

VIRGINIA LOTTERY
Board Meeting
October 27, 2021

The Virginia Lottery Board met on October 27, 2021, 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/pdq0hIj3glw>

MEMBERS PRESENT: Ferhan Hamid, Chairman
Cynthia Lawrence, Vice Chairman
Vonda Collins
Orrin Gallop
Scott Price

MEMBER ABSENT: Kimberley Martin

STAFF PRESENT: Kevin Hall, Executive Director
Deborah Courtney, Director of Finance
Amy Dilworth, General Counsel
Robert Fontaine, Deputy General Counsel for Gaming
Kelly Gee, Manager of Government Relations
Ted Maxwell, Director of Information Technology Services
Jennifer Mullen, Director of Public Affairs and Community Relations
Terri Rose, Director of Marketing
Tony Russell, Director of Administration
Tom Sawyer, Director of Sales
Beth Smith, Director of Audit and Security
Gina Smith, Deputy Director of Gaming Compliance
Rob Wesley, Director of Digital
Jo Murphy, Executive Assistant

Mr. Hamid, chairman, presided, and Jo Murphy was the recording secretary.

CALL TO ORDER

Mr. Hamid called the meeting to order and noted that a quorum was present.

MINUTES OF LAST MEETING

On motion duly made by Mr. Price and seconded by Ms. Lawrence, the minutes from the regular meeting held on July 21, 2021, were approved as distributed.

DIRECTOR'S REPORT

Mr. Hall said that when the Board last met on July 21, 2021, we were preparing to ease back into three days per week of in-person work at Lottery Headquarters. The Delta variant altered those plans. Today, we remain in the same workforce posture: for headquarters staff, the expectation is at least two days per week in the office and up to three days per week of telework. He said that, at the same time, most of our customer-facing employees and sales reps continued to work five days per week using enhanced health and safety protocols. They have been doing that for more than a year now.

Mr. Hall said that, in early August 2021, the governor issued a directive requiring all state employees to provide proof of vaccination or to participate in weekly COVID testing. Since then, 87% of Lottery employees have documented they are fully vaccinated. For the remaining 13% of employees, we are providing weekly COVID test kits, so they can comply with state requirements. Mr. Hall said that we appreciate the flexibility and cooperation shown by the entire workforce.

Mr. Hall reported that sales are strong across most of the Lottery categories in the first quarter of FY22. At the end of the first quarter, sales totaled \$940 million, which is 37% above the same quarter in FY21. Profits totaled just under \$200 million, which is 17% above the same quarter in FY21.

Mr. Hall said that scratch tickets remain our core product. They appeal to our most loyal players and represent more than 50% of annual retail sales. After a dip in FY20, we spent a lot of time working on the scratch portfolio. We analyzed customer and industry research to make sure we were striking the right balance. We also focused on scratch-ticket distribution; our field team worked closely with our vendor partner, IGT, to ensure we were doing everything to optimize opportunities at our 5,400 licensed retailers. Mr. Hall said that we were pleased to see these efforts pay off with stronger sales performance in FY21 and into FY22. He said that scratch as a category is about 19% ahead of FY21 through the first quarter.

Mr. Hall said that the daily draw games (Pick 3, Pick 4, Cash 5) typically account for about one-third of Lottery retail sales. In the past 18 months, we have freshened these core games by adding new play features and other add-ons, which provide more winning opportunities to help keep these games interesting.

Mr. Hall said that we continue to see remarkable performance in the second year of iLottery. Virginia had the strongest launch of any iLottery state so far and continues to lead the industry in every key metric of digital engagement.

Mr. Hall said that we believe this successful, almost \$1 billion first quarter is due to several factors, some of which may not carry forward across the entire fiscal year. He said that we are seeing the continued gradual reopening of the economy, and we have seen a continuation of

DIRECTOR'S REPORT (Continued)

some federal stimulus, which boosted discretionary consumer spending in recent months. Mr. Hall said that the constant hard work of fine-tuning the core products and improving our retail distribution efforts, as well as anticipated continued growth of online sales, will likely carry across the fiscal year and strengthen the overall Lottery portfolio.

