

VIRGINIA LOTTERY

Board Meeting

November 4, 2020

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 November 4, 2020, 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/97hj0jgfSQY>

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  
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  
Amy Dilworth, General Counsel  
Bob Fontaine, Deputy General Counsel - Gaming Compliance  
Kelly Gee, Manager of Government Relations  
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. He welcomed new members Vonda M. Collins, CPA, Orrin K. Gallop and Kimberley L. Martin. The new members introduced themselves and shared a bit about their professional backgrounds. Chief Gallop is the Assistant Chief and Commander of Investigative Services for the Hampton Police Division. Ms. Collins is the Director of Legal Operations for Altria in Richmond. Mrs. Martin is the CEO and Founder of KLM Scholarship Foundation, Inc. in Richmond.

#### MINUTES OF LAST MEETING

On motion duly made by Ms. Lawrence and seconded by Mr. Price, the minutes from the regular meeting held on September 15, 2020, were approved as distributed.

#### DIRECTOR'S REPORT

Mr. Hall welcomed the new Board members and congratulated Ms. Lawrence on her reappointment.

For the benefit of the new Board members, Mr. Hall provided a brief report on agency operations during the ongoing pandemic. In March, when the governor declared a health emergency and encouraged telework by state agencies and private employers, we closed our Richmond headquarters and sent the majority of our 300 employees home with laptops and secure access to our networks. We closed our Customer Service Centers (CSCs) across the state for 10 weeks and reverted to mail-in claims. Our customer-service team worked with us to redesign and safely reconfigure the way customers interact with us at our CSCs. That allowed us to safely and successfully reopen our seven regional CSCs in mid-May. We pulled our Sales team out of the field and began servicing our 5,300 retail partners by phone, text and email. Beginning in October, our sales team started to ease back into the stores (with once-a-month versus once-per-week store visits that were common before the pandemic hit).

Mr. Hall said we continue to get the work done with most of our employees working from home. We introduced new products, such as Keno, and introduced a significant new product delivery system - iLottery online sales. At the same time, we stayed busy making significant progress in building out the new regulatory infrastructure required to support our new responsibilities in expanded gaming.

DIRECTOR'S REPORT (Continued)

Mr. Hall said employees have stepped up and demonstrated commitment and motivation. In mid-October, we surveyed the workforce to gauge their opinion about the health and safety choices we have made so far and to allow them to make suggestions. Nearly two-thirds of the workforce responded, and the results were overwhelmingly positive. We saw more than 90% approval of the steps taken so far to keep everyone safe. The survey also revealed that many employees have incurred some expense as they carved out workspaces in their homes. After learning about those unexpected expenses from our survey, we authorized a one-time, \$400 stipend payable to each full-time employee in late November to cover at least some of those out-of-pocket costs. Mr. Hall said the Lottery has followed the lead of many leading private-sector employers and will remain in this remote work posture, with most employees working from home, at least until the end of the calendar year.

Mr. Hall said that in the nearly eight months since the pandemic began we are not aware of any positive COVID tests resulting from exposure occurring inside a Lottery-operated facility. Employees who tested positive for COVID quarantined appropriately according to CDC and VDH guidelines, and the few who developed symptoms have since recovered. We are deeply grateful that our employees remain safe and healthy. Mr. Hall said he is pleased to report that we continue to operate our business responsibly, safely and successfully.

Mr. Hall reported that the Auditor of Public Accounts recently completed its annual review of Lottery processes and operations. He announced that the FY20 APA audit report will not contain any adverse or negative findings.

Mr. Hall said the Lottery is deeply committed to its constitutional obligation to support Virginia's K-12 public schools. We demonstrate that sense of mission through a year-round schedule of initiatives and sponsorships highlighting our role in generating significant financial resources for K-12 programs. The abrupt school closings in March, and the hybrid back-to-school models this fall, required us to rethink and quickly redesign all those efforts. Mr. Hall asked Director of Public Affairs and Community Relations (PACR) Jennifer Mullen to provide an update on how we adapted and readjusted those outreach plans by finding creative ways to continue highlighting our role in supporting public schools and teachers.

Ms. Mullen said she enjoys sharing everything the Lottery does to highlight its mission of supporting K-12 public schools. Even though the circumstances have changed this year, one thing that did not change is the Lottery's support of our schools, students and educators.

