

Virginia Gaming Commission Cost-Benefit Analysis Report

June 28, 2024

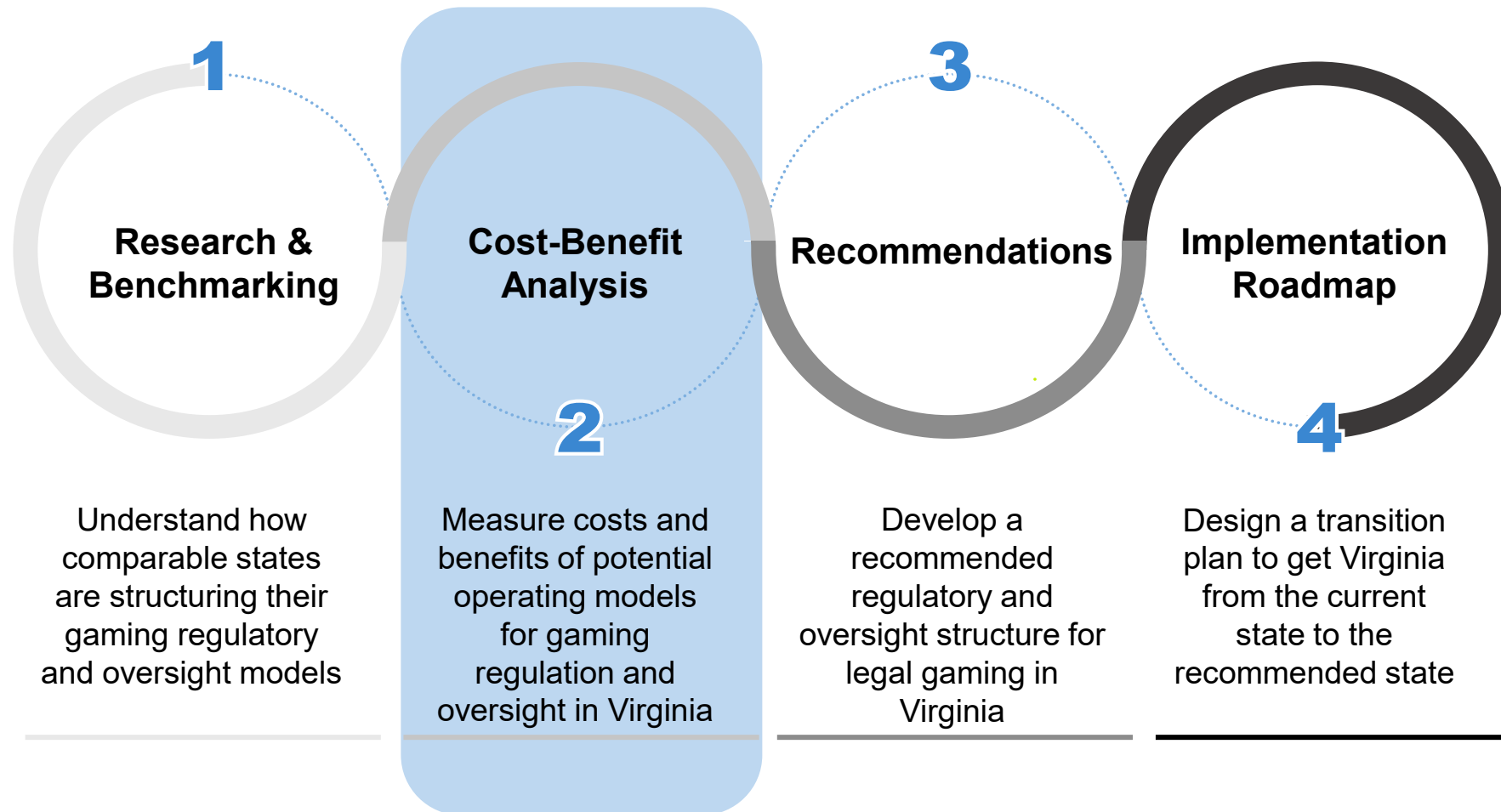


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Overview of Engagement Progress

This deliverable evaluates the costs and benefits of five different operating models to assist in studying the feasibility of establishing a Virginia Gaming Commission to regulate and oversee all forms of gaming in the Commonwealth.



Inputs for Cost-Benefit Analysis

The team conducted analysis and evaluated the costs and benefits of each operating model, leveraging the information and data collected from the inputs below.

Inputs for Analysis



¹ Virginia Lottery, Virginia Department of Agriculture and Consumer Services, Virginia Racing Commission, Virginia Alcohol Beverage Control Authority, Virginia State Police, Office of the Attorney General, Department of Human Resource Management, Department of Behavioral Health and Developmental Services, Department of Taxation, Joint Legislative Audit and Review Commission

Overview of Operating Models

The cost-benefit analysis compares the five operating models below to study the feasibility of establishing a Virginia Gaming Commission (VGC).

