a Rivers Casino Portsmouth) - Started taking bets on January 27, 2021.

Caesars Virginia, LLC - Approved on January 27, 2021. The plan is to be live by noon on February 3, 2021.

DIRECTOR'S REPORT (Continued)

In addition to approving operators, we are working with several other operators to prepare them to go live. We are reviewing:

- Internal controls
- Sports betting catalogs
- House rules
- Terms and conditions
- Bonds and insurance
- System certifications

Ms. Smith said we anticipate several additional operators will be able to go live within the next couple of weeks. All approvals will be posted on <https://www.valottery.com/aboutus/casinosandsportsbetting>. In addition to the five permit holders, we have approved six suppliers and over 50 vendors. All approvals must be in place before the operators can go live.

Ms. Smith said operators are required to report revenue by the 20th day of the next succeeding calendar month; the first reports are due by February 20. Operators can offset much of their marketing costs for new customer acquisition. For example, operators often offer free and mostly risk-free bets to attract new players. Operators may offer sign-up bonuses such as dollar-for-dollar matches on first-time deposits. These promotional bonuses are deducted from taxable sport wagering revenue. As such, the hold for the first few months may be much lower. Once the market stabilizes, we will see a more reliable revenue stream coming into Virginia.

Ms. Smith said we have successfully launched our responsible gaming program. As a part of the Voluntary Exclusion Program (VEP), players can exclude themselves from:

- Sports betting

- Account-based lottery games

- Participation in gaming activities administered by the Office of Charitable and Regulatory Programs and the Virginia Racing Commission

In addition, we have prominently displayed our Sports Bettors' Bill of Rights on our website: <https://www.valottery.com/playingmatters/voluntaryexclusionprogram>

Ms. Lawrence said she has seen an increased number of ads for the approved operators. She asked if we monitor their advertising and if there are any limits according to our rules. Ms. Smith said they do not have any limits. The regulations specifically state that we do not have to approve their advertising in advance. However, if we request information on their advertising, they are required to provide us with documentation at the time of our request.

DIRECTOR'S REPORT (Continued)

Mr. Hamid said it would be helpful to receive a list of the approved operators, suppliers and vendors. In addition, he asked if the Lottery is tracking SWaM spending for sports betting. Mr. Hall said we are not the operator of those platforms. As a part of the licensing review process, applicants were required to submit in writing their commitment to demonstrating a good-faith effort to engage with Minority Business Enterprises (MBEs) and minority equity ownership as corporations. Those numbers will not be aggregated into the Lottery's SWaM metrics. He said that, though there is no reporting on this, it will be a factor at the time of licensing renewal.

Ms. Dilworth thanked the Board members for notifying the Lottery when they were contacted by potential license and permit applicants in the casino and sports betting space. She does not want the members to be placed in any circumstance that could be interpreted as having a conflict. She asked that the Board members continue to refer these types of inquiries to her or Mr. Hall.

Ms. Dilworth reminded the Board members of three important points to avoid financial conflicts of interests related to casino gaming. A Board member shall not have any direct or indirect financial, ownership or management interest in any casino gaming operation. A Board member shall not receive or share in, directly or indirectly, the receipts or proceeds of any casino gaming operation. A Board member shall not have an interest in any contract for the manufacture or sale of gaming devices, the conduct of any gaming activity or the provision of independent consulting services in connection with any gaming establishment or gaming activity. Ms. Dilworth said if the Board members have any questions about conflicts going forward to please reach out to her or Mr. Hall.

Mr. Hall closed his report by saying the Lottery is working hard to keep our workforce safe and healthy. The agency's workforce has been creative and committed, and that's a big reason why the traditional Lottery side of our business is performing so well. iLottery continues to exceed all our expectations. We have put a strong and talented expanded gaming team in place. We are moving forward and confidently meeting tight deadlines to build-out these important new responsibilities. Mr. Hall said he couldn't be prouder of the entire organization for all these accomplishments.