In mid-March, we had just selected three amazing public school artists whose work was to be featured during our fifth annual Thank a Teacher campaign. Members of the governor's administration and even several of the Board members have joined us at some wonderful and heartwarming surprise presentations over the years. The students, teachers and schools are always appreciative of these events, so it is disappointing not to carry out the best parts of these campaigns in person. We quickly adapted to our new environment and made these presentations

DIRECTOR'S REPORT (Continued)

just as special for those being recognized. First Lady Northam joined us as we honored an educator from Lewis and Clark Elementary School in Caroline County. Secretary of Education Qarni helped us surprise an educator from Fairhill Elementary School in Fairfax. Ms. Mullen said we were able to create a new and special type of surprise by having these VIPs drop by on our virtual presentations.

Ms. Mullen said that, as it became evident that virtual was our new world, the question became: How can the Virginia Lottery continue to support our educators across Virginia? We would normally be planning for a summer full of events where members of the PACR team would have the chance to interact with educators across Virginia, share our mission, hand out Scratchers and just have fun. In the new virtual world, we put our creative skills to the test. For example, Ms. Mullen delivered some congratulatory remarks to the Department of Education's Teacher of the Year nominees from her office via Zoom. Our education partners were adapting to developing themselves professionally in a virtual world, and she is proud that her team, and our partners in experiential marketing, adapted right along with them. Ms. Mullen said Mr. Hall is able to directly thank educators across Virginia via a video greeting that many of our partners are showcasing during their conference general sessions. We know our employees are the best brand ambassadors, so we asked them to share with us their words of thanks and encouragement via virtual thank-you notes to be shared on our social media channels.

Ms. Mullen said that thanks to a great partnership with The Tommy + Kelly Show, a popular streaming radio show in Northern Virginia, not everything is virtual this year. We have put out the call for Virginians to share stories with us about all the amazing things teachers in Northern Virginia are doing, and Tommy + Kelly are making socially distant but in-person surprise visits to some of these awesome men and women.

Ms. Mullen said we are deep in the planning stages for our Thank a Teacher Art Contest which will launch in mid-December. We look forward to once again honoring three public school artists with gift cards and money for each winner's school's art department, courtesy of our partners at The Supply Room. In the spring, we will begin encouraging Virginians to show appreciation for their favorite teachers by sending thank-you notes. This note-writing campaign will culminate with National Teacher Appreciation Week, which is the first week of May. Teachers receiving those notes can enter to win a Virginia-themed vacation and \$5,000 in classroom supplies for their schools through our partners at The Supply Room.

Ms. Mullen said that, while the world has changed, she is proud to say that our commitment to supporting public schools has not.

Mr. Hall reported that four months into the new fiscal year we continue to see very strong financial results. Total sales in the first quarter of the fiscal year were up more than 35% with a corresponding 19% increase in profits for K-12 compared to the same period a year ago. About two-thirds of the 35% sales increase came from the July launch of our new iLottery online

DIRECTOR'S REPORT (Continued)

platform and the August launch of Keno. Mr. Hall said getting iLottery into the market much sooner than expected will give us six additional months of what could be called unanticipated revenue this year. The July launch was very strong and the strongest the U.S. lottery industry has ever seen. Every month since July has been stronger than the one before. At the end of the first four months, we have seen approximately \$171 million in total iLottery sales.

Mr. Hall said that even with the new online sales platform sales of traditional Lottery products at the retail counter also are up year-over-year. Scratch ticket sales are up 8%, and daily draw game sales are up 22%. That confirms to us that online play largely appeals to a customer who has different consumer expectations and places a premium on convenience. Having both a traditional retail channel and now an online sales channel is lifting the overall brand.

Mr. Hall said Keno was introduced in August with a soft launch due to the current restrictions at retail and restaurants. Keno sales are just over \$1 million per week. There is a lot of opportunity for future growth with Keno once there can be a broader deployment into the market after the pandemic and the economy improve.

Mr. Hall said this is a year that will see the most dramatic expansion of the Lottery's responsibilities since the agency launched 32 years ago. He said the Lottery appreciates the confidence of the Board, the legislature and the governor in the agency's ability to build a responsible regulatory structure around sports betting and casino gaming.