Mr. Hall said that, during the Closed Session of this meeting, Finance Director Deborah Courtney will present the revised FY22 sales and revenue forecast. She will discuss recent performance and map out the factors we believe could impact revenue going forward. Following Ms. Courtney's presentation, the Board will be asked to approve a revised forecast. The forecast will be submitted to the governor's office and incorporated into his budget to be presented later in 2021.

Mr. Hall said that we are now in the ninth month of legal online sports betting in Virginia. He reported that, after a brief summer slump tied to the relatively thin sports calendar, sports betting activity rebounded in September, which was tied to the start of the NFL and college football seasons. Mr. Hall said that we are approaching \$2 billion in sports wagering activity.

Mr. Hall reported two compliance actions we have taken so far as the regulator of mobile sports betting. In the first instance, an operator failed to activate the required geolocation screening on wagers. Geolocation ensures that only people located in Virginia are placing bets, and it is required by statute and regulation. In this instance, the operator's geolocation screen remained in test mode for a period after the operator went live. That allowed a number of wagers to be placed without appropriate geolocation screening. In the second instance, there was an apparent software glitch in an operator's upload of names from the voluntary self-exclusion list. As a result, an individual who had placed that individual's name on the exclusion list was able to successfully place a wager. Mr. Hall said that, in both instances, the operators reported the apparent violations within a reasonable time frame, and both operators worked with us to determine the scope and scale of the violations. The operators submitted written corrective plans to prevent similar violations in the future, and both operators signed consent agreements with the Lottery.

Ms. Lawrence asked: At what point would the Lottery have caught these issues had they not been self-reported? Ms. Smith said that regulators rely on the operators to self-report. She said that we have procedures in place to monitor self-exclusion, and we also perform periodic audits. Regarding the geolocation issue, Ms. Smith said that this is the first time an operator inadvertently remained in test mode. She said that we receive a map report from GeoComply. If any pinpoints drop outside of Virginia, we will ask them to investigate. GeoComply will be installing equipment in our office soon to display the data. Ms. Smith said that, as her team continues to expand, they will be able to be more proactive. Mr. Price asked how the assessments were determined. Mr. Hall said that the assessments were negotiated with each of the operators based on the scale of the violation and resulted in a signed consent agreement. Ms. Lawrence

DIRECTOR'S REPORT (Continued)

asked if the other licensees have been notified of the violations. Ms. Smith said that we do not notify other licensees, but any licensee that receives a sanction is obligated to report that to the other jurisdictions in which they operate. Ms. Smith said that she is aware that these incidents have been reported.

Mr. Hall said that, on October 25, 2021, the proposed permanent casino gaming regulations were publicly posted on the Virginia Regulatory Town Hall website. That officially opened a 60-day period for public comments and stakeholder input. He said that we anticipate coming before the Board in January 2022 to discuss any tweaks and changes we might recommend as a result of this public input. In the meantime, the temporary regulations the Board enacted in February 2021 allow us to begin the comprehensive casino licensing process.

Mr. Hall said that we have been closely tracking two items of legislative interest over the summer months. A joint House and Senate subcommittee has been looking at the regulatory structure of charitable gaming. Recent challenges have surfaced involving the Charitable Gaming Board and the adequacy of the regulations currently enforced by the Virginia Department of Agriculture and Consumer Services (VDACS). The review included a study by the Office of the Inspector General, which ultimately recommended some specific improvements to VDACS regulatory structure and processes in early October 2021.

Mr. Hall said that, initially, there was conversation about potentially shifting charitable gaming oversight to the Lottery and its Board, but the Inspector General is not recommending that at this time. It appears the General Assembly subcommittee is coalescing around recommendations to restructure the Charitable Gaming Board. The restructure would provide clearer lines of authority and additional resources to continue managing charitable gaming oversight at VDACS.

Mr. Hall said that a Senate committee held several meetings over the summer on a proposal to allow video gaming terminals, which look and operate a lot like slot machines, at restaurants and retail locations. The Lottery would handle licensing and compliance functions. That is one model that has been successfully implemented in several other states. He said we have looked at it closely, and it is something the Lottery could do if we are ultimately assigned that responsibility. Mr. Hall said that, with the recent expansion of gaming in Virginia, it is not clear if this legislative proposal will gain traction in the 2022 session. He said that we will keep the Board informed on any new developments.