Mr. Hamid said he is glad everyone is healthy and following precautions. The iLottery sales have been astounding, and he congratulated Mr. Hall, Mr. Wesley and the rest of the team on the success. He said he is pleased that the Thank a Teacher program is continuing because it is important to remind people that all Lottery profits support K-12 public schools.

FINANCIAL REPORT

Ms. Courtney provided preliminary results through December 31, 2020. She highlighted a few important items to consider when comparing this year's strong results to the previous year. FY20 sales and profits were lower compared to the previous year due to two negative factors. The first was the expansion of skill machines. We estimated that Lottery sales (Scratchers and daily

FINANCIAL REPORT (Continued)

games) would be affected by approximately \$140 million in sales and \$40 million in profits. That estimate tracked closely during the year. The second item was the pandemic and the significant affect it had on retail markets. As those markets made changes to stay open safely, we saw a rebound in Lottery sales. Even though we finished the year close to forecast, it was a lower year for sales and profits. We would expect to see more growth in FY21 compared to FY20. The current year forecast anticipated a return to more normal growth rates from the declines experienced in FY20. We did not expect the skill-machine impact to go away, but we're now comparing growth rates to the dampened level of sales.

The other significant factor for FY21 is the offering of iLottery starting on July 1, 2020. This was built on the strength of the work of recent years that was focused on digital interactions with players, customer-experience improvements and the subscriptions program. All of that, combined with the laser focus on getting iLottery up and running, has led to a great launch.

We also deployed Keno at all Lottery retailers in the fall and hope to see that product expand as the entertainment venues start to reopen.

Total sales were \$1,431.3 million, \$388.4 million (37.2%) more than last year and \$23 million (1.6%) more than expected. Two-thirds of that growth is coming from iLottery. Scratcher sales were \$612.7 million, \$41.5 million (7.3%) more than last year and as expected in the forecast. Print 'n Play sales were \$30.6 million, \$8.2 million (21.1%) less than last year and \$2.5 million (7.5%) less than expected. Last year, a rolling jackpot feature was introduced for Print 'n Play, and we saw significant sales growth in this category. Sales have softened in the first half of the year but are still close to forecast. Daily games sales were \$398.2 million, \$69.8 million (21.2%) more than last year and \$8.2 million (2.1%) more than expected. The daily games category is a third of sales and critical for sales and profits. Daily games have experienced a strong first half of the year. This is the result of two main factors: growth over last year when sales were down, and the games are experiencing payouts closer to the normal expected levels. Jackpot games sales were \$104.2 million, \$0.8 million (0.8%) more than last year and \$1.1 million (1.1%) more than expected. Keno is new for FY21. Sales were \$21.9 million this year, and \$1.1 million (4.9%) less than expected. Sales for instants on the iLottery platform were \$236.6 million and \$17.4 million (7.0 %) more than expected.

Ms. Courtney reviewed FY21 sales versus last year and versus the forecast. She reviewed expense rates versus the prior year and versus forecast. Prize expense was 66.6%, which was 5.7% more than last year (60.9%) and 0.5% less than expected (67.1%). It is significantly higher than last year because of the addition of the iLottery instant category. Those games are intentionally designed with a higher prize payout rate. Retailer compensation was 5.6%, which

FINANCIAL REPORT (Continued)

was the same as last year and as expected in the forecast. Operating expenses were 4.5%, which was 1.4% less than last year (5.9%) and 0.7% less than expected (5.2%). Although the operating expenses rate is significantly lower than last year, operating expenses are higher. Dividing by a much higher sales number drives the rate down.

Ms. Courtney said year-to-date profits are \$349.7 million compared to \$289.2 million last year and a forecast of \$326.8 million. The additional \$60 million in profits over last year is coming from the strength in sales.

Ms. Collins said the instant sales are impressive. She asked for a presentation at the next meeting that includes the margins by types of sales. The instant sales are high, but the expense rate also is high. Ms. Courtney said she will provide this information at the next meeting.

BOARD ISSUES

Audit Committee Report

Mr. Tsui reported that the Audit Committee met at 8:45 a.m. on February 3, 2021. Mr. Tsui, Ms. Lawrence, Mr. Price, 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, 2021, there were no open findings requiring follow up.