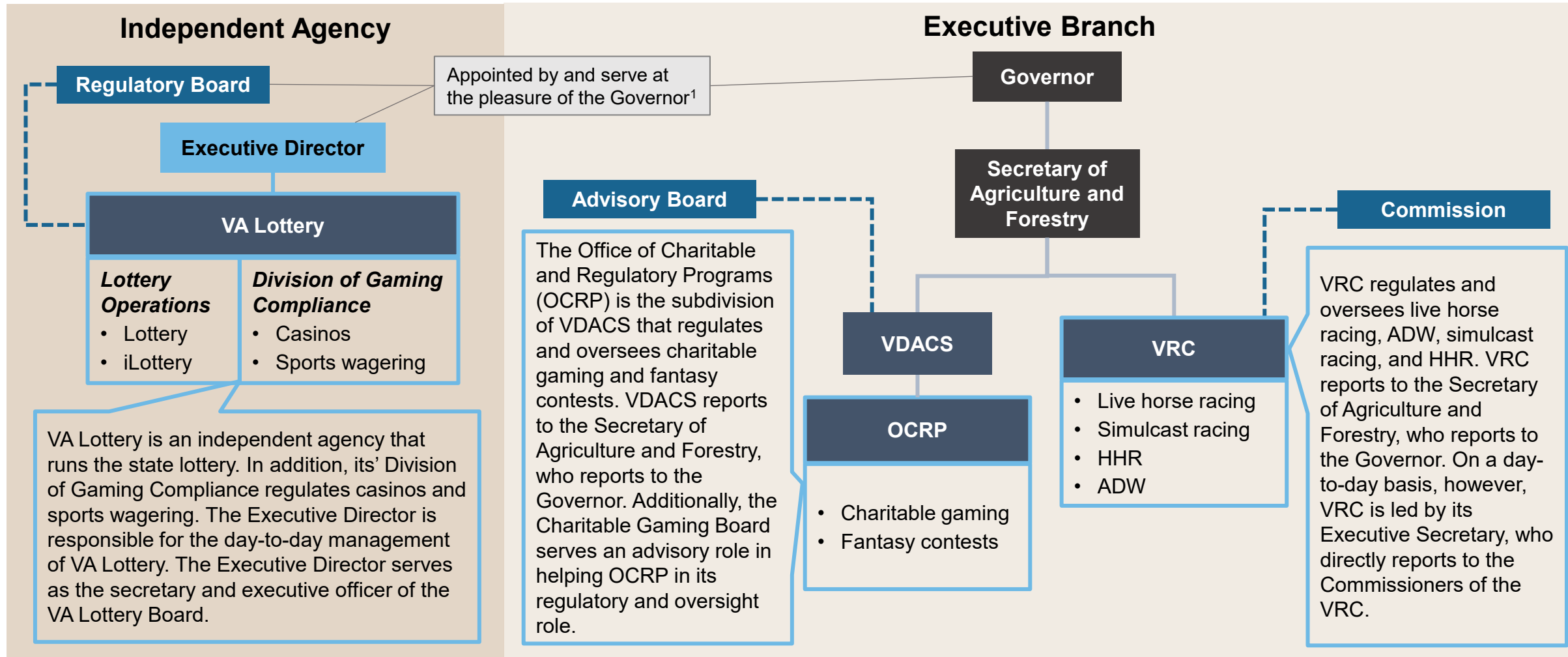
Decentralized (Current State)	VA Lottery		VDACS	VRC		States with similar models ²
	<ul style="list-style-type: none"> Lottery iLottery 	<ul style="list-style-type: none"> Sports Wagering Casinos 	<ul style="list-style-type: none"> Charitable gaming Fantasy contests 	<ul style="list-style-type: none"> HHR 	<ul style="list-style-type: none"> Live Horse racing Simulcast racing ADW 	
	New gaming types ¹					
Option A Consolidation	VA Lottery	VGC			VRC	<ul style="list-style-type: none"> Indiana New Jersey Ohio Pennsylvania
	<ul style="list-style-type: none"> Lottery iLottery 	<ul style="list-style-type: none"> Sports wagering Casinos Charitable gaming 	<ul style="list-style-type: none"> Fantasy contests HHR New gaming types¹ 		<ul style="list-style-type: none"> Live horse racing Simulcast racing ADW 	
Option B Consolidation	VA Lottery	VGC				<ul style="list-style-type: none"> Florida Massachusetts Michigan Mississippi South Dakota
	<ul style="list-style-type: none"> Lottery iLottery 	<ul style="list-style-type: none"> Sports wagering Casinos Charitable gaming 	<ul style="list-style-type: none"> Fantasy contests HHR New gaming types¹ 		<ul style="list-style-type: none"> Live horse racing Simulcast racing ADW 	
Option C Consolidation	VGC				VRC	<ul style="list-style-type: none"> Maryland
	<ul style="list-style-type: none"> Lottery iLottery 	<ul style="list-style-type: none"> Sports wagering Casinos Charitable gaming 	<ul style="list-style-type: none"> Fantasy contests HHR New gaming types¹ 		<ul style="list-style-type: none"> Live horse racing Simulcast racing ADW 	
Option D Consolidation	VGC					<ul style="list-style-type: none"> New York
	<ul style="list-style-type: none"> Lottery iLottery 	<ul style="list-style-type: none"> Sports wagering Casinos Charitable gaming 	<ul style="list-style-type: none"> Fantasy contests HHR New gaming types¹ 		<ul style="list-style-type: none"> Live horse racing Simulcast racing ADW 	
Additional Decision Point	Independent Agency vs. Executive Branch Agency					