Mr. Hall said that the Lottery will once again launch a Gift Responsibly campaign during the year-end holiday season. In the past three years, every U.S. lottery has participated in this industrywide campaign. We will use our social media and marketing platforms and resources to remind people it is against Virginia law to give a Lottery ticket to anyone younger than 18. It also is against Virginia law for retailers to sell Lottery tickets to minors or redeem a winning

DIRECTOR'S REPORT (Continued)

ticket presented by a minor. Mr. Hall said that it has been our experience that a lot of law-abiding people do not realize that Lottery tickets are an age-restricted product. We are saying that Lottery tickets make great gifts for adults.

Mr. Hall said that the Lottery marked the 33rd anniversary of the sale of the first Virginia Lottery ticket on September 20, 2021. Since the sale of the first ticket, the Lottery has sold more than \$44 billion in tickets, awarded \$26 billion in prizes to players and paid nearly \$2.5 billion in commissions and incentives to our retail partners. More importantly, since the establishment of the Lottery Proceeds Fund in 1999, the Lottery has raised a combined \$11 billion in profits for K-12 public school programs.

Mr. Hall said that, in addition to celebrating more than three decades of success, the September anniversary gave us an opportunity to freshen up our look by updating our logo. From the first logo in 1988, which was updated in 2012, to the newest version unveiled in September 2021, each logo has had the same iconic crossed fingers that Virginians will recognize immediately. We are lucky to have one of the most instantly recognizable trademarks in Virginia. We constantly work to freshen and update the product mix, and our goal with the updated logo is to move the Virginia Lottery brand forward while also reflecting the strong reputation we have built over 33 years.

Mr. Hall asked longtime Lottery employee Willie Spence to join him at the podium for a special recognition of his upcoming retirement. Mr. Hall said that it takes a certain type of person to choose to enter public service, but it takes a truly extraordinary one to devote an entire lifetime to it. Throughout Mr. Spence's 33-year tenure with the Lottery, which began after 22 years of prior state service, he performed several roles: everything from Lottery investigator to draw show coordinator to, now, our security operations manager. The day Mr. Spence chose to bring his talents, his sense of responsibility, integrity, and his all-around friendly personality to the Lottery is one to be noted and celebrated.

Ms. Lawrence read a resolution from the Board recognizing Mr. Spence's years of service to the Lottery and to the Commonwealth. The resolution is attached to and made a part of the minutes.

Ms. Mullen provided an update on the Lottery's efforts to remind Virginians of our important mission to raise revenue for K-12 public schools. She said that we once again partnered with The Tommy + Kelly Show in Northern Virginia to sponsor the Fall Teacher Tour. We collected nominations for outstanding teachers, and even entire schools, and then we hit the road to honor some of the educators. Ms. Mullen said that this year's partnership was expanded to include working with local media personalities in Hampton Roads and Roanoke.

DIRECTOR'S REPORT (Continued)

Ms. Mullen shared pictures of our team working closely with our vendor partners at RedPeg to create an education-focused event footprint. To date, we have had the chance to bring the Lottery brand of fun and excitement to eight schools, and we have a few more to come in November 2021.

Ms. Mullen shared a video showcasing a visit to Hampton Roads. She said that there was quite a bit of social-media engagement as the tour continued.

Ms. Mullen said that the Thank a Teacher Art Contest kicks off in mid-December 2021. We will be looking for talented K-12 public school students to submit artwork that will be featured on next year's Teacher Appreciation Week thank-you notes.

Mr. Hamid said he likes the new logo.

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 Chief Gallop to serve as the Nominating Committee. They will develop a slate of officers and committee members to be presented to the Board at the January 2022 meeting.

Marketing Promotions

Ms. Rose said CASH POP launches on January 24, 2022, and it will be one of our simplest games ever. This game has been very successful in other states. Players only need to pick one number between 1 and 15. Numbers will be drawn five times a day; the computer will assign the prize. The top prize for the game is \$2,500.