Ms. Smith provided a report on Internal Audit's progress in completing the audit plan for FY21.

The audit committee reviewed the Auditor of Public Accounts FY20 Report on the Virginia Lottery. This report states:

Our audit of the Virginia Lottery for the year ended June 30, 2020, found:

- the financial statements are presented fairly, in all material respects
- no internal control findings requiring management's attention
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

The committee will hold its next scheduled meeting on July 21, 2021.

BOARD ISSUES (Continued)

Marketing Promotions

Ms. Rose presented the Print 'n Play promotion. The goals are to encourage \$5 players to move up to a \$10 ticket and to generate trial of Print 'n Play Rolling Jackpot. Players that buy a \$10 Print 'n Play Gold Bar Bingo ticket will get a free \$5 Print 'n Play Rolling Jackpot ticket. This offer is available April 5 through April 30 while supplies last.

Ms. Rose presented the Pick 3 & Pick 4 with Fireball promotion. The goal is to educate those coming to our website on the benefits of adding Fireball to Pick 3 and Pick 4 and to promote trial play. The first 25,000 players that fully watch the How to Play video on our website's Pick 3 game page will receive a coupon for a free \$1 Pick 3 with Fireball free \$1 Pick 4 with Fireball ticket.

On motion duly made by Ms. Collins and seconded by Ms. Lawrence, the Board approved the promotional funding for the Print 'n Play promotion as presented.

On motion duly made by Ms. Collins and seconded by Ms. Lawrence, the Board approved the promotional funding for the Pick 3 & Pick 4 with Fireball promotion as presented.

Emergency Casino Regulations

Mr. Fontaine provided an overview of the casino regulations. He acknowledged that the size of the document may appear daunting, but it does not contain anything that will be a surprise to the industry. He said this type of regulatory scheme is expected. The goal is to maintain some flexibility for the operators within a structure of positive and meaningful regulation to maintain the integrity of the gaming in Virginia.

Mr. Fontaine said the organization of the casino regulations has three components: licenses and permits, facility operations and internal controls, and how the games function.

Licenses and Permits:

Mr. Fontaine said there are three standard types of license and permit applications: facility operator's license, supplier permit and the service permit. The facility operator license has a \$50,000 principal background investigation fee, \$15 million issuance fee and a 10-year license (from date of issuance). Mrs. Martin asked how we came up with the fee structure. Mr. Fontaine said the amounts are in the statute. There are four standard supplier permit categories: contractors, key managers, manufacturers and slot machine management system provider. The supplier permits will have a one-year permit with four automatic renewals, a \$5,000 application fee, a \$50,000 background investigation fee per principal (including key managers) and a \$5,000 annual permit fee. These permits are designed to be portable. Mr. Hamid asked who is performing the background investigations. Mr. Fontaine said we have the option to use an

BOARD ISSUES (Continued)

outside company. For sports betting, we have been using an outside investigating contractor because we do not have the personnel in-house. It is our expectation that we will have our in-house investigation team in place when we begin accepting applications. Mr. Hamid asked what types of things we are looking at during the investigation. Mr. Fontaine said the level of investigation is based on the type of position the person will hold. Mr. Hamid asked if social media posts made by applicants are reviewed during the background investigation. Mr. Fontaine said extensive media searches are performed. Chief Gallop asked if there are safeguards in place for the one-year permit regarding the four-year automatic renewals. Mr. Fontaine said yes. There is an affirmative continuing obligation on the part of every license and permit applicant or permit holder to notify the Department of any change in circumstances or change to information that was submitted. There is ongoing review on a certain level for permit holders and applicants. Ms. Collins asked about the monitoring of ongoing compliance with the regulations. Specifically, she wanted to know the level of the Board's involvement and whether anything would be contracted out. Mr. Fontaine said we would like to have the capacity to contract certain elements, but, for the most part, the Lottery team will monitor this. Mr. Fontaine said we will always have an on-site presence at each facility. There are four standard categories of service permits: gaming employee, non-gaming employee, major vendors and minor vendors. Service permits in general cover a five-year term; there is a \$500 per applicant fee, a \$50,000 background investigation fee per principal (as applicable) and portability. In the 30 to 60 days prior to a casino beginning operations, we expect to receive hundreds of service permit applications.