¹ New gaming types that may be authorized in the future

² See Appendix A2 for additional information

Overview of Current Governance of Gaming Types

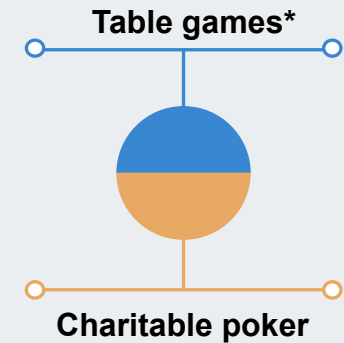
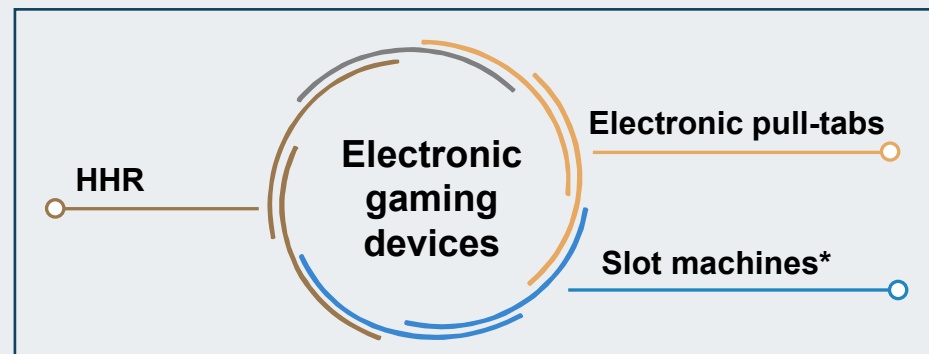
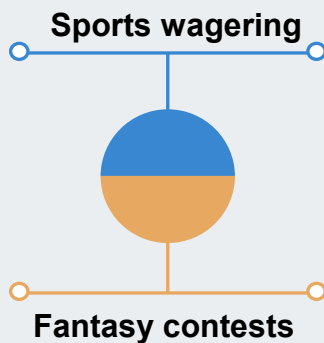
The VA Lottery, VDACS, and VRC regulate and oversee legal forms of gaming in the Commonwealth. The current governance of these agencies is mapped below. *Note: VA Lottery is an independent agency and VDACS and VRC are executive branch agencies.*



Rationale for Consolidation of Certain Gaming Types

- The standard approach observed nationwide is for state gaming commissions to regulate and oversee casinos and sports wagering. In some states, the gaming commissions regulate other forms of gaming as well.
- When exploring potential consolidated operating models, the VGC is assumed, at a minimum, to include casinos and sports wagering in alignment with industry best practices.
- HHR, charitable gaming, and fantasy contests have clear and notable synergies with casinos and sports wagering associated with consolidation. As a result, all consolidation options also include these gaming types.

Sample Synergies



Key Decision Points Across Consolidation Options

All options include the consolidation of casinos, sports wagering, HHR, charitable gaming, and fantasy contests. Other key decision points remain across the operating models, including:

		1 Lottery separate?	2 Racing separate?
1 Should lottery operations (i.e., lottery/iLottery) remain a separate entity ?			
2 Should racing (i.e., live horse racing, simulcast racing, and ADW) be regulated separately?			
3 Should the VGC be an independent or executive branch agency?			
	Option A Consolidation	Yes	Yes
	Option B Consolidation	Yes	No
	Option C Consolidation	No	Yes
	Option D Consolidation	No	No

Centralized

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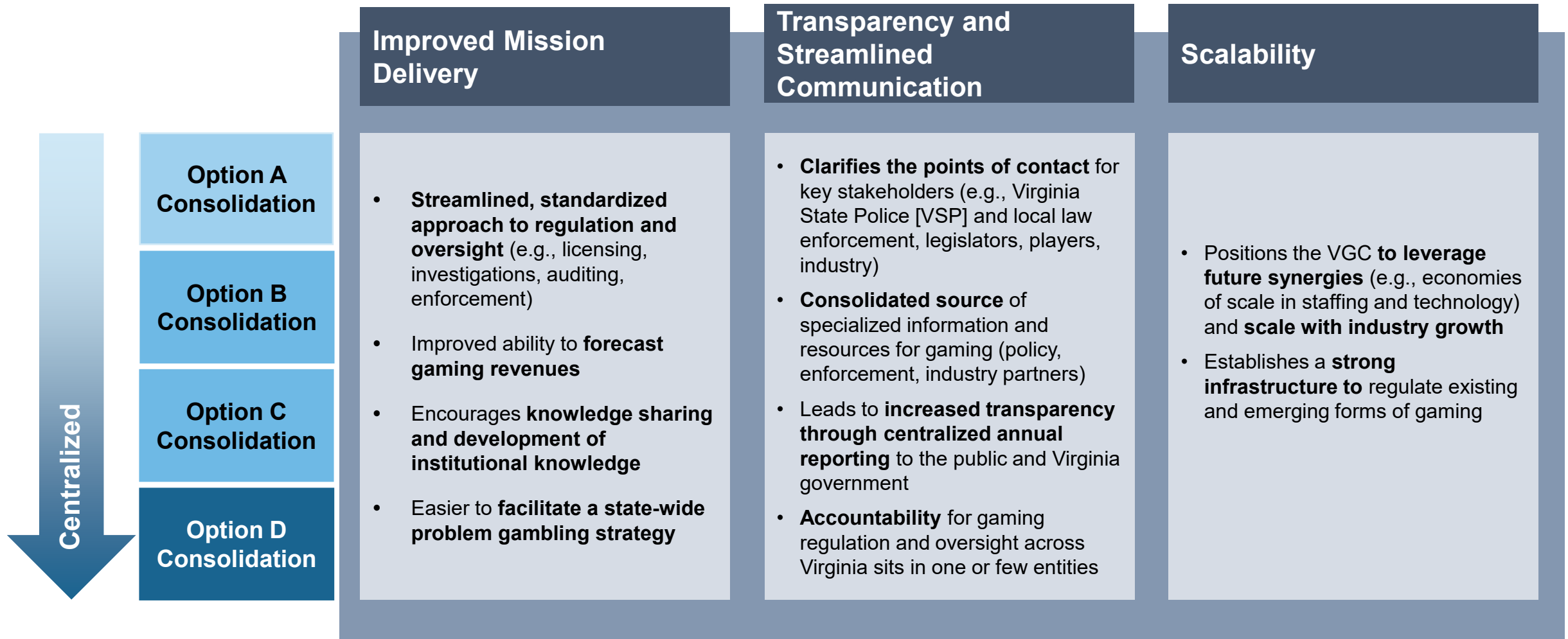
Executive Summary: Key Takeaways