Mr. Hall said that, despite the pandemic and the agency's pivot to remote work, we have continued to work aggressively to support oversight of expanded gaming. We have recruited nationally and made several key management hires. Each of these managers is now in place to further define and recruit additional personnel to support major regulatory functions. With sports betting and casinos, the agency is required to vet hundreds, and eventually thousands, of applications for gaming licenses for both operators, suppliers and individuals. We determined we did not have time to go through a procurement or to build our own system for an online portal to receive and process those applications. In order to meet the aggressive timelines required by the General Assembly, we struck an agreement with the Maryland Lottery to use its proprietary source code in order to build and launch our own online portal to process license applications. The new electronic-licensing portal is live.

Mr. Hall said sports betting and casino oversight will require our agency to add about 100 new employees over the next 12 to 18 months. A fair number of those new hires will work onsite at the casinos. The Lottery worked with the Department of General Services to identify existing space in our downtown Richmond headquarters building to accommodate these new functions and additional employees.

DIRECTOR'S REPORT (Continued)

Mr. Hall provided an update on the progress being made to hit the deadlines built into the expanded gaming legislation. The casino legislation identified the five eligible cities and left it to those cities to choose casino partners. In July, the agency completed a preliminary review of the casino partners chosen by the cities of Bristol, Danville, Norfolk and Portsmouth. That was required before each city could move forward to schedule a voter referendum. He noted the City of Richmond is the fifth locality defined in the law as eligible to host a casino project, but Richmond is on a different timeline than the other four cities. During the November 3, 2020 election, voters in all four eligible cities approved the local casino proposals, and those cities have 30 days to formally notify the agency of the affirmative vote and officially certify their choice of a casino gaming partner.

Mr. Hall said our Legal team is working on the initial emergency casino regulations with the goal of presenting that package to the Board in 90 days. We have set an early February meeting for the Board to review the initial casino regulations before we send them to the governor for his signoff prior to the statutory deadline in April.

Mr. Hall said we anticipate being on track to begin accepting the first casino license applications in late spring or early summer of next year followed by an intensive financial and criminal background check of each applicant. That process can take up to a year to complete. Almost simultaneously, our Legal team will begin drafting permanent casino regulations through the regular rulemaking process. That process will include ample opportunities for public comment and stakeholder input. A regular rulemaking process can take 12 or more months to complete.

Mr. Hall said the Board approved the initial sports betting regulations at its last meeting on September 15, which was the deadline set in the statute. Mr. Hall asked Deputy Director of Gaming Compliance Gina Smith to provide an update on the current status and what comes next.

Ms. Smith said the deadline for submitting sports betting permit applications was midnight on October 31, 2020. She is pleased to report that there is significant industry interest. Her team is currently reviewing the applications to ensure completeness. Next, background investigations will take place regarding financial stability in addition to criminal background investigations. This information will help determine who will be issued a permit. In addition, the team will look at other factors such as an applicant's history of operating with integrity, complying with regulatory frameworks in other jurisdictions, the amount of anticipated revenue, the demonstrated ability to comply with internal controls set forth and any other factors that the Director may deem relevant. Ms. Smith said the evaluation process will take place over the next several months.

Mr. Hall said that we still anticipate being able to issue the first operator permit for mobile sports betting in Virginia early next year.

DIRECTOR'S REPORT (Continued)

Mr. Hall remains confident that we are working responsibly and transparently to design this oversight program for expanded gaming in Virginia. Effective gaming regulation provides reasonable rules for operators. It also assures consumers that winning wagers will be paid and reassures the state that winnings will be taxed appropriately. Effective oversight also includes important safeguards against underage gambling, cheating, money laundering and other criminal activity. An effective regulatory program also acknowledges a responsibility to provide resources for those individuals who may develop a problem with gambling.

Mr. Hall said a state gaming license is a privilege, not a right. This is important work, and the agency is tackling it with the focus and seriousness it requires. He is pleased to report that we are meeting the very aggressive deadlines that were included in both the sports betting and casino legislation.

Mr. Hamid said Ms. Mullen's presentation on the emphasis of education is important. He is pleased to see the Lottery making these efforts even in the current environment where kids are not in schools physically in many locations.

Mr. Hamid asked who will conduct the criminal background investigations for the sports betting applicants. Ms. Smith said that we contracted with Spectrum Gaming to assist with the investigations. Fingerprints will be run through the Virginia State Police as well as the FBI.

Mr. Hamid congratulated Mr. Hall and the entire team on the successful launch of iLottery.

FINANCIAL REPORT

Ms. Courtney provided preliminary results through October 31, 2020.

