

VIRGINIA LOTTERY
Board Meeting
August 7, 2024

The Virginia Lottery Board met on August 7, 2024, at 9:30 a.m. at Lottery Headquarters in Richmond, Va. A livestream link to the meeting was available on the Virginia Regulatory Town Hall website. A video recording of the meeting can be viewed here:
<https://youtu.be/-InAqnZhWyQ>

MEMBERS PRESENT: Ferhan Hamid, Chairman
Cynthia Lawrence, Vice Chairwoman
Jonathan Comer
Orrin Gallop
Adam Tolbert

MEMBERS PARTICIPATING REMOTELY:
Scott Price
Sherry Williams

STAFF PRESENT: Khalid R. Jones, Executive Director
Amy Dilworth, General Counsel
Deborah Courtney, Deputy Executive Director of Finance and
Administration
Ray Dunkle, Deputy Executive Director of Gaming Compliance
Tony Russell, Deputy Executive Director of ITS and Operations
Scott Kenyon, Director of Marketing
Jennifer Mullen, Director of Communications and Customer
Relations
Jo Murphy, Executive Assistant

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

CALL TO ORDER

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

Mr. Price and Ms. Williams participated remotely pursuant to Virginia Code section 2.2-3708.3 (2022). Both members received approval to participate remotely from the chairman after complying with the statutory notice requirements.

GAMING COMPLIANCE COMMITTEE REPORT

Chief Gallop said that the Gaming Compliance Committee met on June 18, 2024. The discussion topics included a legislative update and an update on the Norfolk and Petersburg casinos. An update on sports betting sanctions and casino fines was provided during the closed meeting.

GAMING COMPLIANCE COMMITTEE REPORT (Continued)

On motion duly made by Mr. Comer and seconded by Mr. Tolbert, the minutes from the Gaming Compliance Committee meeting held on March 19, 2024, were approved as recommended by the committee.

OPERATIONS COMMITTEE REPORT

Ms. Lawrence said that the Operations Committee met on June 18, 2024. The discussion topics included the results of the Procurement Manual and procedures revisions study, and the Lottery's education mission. An update on cybersecurity was provided during the closed meeting.

On motion duly made by Chief Gallop and seconded by Mr. Tolbert, the minutes from the Operations Committee meeting held on March 19, 2024, were approved as recommended by the committee.

MINUTES OF LAST MEETING

On motion duly made by Ms. Lawrence and seconded by Mr. Comer, the minutes from the regular Board meeting held on May 1, 2024, were approved as distributed.

DIRECTOR'S REPORT

Mr. Jones said that the FY24 working sales goal was \$5.2 billion, and the preliminary FY24 sales are \$5.5 billion. He said that FY24 sales are almost 20% ahead of last year and 4% ahead of goal. FY24 profits are over \$900 million and a new record. Mr. Jones also said that retail sales grew more than 1% after showing declines of more than 4% in the first half of FY24. Scratcher sales are over \$1.3 billion, and retailer commissions are over \$140 million. In FY24, iLottery gross sales surpassed retail sales for the first time. The gross iLottery sales also surpassed the gross sales of any lottery that sells iLottery. eInstants sales are \$2.9 billion, and there were more than 155,000 first-time depositors.

Mr. Jones provided an update on retailer recruitment, social establishments and additional equipment placements.

Mr. Jones said that, in other highlights, the Lottery was selected as a 2024 Top Workplaces by the Richmond Times-Dispatch. He gave a brief overview of the Lottery's LEAD program. Mr. Jones said that over \$8,000 was raised by Lottery employees in FY24 through CVC events. He also provided an overview of the Lottery's two employee-recognition programs - Play of the Day and All-Star Awards. Lastly, he gave a brief overview of the Lottery Outreach Program.