An analysis of the costs and benefits for the five operating models resulted in the following key takeaways:

- **All options** for a consolidated Virginia Gaming Commission **are feasible**
- The **benefits of consolidation options appear to outweigh** one-time transition and new ongoing operational **costs**
- Any **challenges and new costs associated with consolidation can be mitigated** through governance structures and future cost savings, respectively

Executive Summary: Benefits of Consolidation

A centralized model is more scalable, transparent, and effective in carrying out key regulatory and oversight functions.



Executive Summary: Costs and Risks of Consolidation

All consolidation options entail additional costs to fill existing gaps in service and allow for essential upgrades that can capture all the benefits of consolidation.¹ The risks associated with these costs can be mitigated.²

		New Staff	Added Approx. Cost ³	Operational and Transition Costs	Managing Conflict of Interest	Technology
Centralized ↓	Option A Consolidation	Requires additional ongoing staffing costs to fill existing gaps in current gaming regulatory and oversight operations and address new staffing needs resulting from the creation of a new agency	\$5.4M	Potentially requires the acquisition and/or expansion of office space	Carries the risk of potential conflicts of interest between lottery operations and other gaming types	Offers flexibility in terms of whether and when to consolidate systems
	Option B Consolidation		\$4.8M	1 Public awareness campaign	1 Potential for short-term competition among agency objectives and cultures	• Maintain existing systems
	Option C Consolidation		\$1.6M	1 Consolidation of internal operating procedures, policies, and processes and subsequent training and socialization	1 Requires review and potential adjustment of board structures to protect the existing autonomy and revenue streams of gaming types	• Consolidate select systems – \$59,000 – \$62,000 in annual cost savings plus upfront implementation costs
	Option D Consolidation	1 One-time transition costs to hire and train new staff	\$1.1M	1 Branding and marketing 1 Implementation and change management support		• Consolidate most systems – assessment required to determine cost

¹ Cost savings related to consolidation are not realized in the immediate term, but can be expected in the longer term as the VGC scales to keep up with gaming industry growth

² How to mitigate these risks will be discussed in the implementation roadmap deliverable

³ Current total ongoing staffing costs in the decentralized model are approximately \$50.9M across VA Lottery, VDACS, and VRC

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Decision Point 1: Separate Lottery Operation

Decision Point 1 explores whether lottery operations are structured separately from other forms of gaming.

Note: In all models, casinos and sports wagering are consolidated with other gaming types.

Key Considerations: Consolidating lottery operations with other forms of gaming increases the possibility of conflicts of interest; therefore, **lottery operations would need to be siloed in a fully consolidated model**

- Consolidation options have implications for mission/purpose
 - Options A and B separate VA Lottery, whose primary mission is to generate revenue for K-12 education, and the Division of Gaming Compliance, whose primary mission is oversight and regulation of gaming
 - Options C and D (which include lottery operations) would require reconciliation of competing priorities of regulating gaming and generating revenue

VA Lottery Gaming Type Distribution by Consolidation Option

Current State	VA Lottery	
	<ul style="list-style-type: none"> Lottery iLottery 	<ul style="list-style-type: none"> Sports wagering Casinos
Options A and B	VA Lottery	VGC
	<ul style="list-style-type: none"> Lottery iLottery 	<ul style="list-style-type: none"> Sports wagering Casinos Other gaming types
Options C and D	VGC	
	<ul style="list-style-type: none"> Lottery iLottery 	<ul style="list-style-type: none"> Sports wagering Casinos Other gaming types

Decision Point 2: Separate Racing

Decision Point 2 explores whether VRC regulates live horse racing, simulcast racing, and ADW (Options A and C) or if the responsibilities move to the VGC (Options B and D). *Note: In all models, HHR would be regulated by the VGC.*

Key Considerations: VRC currently regulates HHR with employees who only spend **part of their time** on its regulation.