Total sales were \$926.4 million, \$247.0 million (36.4%) more than last year. Scratcher sales were \$402.1 million, \$31.3 million (8.4%) more than last year. Print 'n Play sales were \$21.9 million, \$3.0 million (12.0%) less than last year. Daily games sales were \$265.3 million, \$48.4 million (22.3%) more than last year. Jackpot games sales were \$63.7 million, \$2.4 million (3.6%) less than last year. Overall, jackpot games continue to struggle. Jackpot rolls have not produced jackpots that players look for (both Mega Millions and Powerball have had jackpots of over \$1 billion). Keno sales were \$13.5 million. Sales for instant on the iLottery platform were \$160.0 million. Of the 36.4% growth in total sales, approximately 25% is coming from the two new offerings (Keno and iLottery instant).

Ms. Courtney reviewed the FY21 sales versus prior years. She also reviewed expense rates versus the prior year. Prize expense was 66.6%, which was 6.2% more than last year (60.4%). In FY21, with the introduction of two new products that are designed with a higher prize payout rate, the overall combined prize expense rate will continue to increase toward the 70% range and maybe even higher. Retailer compensation was 5.5%, which was 0.1% less than last year (5.6%).

FINANCIAL REPORT (Continued)

Operating expenses were 4.4%, which was 1.3% less than last year (5.7%).

Ms. Courtney said year-to-date profits are \$227.0 million compared to \$192.8 million last year. Profits relative to short term results are strongly affected by the daily games payout rate. If players are lucky, and popular numbers are drawn, it drives the prize expense rate up in that category.

Chief Gallop asked if our prize expense rate is comparable to other state lotteries. Ms. Courtney said it is, but every state has unique features. Some states have statutory requirements for the percent of every sales dollar that must be returned in the form of profits. The prize expense rate also is a function of the products a lottery offers. Our games have payouts in line with the industry.

Mr. Hamid asked what impact, if any, iLottery sales will have on retailer compensation. Ms. Courtney said the retailer compensation rate is comparing retailer earnings to products that are available at retail. Retailers are not selling iLottery products, but we have a few omnichannel strategies to help drive traffic back to retail through the iLottery platform. Players also can purchase an Online Cash voucher at retail locations that can be used by redeeming the value on the iLottery platform. When a retailer sells a voucher, they will be paid retailer commission on the sale of the voucher. The industry has generally found that the introduction of iLottery does not cause a decline in retail sales. Other lotteries that started to sell online continue to see growth in their traditional brick-and-mortar locations. We continue to work with our retailers. We value their partnership and appreciate all they do to help us be successful.

BOARD ISSUES

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 Mr. Price and Mr. Tsui to serve as the Nominating Committee. They will develop a slate of officers and committee members to be presented to the Board at the February 2021 meeting.

2021 Board Meeting Dates

Mr. Hamid said the proposed 2021 Board meeting dates were recently released and agreed upon. The dates are February 3, 2021, April 21, 2021, July 21, 2021, and October 27, 2021.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on February 3, 2021.



BOARD MEMBERS' OPEN DISCUSSION

None.

CLOSED MEETING

Ms. Lawrence made the following motion, which was seconded by Ms. Collins:

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
- 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. Mr. Price read the following certification for the closed meeting:

WHEREAS, the Virginia Lottery Board has convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and

WHEREAS, § 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 Mr. Tsui and seconded by Ms. Lawrence, the Board approved, as presented in the closed meeting, the prize structures for Scratcher Games 2085 through 2089 and 2091 including the 0.5% prize-structure variance.

RECONVENED MEETING (Continued)

On motion duly made by Mr. Tsui and seconded by Ms. Lawrence, the Board approved, as presented in the closed meeting, the Fireball Add-on for Pick 3 and Pick 4.

On motion duly made by Mr. Tsui and seconded by Ms. Lawrence, the Board approved, as presented in the closed meeting, the prize structures for Instant Games 575, 1129, 1790, 3207 and 3208.

On motion duly made by Mr. Tsui and seconded by Ms. Lawrence, the Board approved, as presented in the closed meeting, the proposed updates for the revenue projections and transfers to the Lottery Proceeds Fund for the 2020-2022 biennium (fiscal years 2021 and 2022). 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.

---

Kevin Hall, Secretary

---

Ferhan Hamid, Chairman