Facility Operations and Internal Controls:

Mr. Fontaine said every casino game that operates electronically will be connected to a central monitor and control system established and operated by the Department. This system will likely be a contract because it is a very specific and highly complicated skill. Mrs. Martin asked for clarification on the central monitoring system. Mr. Fontaine said the Lottery will have its own system that looks at each play on the slot machine. Contractor staff with cameras will be looking for anomalies at statewide slot machine operations. The system also will register sales and payouts, so we know the tax amount. Mrs. Martin asked if our current IT staff will perform any of these functions. Ms. Smith said a vendor will set up the central monitoring and control system and wire everything in the casinos. The vendor will provide us with access to various reports that show the gross gaming revenue. The casino will have its own accounting system, and the casino will provide us with its data files for comparison. The data provided by the central monitoring and control system vendor will be the system of record.

Ms. Dilworth reminded the Board that there is a lengthy rulemaking process ahead. The rules are classified as emergency rules because they were required by statute to be enforced within 280 days of the enactment of the statute last year. It is a complicated process that she will lead them through. Ms. Dilworth said there will be two opportunities for public comment during an 18-month period. In that time, stakeholders will be able to provide feedback regarding the proposed

BOARD ISSUES (Continued)

regulations. She said Mr. Fontaine is presenting emergency regulations. The proposed permanent regulations will be different but similar to what is being presented at today's meeting. Ms. Dilworth reassured everyone that there will be plenty of opportunity for public input as we move forward with the process of getting the permanent regulations in place.

Mr. Fontaine said casino gaming wagers shall be conducted only with tokens, chips or electronic cards purchased from the facility operator. Casinos may not extend credit to players. He said responsible gaming is an important part of this process. No one under the age of 21 is allowed in areas where casino games are located. Signage also is required. There will be a voluntary self-exclusion list, a mandatory-exclusion list maintained by the Lottery and a responsible gaming plan. He noted that there is an amendment to Chapter 60 (the responsible gaming section) that will incorporate the casino responsible gaming program into the voluntary self-exclusion list.

Mr. Fontaine said there will be an 18% to 30% graduated tax on Adjusted Gross Receipts (AGR) imposed pursuant to Va. Code Section 58.1-4124. We will invoice operators for slot machine AGR monthly. The operator will certify AGR other than slots monthly subject to audit and review. Additionally, taxes, fees and civil penalties will be paid as established by the *Code of Virginia*.

Mr. Fontaine said all tax revenue goes to the Gaming Proceeds Fund, and he briefly reviewed how they will be allocated. Civil penalties are payable to the General Fund. Licensing and permit issuance fees are applied to cover the Department's casino regulatory activities.

Mr. Fontaine said the internal controls are very important with a lot of behind-the-scenes activities going on before going live. There are administrative controls and record-keeping requirements prior to commencing operations. They include accounting controls, Suspicious Activity Reports and the creation of a compliance program. The casino must submit its surveillance, security and internal audit standards to us. Most of these internal control items must be submitted to us 60 days before opening to give us adequate time for review. If we find something that is inadequate, the casino is obligated to correct those before opening.

How the Games Function:

Mr. Fontaine discussed casino facility standards. The casino must provide a secure, surveilled, climate-controlled computer space for the central monitor and control system contractor. We expect a minimum of 1,000 square feet of office space for Department staff immediately adjacent to the gaming floor. The casino must comply with table games surveillance requirements. An architect-certified, detailed gaming floor plan must be approved by the Department.

Mr. Fontaine said slot machines must have an average payout percentage between 89% and 94%. A minimum bet on a single game event is \$.01, and a maximum bet is \$500 (with exceptions).

BOARD ISSUES (Continued)

Slot machines are required to have lock-up settings, random number generator testing and security against outside interference. The operators are required to give us their rules of play and record keeping for our approval prior to opening.