- In consolidation Options A and C, staff who regulate HHR would either:
 - Stay in VRC and new staff would be hired to regulate HHR in the VGC, resulting in a **need to transfer institutional knowledge**, or
 - Transfer to the VGC resulting in a **disruption to VRC operations**
- **Option A and C require an additional 2-3 more staff** than Options B and D

VRC Gaming Type Distribution by Consolidation Option

	VRC	
	VRC	VGC
Current State	<ul style="list-style-type: none">• Live horse racing• Simulcast racing• ADW	<ul style="list-style-type: none">• HHR
Options A and C	<ul style="list-style-type: none">• Live horse racing• Simulcast racing• ADW	<ul style="list-style-type: none">• HHR• Other gaming types
Options B and D	<ul style="list-style-type: none">• Live horse racing• Simulcast racing• ADW	<ul style="list-style-type: none">• HHR• Other gaming types

*Note: Regulating horse racing involves non-gaming matters such as equine health, and drug testing of horses and jockeys. As these functions are not applicable to other gaming types, there will **likely be few synergies if consolidated into the VGC** (Options B and D).*

Decision Point 3: Agency Type

Decision point 3 explores whether the VGC should be established as an independent or executive branch agency.

Key Considerations:

- As an independent agency, the VGC would have **greater flexibility** to:
 - **Attract talent** by aligning to industry compensation standards
 - Navigate and **adapt to best practices** and surges in workload
 - **Set up operations** in the new agency more **efficiently and effectively**
- Executive branch agencies are **organized under secretaries** who are appointed by the governor and oversee agencies within their secretariat. It is presently unclear to which secretariat the VGC would report
- Depending on the operating model, employees' **classified status may need to be carefully considered**

Benchmarking

The national industry trend is for centralized gaming commissions to be independent agencies.

81% of gaming commissions nationwide are independent entities.¹

Context for Decision Point 3: Agency Type

The VGC could be established as an independent or executive branch agency, which would impact operations (e.g., procurement, staffing, and IT requirements) and governance (e.g., agency reporting structure/leadership).

	Independent Agencies	Executive Branch Agencies
Reporting structure	Considered state agencies and receive funding through the Appropriations Act but do not report through the secretariat structure ¹	Fall into the secretariat structure; each agency (or department) reports through the executive branch which reports to the Governor ³
Procurement and staffing	Flexibility to determine whether the agency should be subject to the requirements of the Virginia Public Procurement Act and the Personnel Act	Subject to the requirements of the Virginia Public Procurement Act and the Personnel Act ⁴
Leadership	Chief executives may be appointed by the Governor and subject to confirmation by the General Assembly (e.g., Virginia ABC, VA Lottery), elected directly by the General Assembly (e.g., SCC), or employed by a board (e.g., Virginia 529) ²	Generally, the Governor selects executive branch agency chief executives who are subject to confirmation by the general assembly ²

Important note: VITA is responsible for executive branch agency technology development, operation, and management unless the agency is exempt. Executive agencies must submit an IT strategic plan and are subject to VITA's IT procurement rules.⁵

¹ Source: Department of Planning and Budget

² Source: See for example, Code of Virginia § 58.1-4005; § 4.1-101.02; § 12.1-6; § 58.1-200; § 23.1-703; § 2.2-2000; § 2.2-106.

³ Source: Virginia Government in Brief, House and Senate Clerk's Office

⁴ Source: Code of Virginia Chapter 6. General Provisions. Article 1. In General. § 2.2-600

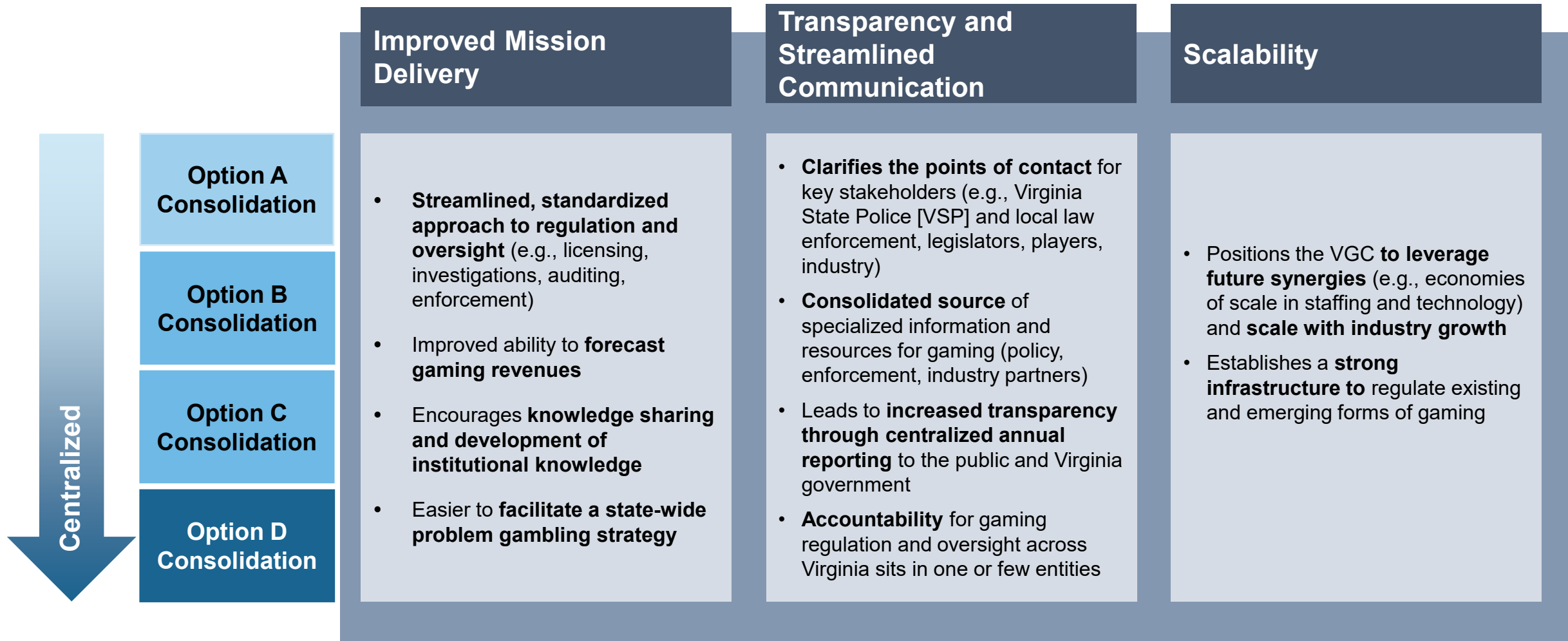
⁵ Source: Code of Virginia, Chapter 20.1. Virginia Information Technologies Agency.