Mr. Jones provided a brief Gaming Compliance department update. He announced that, after a worldwide search, Ray Dunkle was selected as the Deputy Executive Director of Gaming

DIRECTOR'S REPORT (Continued)

Compliance. Gina Smith departed that role in July 2024. Mr. Jones made note of the funds that go to the Problem Gambling Treatment and Support Fund. Mr. Jones, Mr. Dunkle and Ms. Mullen continue to attend the Problem Gambling Treatment and Support Advisory Committee meetings. Mr. Jones said that problem gambling and responsible gaming has been especially important to him since he took the role as Executive Director. He also said that we must remain vigilant in the areas of problem gambling and responsible gaming. Mr. Jones said that he and the Lottery team speak weekly about the Voluntary Exclusion Program and how to make it better. He also said that we collaborate with other gaming regulators around the nation on this topic. Mr. Jones said that this is something that is extraordinarily serious to us as regulators.

Mr. Jones shared the FY25 strategy map. Goals for FY25 include growth through innovation including expansion of social establishments, IGT system conversion and new Flex terminals, new jackpot digital signage and billboards, and retailer relationship management. Areas of interest related to Gaming Compliance in FY25 include the joint subcommittee to study the feasibility of establishing the Virginia Gaming Commission, skill games, new sports betting category (Betting Exchange) and responsible gaming (RG Regulator Collaboration Group and the Problem Gambling Treatment and Support Advisory Committee).

Ms. Lawrence thanked Mr. Jones for his comments surrounding problem gambling and the initiatives in which the Lottery remains involved.

Chief Gallop asked about the effect on the Lottery if skill games come back into the market. Mr. Jones said that, whatever happens, the Lottery should have time to be adequately prepared.

Mr. Hamid congratulated the Lottery on its excellent financial results. He also said that he appreciates that Mr. Jones is open and receptive.

PROCUREMENT RESEARCH AND RECOMMENDATIONS

Mr. Jones said that, in May 2024, the Board asked that we undertake a study related to the Lottery's procurement processes. He said that we researched best practices amongst other Virginia agencies and state lotteries. The search had breadth and depth. We looked at board notification of open procurements and evaluation panels, organizational structure of procurement within the agency and SWaM reporting. For independent agency procurement practices, we surveyed other independent Virginia agencies that are not subject to the Virginia Public Procurement Act. With relation to the organizational structure, we found that procurement was either within a finance department or administration. Staffing was between one and 11 positions, and the involvement of the boards of the relevant agencies was policy approval or none. He said that we also solicited feedback from other U.S. lotteries and received responses from 18

PROCUREMENT RESEARCH AND RECOMMENDATIONS (Continued)

jurisdictions. The results showed that procurement was under finance in 10 cases, and staffing was between one and nine. Eleven of the survey respondents had no board involvement, six had some level of contract-award approvals, and one had policy approval.

Mr. Jones said that the Lottery does not recommend any structural changes in the way that the procurement function reports or the operational group in which it sits. He proposed two revisions to the current Procurement Manual and Lottery Procurement Policy. The first proposed revision relates to notifying the Board concurrently when Requests for Proposals of greater than \$1 million are posted online. The second proposed revision relates to the Executive Director providing annual reporting to the Board related to SWaM goals and activity for each fiscal year. Mr. Jones said that the next step would be for the Operations Committee to review the recommendations prior to the next Board meeting. The Board can vote to accept, reject or make different recommendations.

Mr. Hamid said that this will be discussed at the next Operations Committee meeting.

BOARD ISSUES

Financial Update

Ms. Courtney provided preliminary results for FY24. She said that total sales were a record \$5,521.0 million, which is \$909.1 million (19.7%) more than last year and \$223.0 million (4.2%) more than expected. Scratcher sales were \$1,314.1 million, which is \$32.4 million (2.5%) more than last year and \$96.2 million (7.9%) more than expected. Ms. Courtney said that growth occurred in the second half of the year. She said that, notably, skill games were deemed to be illegal during that time. It also was during that time that we saw a significant and instant change in our sales trajectory.

Mega Millions sales were lower than the previous year. Powerball sales were higher than the previous year. iLottery sales had tremendous growth but were close to the forecast.

Ms. Courtney reviewed sales versus forecast and versus prior years. She also reviewed expense rates versus the prior year. Prize expense was 76.9%, which was 2.8% more than last year (74.1%) and 0.1% more than expected (76.8%). Retailer compensation was 5.8%, which was 0.1% more than last year (5.7%) and as expected (5.8%). Operating expenses were 3.8%, which was 0.4% less than last year (4.2%) and 0.7% less than expected (4.5%).