There are a series of promotions to promote the launch over the first 10 months: social-media contest prize packs, player/event/retail coupons, CASH POP Top-Prize 2nd Chance Promotion and CASH POP/Cash 5 with EZ Match Super Play promotional coupons.

The total investment is \$173,750.

On motion duly made by Chief Gallop and seconded by Ms. Lawrence, the Board approved the promotional funding for the CASH POP promotions as presented.

BOARD ISSUES (Continued)

Sales Promotion

Mr. Sawyer presented the Powerball \$500 Giveaway promotion that will run March 1 - 31, 2022, and September 1 - 30, 2022. The objectives are to increase sales, to increase awareness at vending of the three weekly Powerball drawings and the availability of online games and to increase the chance for cross-product purchases. Mr. Sawyer explained how the program works.

The total cost covering both promotional periods is \$36,000.

On motion duly made by Ms. Collins and seconded by Mr. Price, the Board approved the prizes and odds for the Powerball \$500 Giveaway promotion as presented.

Gaming Compliance Update

Ms. Smith provided an update on sports betting. Since the July 21, 2021, Board meeting, Penn Sports Interactive, LLC and Golden Nugget Online VA, LLC went live. Twin River Management a/k/a/ Bally's Corporation was approved on March 15, 2021, with an anticipated launch in mid-November 2021. Five additional operators are currently under review, and we expect to award permits in the upcoming months.

Ms. Smith provided a financial update. She said that all sports betting financial data for the month of September was based on preliminary estimates. As usual, a monthly press release will be released no later than November 1, 2021.

Ms. Smith said that, since the inception of the program, there have been \$1.9 billion in wagers made on the various platforms. The operators have given away approximately \$74 million in promotional play and paid over \$12 million in taxes.

Ms. Smith shared details of the market share by operator: FanDuel – 45.4%, Draft Kings – 26.1%, BetMGM – 17.9%, followed by Caesars, Rivers, Barstool, Wynn, Unibet and Golden Nugget. Promotional play is mostly in-line with the market-share percentages. Total tax paid is \$12,631,513. Of that amount, \$12,315,725 will go to the General Fund, and approximately \$315,788 will go to the Problem Gambling and Treatment Support Fund.

Ms. Smith also provided a breakdown of tax payments by operator: BetMGM - \$2.6 million, DraftKings - \$2 million, FanDuel - \$7.8 million, Wynn - \$27,764, and Barstool - \$39,133. A couple of operators have yet to generate tax revenue.

BOARD ISSUES (Continued)

Ms. Smith provided a breakdown of total wagers by sport. Basketball continues to hold the lead. She said that it will be interesting to see the shift once football season begins.

Ms. Smith provided an update on the voluntary exclusion program. The program began in January 2021, and there are 121 individuals currently enrolled in the program. March was Problem Gambling Awareness month and had the highest number of enrollments. The majority selected the five-year exclusion.

Mr. Hamid asked if Ms. Smith expects that sports betting revenue will continue to grow. Ms. Smith said that she expects sports betting revenue will continue to grow especially after we bring on five new operators.

Ms. Smith provided an update on casinos. Since April 2021, the following casino-related applications have been available on our website:

Facility Operator
Principal Entity

Supplier Permits:
Contractor
Principal/Key Manager
Manufacturer
Slot Machine Management System Provider

Service Permits:
Gaming Employee
Non-gaming Employee
Vendor Major
Vendor Minor

As of this meeting, the Lottery has received the following types of applications: Facility Operator, Principal Entity, Manufacturer, Vendor Major and Vendor Minor. Going forward, we anticipate receiving thousands of applications. Ms. Smith said that the volume will be ongoing due to an anticipated high rate of turnover.

Ms. Smith said that, due to the volume of applications that will be received on an ongoing basis and the time-sensitive nature of the approvals, the Lottery is requesting the Board delegate to the Deputy Director of Gaming Compliance any authority that the Board may have to issue supplier and service permits. The exception to this delegation would be for the facility operator permit and any supplier permits issued to the actual casino operator or general manager of a casino.