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Overview: Benefits of Consolidation

This section discusses the benefits of consolidation across operating models. A centralized model is more scalable, transparent, and effective in carrying out key regulatory and oversight functions.



Relative Benefits of Consolidation: Improved Mission Delivery (1/2)

The consolidation of gaming functions can help improve mission delivery by:

- Streamlining and standardizing the approach to key gaming functions and processes. This may lead to **enhanced regulation and oversight across gaming types** in Virginia, including:
 - **Efficient** background checks and issuance of licenses
 - **Improved analytics, reporting, and compliance processes** due to centralization of compliance-related data
 - **Central coordination with independent testing laboratories**, who verify compliance of electronic gaming devices (i.e., HHR, pull tabs, and slot machines)

Relative Benefits of Consolidation: Improved Mission Delivery (2/2)

The consolidation of gaming functions can also help improve mission delivery by:

- Encouraging **knowledge sharing and development of institutional knowledge** across auditing and compliance experts
- Allowing for **improved ability to forecast revenues** for gaming types
- **Facilitating easier communication, data collection, and logistical coordination to support the problem gambling work of the Department of Behavioral Health and Developmental Services (DBHDS) and the Virginia Council on Problem Gambling**



Sample Compliance Synergy

Leverage knowledge between similar gaming types, such as:



Charitable poker and casino poker



Slot machines, HHR machines, and electronic pull-tabs

Note: Opportunity to realize benefits from compliance synergies will be limited in more specialized areas such as live horse racing and lottery operations.

Sample Problem Gambling Unit

Manager

Analyst

- VA Council on Problem Gambling
- DBHDS

Manages exclusion lists, directs problem gamblers to available resources, and coordinates with relevant stakeholders

Relative Benefits of Consolidation: Transparency and Streamlined Communication (1/2)

The consolidation of gaming functions can help improve transparency and streamlined communication by:

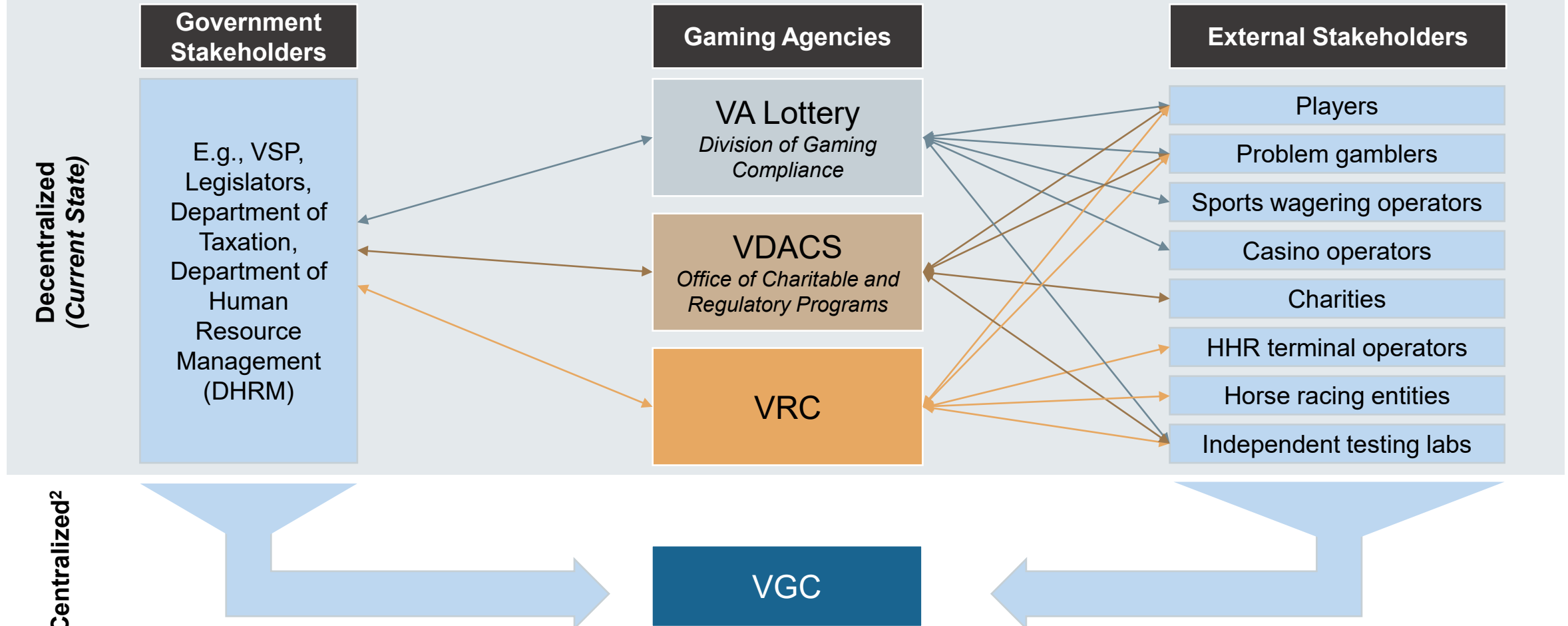
- **Clarifying the points of contact for key stakeholders** (e.g., Virginia State Police [VSP] and local law enforcement, legislators, players, industry) – *Note: see following page for additional detail*
 - Creates a **consolidated source** of specialized information and resources for gaming
 - Allows for **more effective collaboration with VSP Office of Gaming Enforcement** to combat gaming-related criminal activity across all gaming types
- Leading to **increased transparency** through centralized annual reporting to the public and Virginia government
- **Accountability for gaming regulation and oversight** across Virginia sits in one or few entities