Ms. Courtney provided a comparison of fiscal-year transfers for FY20 through FY24. The Auditor of Public Accounts will certify the FY24 numbers by August 15, 2024.

BOARD ISSUES (Continued)

Mr. Hamid asked if the boycott had any impact on sales. Ms. Courtney said that there was some impact on sales, but the boycott was short-lived. Mr. Hamid also asked how much an average retailer earns in retailer compensation. Ms. Courtney said that she can provide information about retailer compensation at a future Operations Committee meeting or Board meeting.

Ms. Courtney provided an update on taxes from sports betting. Total wagers were up 22.80% in FY24 over FY23. The sports betting Adjusted Gross Revenue (AGR) was up 17.43%. She also provided an update on taxes from casinos. The total casino AGR was up 163.8% over last year. The increase over last year is significant because two of the three casinos were not in operation for the entirety of FY23. Approximately one-third of the tax (6% of AGR) goes to the host locality, 0.8% of the tax goes to the Problem Gambling Treatment and Support Fund, and 0.2% of the tax goes to the Family and Children's Trust Fund. The remaining tax revenue goes to the Gaming Proceeds Fund to be appropriated for public school construction, renovations or upgrades.

Ms. Courtney provided the tax breakdown for Hard Rock Bristol (HR Bristol), Rivers Casino Portsmouth and Caesars Virginia (Danville).

Gaming Compliance Update and Waiver Request

Mr. Dunkle said that there are currently 15 approved operators, but three operators announced that they each will be closing their sportsbook. VHL VA, LLC (aka 888) is no longer accepting wagers. We are continuing to work with them to ensure completion of a proper shutdown. Digital Gaming Corporation VA, LLC announced that they are closing their sportsbook on July 31, 2024. The Lottery will meet with them throughout their shutdown plan. PlayLive Virginia LLC (aka Superbook) announced that they are closing their sportsbook on July 19, 2024. The Lottery is working with them on their shutdown plan. Unibet Interactive Inc.'s permit expired in April 2024.

Mr. Dunkle provided an update on sports betting renewals. No permit holders were up for renewal during the second quarter of calendar year 2024. There is one renewal for the fourth quarter of calendar year 2024.

Mr. Dunkle provided an update on supplier renewals and vendor renewals.

Mr. Dunkle provided the market share by operator. He also provided a breakdown of total wagers by sport.

Mr. Dunkle provided an update on the Voluntary Exclusion Program. As of July 15, 2024, 1,173 individuals are active, and 137 individuals are inactive. Of the 137 inactive individuals, 14 individuals have reapplied. He also provided a breakdown of enrollees by gender and by age.

BOARD ISSUES (Continued)

Chief Gallop asked what region of the state has the most participants. Mr. Dunkle said that he will get that information for Chief Gallop.

Mr. Dunkle provided an update on casinos. The following casino-related permits have been issued as of July 31, 2024:

Service Permits:

| | |
|-----------------------|-------|
| Gaming and non-gaming | 6,337 |
| Vendors | 650 |

Supplier Permits:

| | |
|---------------|-----|
| Key Manager | 136 |
| Manufacturers | 22 |

Mr. Dunkle provided an update on HR Bristol. He said that, during the last quarter, his department approved the receipt of 486 new games for the permanent casino and approved five scheduled projects involving 98 games. Mr. Dunkle also said that his team is meeting monthly with HR Bristol to prepare for the opening of the permanent casino in the fourth quarter of calendar year 2024.

Mr. Dunkle provided an update on Rivers Casino Portsmouth. He said that, during the last quarter, his department approved the receipt of 15 new games and approved 13 scheduled projects, which involved a total of 546 games and 14 tables. He also said that his team is continuing to work with Rivers Casino Portsmouth on day-to-day operations.

Mr. Dunkle provided an update on Caesars Danville. He said that, during the last quarter, his department approved the addition of 50 new games and approved 16 scheduled projects, which involved a total of 224 games and eight tables. He also said that his team is meeting monthly with Caesars to prepare for their opening of the permanent casino in the fourth quarter of calendar year 2024.