Mr. Fontaine said a broad range of table games are allowed. The standard rules will be pre-approved by the Department. A minimum bet is \$5, and a maximum bet is \$50,000. There are detailed procedures for equipment, startup procedures for dealers and accounting for cards, chips and tiles. Table games are the most susceptible to problems, so these standards are designed to ensure their integrity.

Ms. Dilworth thanked Mr. Fontaine for doing an amazing job presenting a difficult subject. She reviewed the approximate timeline to complete the permanent casino regulations. After the Board adopts the emergency regulations on February 3, 2021, they will be submitted for Executive Branch review. We anticipate the governor will approve the emergency regulations by our deadline of April 7, 2021. That is the date our emergency regulations are required to be effective under the enactment clause of the statute. On April 26, 2021, the emergency regulations will be published in the Virginia Register along with a Notice of Intended Regulatory Action (NOIRA) for proposed casino regulations. This provides public notice that the agency is preparing to begin the proposed permanent rulemaking process. A 30-day public comment period on the intended regulatory action begins, and stakeholders can submit public comment about our intention to begin this regulatory action. It will not be a public comment period to accept comments on the emergency regulations because they will already be in effect. It is for feedback the public wishes to give on the process itself. On May 26, 2021, the public comment period on intended regulatory action closes. Staff will prepare the proposed permanent regulations for Board approval, which must occur within 180 days (by November 22, 2021). We anticipate having the regulations to the Board well in advance of that date. Once the Board adopts the proposed permanent regulations as final, they will be submitted for Executive Branch review. This includes review by the Office of the Attorney General, Department of Planning and Budget, Secretary of Finance and ultimately the governor. Once approved by the governor, a 60-day public comment period begins on the proposed permanent regulations. During that time, stakeholders and members of the public can make comments, submit feedback and provide input for consideration. At least 15 days after the 60-day, public comment period is concluded, the Board will meet and adopt the proposed regulations as final. They will again be submitted for Executive Branch review. The outside date on which final regulations become effective is October 7, 2022. This potential 18-month time period is the average length of time that it takes to adopt final regulations under the Virginia Administrative Process Act. Ms. Dilworth said it is a long process with plenty of time for discussion and questions from the Board. Mrs. Martin thanked Ms. Dilworth for providing the timeline and explaining what will be required of the Board.

BOARD ISSUES (Continued)

Mr. Fontaine said we should anticipate that there will be changes to the regulations on an ongoing basis. He also requested the authority from the Board for staff to simply correct typographical errors. Mr. Hamid said that would not be an issue.

Ms. Collins moved for the approval as presented of the emergency casino gaming regulations drafted to implement the provisions of Chapter 41 of the *Code of Virginia* (Casino Gaming) as enacted by the Virginia General Assembly. The motion was seconded by Mrs. Martin.

Mr. Hamid said the motion passes with six in favor and one abstention (Chris Tsui). In accordance with Enactment 3 of Chapter 1248 of the Virginia Acts of Assembly, 2020 Reconvened Session, which was enacted on July 1, 2020, the regulations are to become effective within 280 days of the enactment date. As such, the regulations are treated as emergency regulations under the provisions of the Virginia Administrative Process Act.

The Board hereby promulgates the regulations to be published as Chapter 90 of Title 11, Agency 5 of the Virginia Administrative Code. The Department is directed to submit the foregoing regulations, as approved by the Board, for Executive Branch review.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on April 21, 2021.

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 § 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, § 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 voted in the affirmative that the certification was accurate as read.

On motion duly made by Chief Gallop and seconded by Mrs. Martin, the Board approved, as presented in the closed meeting, the prize structures for Scratcher Games 2092, 2094 through 2108, 2110 and 2111 including the 0.5% prize-structure variance.

On motion duly made by Chief Gallop and seconded by Mrs. Martin, the Board approved, as presented in the closed meeting, the prize structures for Instant Games 1180, 1185 and 3208 through 3212.

ADJOURNMENT

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

Kevin Hall, Secretary

Ferhan Hamid, Chairman