Note: Option D captures the most benefits in these areas with one agency.

Relative Benefits of Consolidation: Transparency and Streamlined Communication (2/2)

In the current state, government and external stakeholders must coordinate with three different agencies. A consolidated model can streamline stakeholder interactions.

Overview of Stakeholder Engagement: Gaming Regulation¹



¹ Lottery operations are not depicted in this chart because operations must remain separate in a centralized model

² With Options A and C, stakeholders would also interact with VRC in addition to the VGC

Relative Benefits of Consolidation: Scalability

The consolidation of gaming functions can help improve scalability by:

- **Positioning the VGC to leverage future synergies and scale with industry growth**
 - Easier to respond to new regulatory and oversight needs from emerging gaming types
- Enabling **economies of scale in staffing and technology** that can lead to longer-term cost savings¹ and operational efficiencies as gaming continues its rapid growth²
 - *Note: For additional detail on staffing and technology, see pages 27-30 and 35-36*

Sample Economies of Scale

- **Staffing: allows for cross-training of staff** in functions that are similar across gaming types (e.g., auditing, licensing, investigations, inspections). *Note: approximately 68% of staff in the VGC would be focused on these 4 core functions*
 - **Minimizes the impact from periods of increased workload for certain gaming types** (e.g., when a new casino opens) through strategic collaboration from staff across gaming types
- **Technology: creates opportunities to consolidate technology systems and streamline key processes across gaming types**
 - Offers ability to **transition from siloed manual and paper/spreadsheet-based processes to shared and more efficient systems**, easing workload as the industry grows

¹ Estimated cost savings from economies of scale will be projected in future deliverables

² Virginia gross gaming revenue from sports wagering and casinos grew 98% from 2022 to 2023, after having grown 97% from 2021-2022; *Source: American Gaming Association 2024 State of the States Report*

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Overview: Costs and Risks of Consolidation

This section discusses the costs of consolidation across operating models. All consolidation options entail additional costs to fill existing gaps in service and allow for essential upgrades that can capture all the benefits of consolidation.¹ The risks associated with these costs can be mitigated.²

		New Staff	Added Approx. Cost ³	Operational and Transition Costs	Managing Conflict of Interest	Technology
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¹ Cost savings related to consolidation are not realized in the immediate term, but can be expected in the longer term as the VGC scales to keep up with gaming industry growth

² How to mitigate these risks will be discussed in the implementation roadmap deliverable

³ Current total ongoing staffing costs in the decentralized model are approximately \$50.9M across VA Lottery, VDACS, and VRC

Context: Current Staffing of VA Gaming Agencies

- **VA Lottery** (as an independent agency) has **in-house staff** that carries out **all its support functions**
- **VDACS and VRC** (as executive agencies) leverage **central state agencies** for **some or all their support functions**
- VA Lottery currently has **18 staff** that **split their time** between **supporting lottery operations and the Division of Gaming Compliance** (i.e., casinos and sports wagering)
 - With **options A and B**, the new VGC would need to **hire replacements** for these positions (*see next page*)

Context: Current State Support Functions

Support Functions by Agency	HR	IT	Legal	Finance	Procurement
VA Lottery	●	●	●	●	●
VDACS	●	●	○	●	○
VRC	○	○	○	○	○

In-house support function	●
Leverages central state agency	○

Consolidation Key

A	VA Lottery	VGC	VRC
B	VA Lottery	VGC	
C		VGC	VRC
D		VGC	

Relative Costs and Risks of Consolidation: New Staff (1/3)

All consolidations options require hiring additional staff to: 1) fill existing gaps in current gaming operations to become a strong regulator and 2) address new staffing needs resulting from the creation of a new agency.

Proposed Role ¹	# of Hires	Consolidation Model			
Existing gaps in current gaming operations					
Problem Gambling Manager	1	A	B	C	D
Policy/External Affairs	3-8 ²	A	B	C	D
HHR Compliance Manager	1	A	B	C	D
HHR Compliance Analyst	1-3 ³	A	B	C	D
New needs resulting from creation of new agency/consolidation					
Executive Director	1	A	B	C	D
Deputy Director of Administration	1	A	B		
HHR Licensing	1-2	A		C	
HR Business Partner	2	A	B	C	D
General Support Staff	17	A	B		
General Counsel	1	A	B		
ITS Manager	1	A	B		
Finance Manager	1	A	B		

Note: These staffing examples are illustrative for the purposes of comparison. Formal staffing recommendations will be included in future deliverables.