In the absence of the three casino representatives, Mr. Dunkle provided hard copies of their updates for the Board members to review. If the Board members have any questions, Mr. Dunkle said he would reach out to Ms. Evangelista, Mr. Corby and/or Mr. Albrecht.

Ms. Dilworth said that, pursuant to Lottery regulations, the Board is allowed to grant waivers to certain Lottery regulations upon request. Rivers Casino Portsmouth is asking to waive Lottery regulation 11 VAC 5-90-180(B)(3), which relates to the maximum number of table games a floor person may supervise.

BOARD ISSUES (Continued)

Mr. Dunkle said that their request is related to the types and combinations of table games that one person can oversee. There are currently 12 options outlined in the regulations. Rivers has asked for an additional combination involving midibaccarat to be included. He said that the compliance team has reviewed the request by Rivers, and the compliance team is in full support.

Mr. Dunkle anticipates that other casinos could ask for this waiver as well. Because of that, he is asking the Board to delegate to Lottery staff the authority to approve such a request from any other licensed casino gaming establishment in the commonwealth with staff to report any approvals to the Board at its next scheduled meeting.

On motion duly made by Ms. Lawrence and seconded by Chief Gallop, the request of Rivers Casino Portsmouth to waive Lottery regulation 11 VAC 5-90-180(B)(3), which relates to the maximum number of table games a floor person may supervise, was approved as presented.

On motion duly made by Ms. Lawrence and seconded by Chief Gallop, the request to delegate to Lottery staff the authority to approve such a request from any other licensed casino gaming establishment in the commonwealth with staff to report any approvals to the Board at its next scheduled meeting was approved as presented.

Lottery Outreach Program

Ms. Mullen provided an update on employee volunteerism. The Lottery Outreach Program launched in July 2023 and replaced the Making a Difference program. The strategy for the Lottery Outreach Program is for the Lottery to take an active and positive role in the community by providing opportunities for employees to give back. In FY24, 177 individuals volunteered for a total of 313 sign-ups. Those employees accounted for 995 volunteer hours. Ms. Mullen shared details on direct school connections that included five partnerships and five volunteer opportunities that covered seven regions of Virginia. She also discussed community collaboration that included six partnerships and covered seven regions of Virginia. She shared pictures and a video of Lottery Outreach highlights. Ms. Mullen introduced Communications Specialist Tyra Wilkins. The Communications team was recognized with a Richmond Chapter PRSA Commonwealth Award of Excellence for Internal Communications for its work in reinvigorating employee volunteerism through the Lottery Outreach Program.

Ms. Mullen thanked Chief Gallop for recently attending the 200+ Scholars Breakfast as well as a Thank a Teacher event. She also thanked Mr. Tolbert for attending another event in southwest Virginia. Lastly, she acknowledged that Mr. Hamid, Chief Gallop and Mr. Price attended an industry conference in May 2024.

PUBLIC COMMENT

None.

OTHER BUSINESS

The next Lottery Board meeting is scheduled to take place on October 30, 2024, in Richmond.

BOARD MEMBERS' OPEN DISCUSSION

Chief Gallop asked if the Board still intends to have meetings at different locations in the future. Mr. Hamid said yes and potentially in conjunction with the opening of the two permanent casinos.

Ms. Mullen provided an update on the logistics for the turnover event with Governor Youngkin and Secretary Guidera that will take place immediately following today's Board meeting.

Mr. Hamid again congratulated the Lottery staff on the exceptional FY24 results. He also said that he is pleased to see the volunteer efforts.

Ms. Lawrence said that she looks forward to welcoming the Lottery employees that are attending the Sales & Marketing conference in her hometown of Roanoke on August 12 - 14, 2024.

CLOSED MEETING

Chief Gallop-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.

RECONVENED MEETING

Following its closed meeting, the Board reconvened in open session. Mr. Tolbert 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;

RECONVENED MEETING (Continued)

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. Lawrence and seconded by Mr. Comer, the Board approved, as presented in the closed meeting, the prize structure for Virginia's New Year's Millionaire Raffle as presented in the closed meeting.

ADJOURNMENT

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

Khalid R. Jones, Secretary

Ferhan Hamid, Chairman