BOARD ISSUES (Continued)

These licenses will be brought forward to the Board for approval. On a quarterly basis, the Lottery shall report statistical information to the Board regarding license issuances.

Mr. Hamid asked who is approving permits at this time. Ms. Smith said that no permits have been approved. Ms. Collins asked if we are staffed and prepared for the significant increase in volume for the approval process. Ms. Smith said that her licensing team is fully staffed with over 30 investigators. The investigators are fully trained and ready.

On motion duly made by Ms. Lawrence and seconded by Chief Gallop, the Board delegated to the Director or his authorized designee the authority to issue or deny any service permit or supplier permit, with the exception of such permits issued to the five casino operators and to the general manager of each casino gaming establishment.

2022 Board Meeting Dates

Mr. Hamid announced the proposed Board meeting dates for 2022. The April date will be finalized later due to a conflict for one of the Board members.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on January 12, 2022.

BOARD MEMBERS' OPEN DISCUSSION

None.

CLOSED MEETING

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

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; and

Discussion of records protected under subdivision 2 of 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, 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 voted in the affirmative that the certification was accurate as read.

On motion duly made by Ms. Collins and seconded by Ms. Lawrence, the Board approved, as presented in the closed meeting, the prize structures for Scratcher Games 2144 through 2147, 2149, 2155 through 2161, and 2165 through 2170, as presented, including the 0.5% prize-structure variance.

On motion duly made by Ms. Collins and seconded by Ms. Lawrence, the Board approved, as presented in the closed meeting, the prize structures for Print 'n Play - X The Money draw games.

On motion duly made by Ms. Collins and seconded by Ms. Lawrence, the Board approved, as presented in the closed meeting, the Virginia New Year's Millionaire Raffle.

On motion duly made by Ms. Collins and seconded by Ms. Lawrence, the Board approved, as presented in the closed meeting, the prize structures for Instant Games 1141, 3220 through 3224, 3226, 3710, 3714, 3715, and 3737, and Draw Game 504, as presented, including up to 10% of gross gaming revenues from iLottery games to be allocated for online lottery promotional activity.

On motion duly made by Ms. Collins and seconded by Chief Gallop, the Board accepted, as presented in the closed meeting, the proposed updates for the revenue projections and transfers to the Lottery Proceeds Fund for the 2022 fiscal year and the 2022-2024 biennium (fiscal years 2023 and 2024). 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

Board Resolution
October 27, 2021

WHEREAS, Willie R. Spence, Jr. began his career of public service in 1967 as a Boy's Training School Project Supervisor at the first halfway house in the Commonwealth of Virginia, followed by 17 years of service as an intake counselor and parole officer at the Virginia Department of Corrections;

WHEREAS, Willie R. Spence, Jr., joined the Virginia Lottery on July 25, 1988, working tirelessly and diligently to ensure the successful launch of the very first lottery games in Virginia in September 1988, helping to lay the foundation for one of the Lottery's core values: Integrity;

WHEREAS, Willie R. Spence, Jr., during his 33 years at the Virginia Lottery, served in a variety of roles, including Lottery Investigator, Draw Show Coordinator, Security Operations Coordinator, Facility Security Contract Manager, Draw Show Manager and Security Operations Manager;

WHEREAS, Willie R. Spence, Jr.'s ability to develop and maintain constructive working relationships with law enforcement and other state agencies, protect the Lottery from fraud or corruption, and promote a positive image of Lottery operations have resulted in him being an indispensable resource to the Lottery Executive Director, his executive management team, and the Virginia Lottery Board;

WHEREAS, Willie R. Spence, Jr.'s passion for helping to shape the lives of young men was evident both in his professional life, as well as his personal life, where he ultimately devoted decades of time as a football coach, mentoring and inspiring hundreds of young men at high schools and universities across central Virginia.

NOW, THEREFORE BE IT RESOLVED, that the members of the Virginia Lottery Board hereby extend their gratitude and sincere appreciation to Willie R. Spence, Jr. upon his retirement for 55 years of professional and personal achievements and 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