Existing gaps in current gaming operations determined through analysis of current staffing levels and best practices in other states

Team dedicated to researching and recommending policy/regulatory changes to the VGC leadership and legislators; also serve as liaison between the VGC and external stakeholders

Finance, ITS, HR, and legal staff needed to replace VA Lottery staff currently working part-time on casinos and sports wagering⁴

Positions required for healthy span of control / management of *General Support Staff* in VGC

¹ Titles in table are tentative; exact titles will be determined at a later time

² Minimally, the VGC requires 3 policy staff since in Options C and D, the VGC can leverage existing external affairs staff in VA Lottery. In options A and B, the VGC would need to hire more staff to carry out external affairs functions, leading to a maximum of 8 new staff.

³ Only 1 HHR Compliance Analyst is needed in options A and C

⁴ Assuming the 18 finance, ITS, HR, and legal staff currently splitting time between lottery and gaming functions would remain in VA Lottery in Options A and B, 18 new hires are required to replicate these roles in the VGC

Relative Costs and Risks of Consolidation: New Staff (2/3)

As depicted on the previous page, consolidation requires hiring between 7-42 new staff depending on the model:

- Consolidation Options **A and B** would require hiring an **estimated 31-42 new staff**, the bulk of this to stand up **new support functions** in the VGC
- Options **C and D** leverage existing **VA Lottery support staff** – limiting new hires to an **estimated 7-14**

Note: New staff results in upfront investment in hiring and training costs¹ in addition to ongoing salary and fringe costs.

Consolidation Key

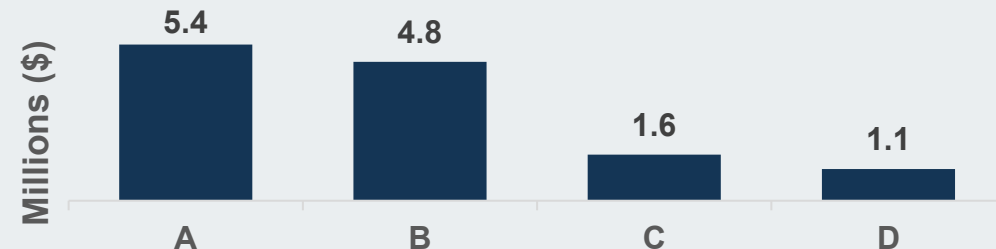
A	VA Lottery	VGC	VRC
B	VA Lottery	VGC	
C		VGC	VRC
D		VGC	

Context: Ongoing Staffing Costs

Total ongoing staffing costs in the current centralized model are approximately \$50.9M² – using salary ranges, the median additional costs of estimated new staff are listed in this table.

Approx. Additional Annual Cost of Staffing by Model

See Appendix A3 for additional staffing details



Relative Costs and Risks of Consolidation: New Staff (3/3)

The following are **key staffing considerations based on agency type** (*See Decision Point 3 for additional context*):

- **Independent agencies** (i.e., VA Lottery) generally **carry out all support functions internally**, whereas **executive agencies** (i.e., VDACS and VRC) can **leverage support from central state agencies**
- **Executive branch agencies** must abide by the **Personnel Act, which has strict pay bands**, therefore, if staff are brought over from executive agencies (e.g., VDACS, VRC) into an independent agency, there may be an **increase in salary costs for those transferred staff**
 - Example: VA Lottery salaries for audit and licensing staff are **20% higher** than VDACS' salaries for similar positions¹

Relative Costs and Risks of Consolidation: Operational and Transition Costs (1/2)

The consolidation of gaming functions may require the acquisition and/or expansion of office space¹:

- Options **A and B** would require **new office space** for the estimated **140-153** people projected to join the VGC
 - Setting up a new office would entail additional transition time
- For Options **C and D**, the **existing VA Lottery office** could potentially house the estimated **31-44** people projected to join the VGC

Consolidation Key

A	VA Lottery	VGC	VRC
B	VA Lottery	VGC	
C	VGC		VRC
D	VGC		

Relative Costs and Risks of Consolidation: Operational and Transition Costs (2/2)

The consolidation of gaming functions may necessitate the following **upfront transition costs**:

- **Public awareness campaign** to educate stakeholders on the new agency
- **Consolidation of internal operating procedures and policies** for staff transferring from different agencies (and subsequent training and socialization)
- **Branding and marketing costs** (e.g., website design, agency branding, etc.)
- **Implementation and change management support**

Relative Costs and Risks of Consolidation: Managing Conflicts of Interest (1/2)

The consolidation of gaming functions requires the VGC to proactively manage **potential conflicts of interest** between gaming types:

- Unlike other gaming types in VA, **lottery** is operated by the Commonwealth and **runs like a business**, with revenue generation as a key goal
- For other forms of gaming in Virginia, the Commonwealth serves a **strictly regulatory and oversight role**, with no incentive to promote one type of gaming over another

Options for Managing Conflict of Interest

- **Exclusion of lottery operations** from any centralized gaming commission created for purposes of regulation and oversight (Options A and B)
- Establishment of **strong silos within the organizational structure of a consolidated agency** to internally separate lottery operations from other gaming types (Options C and D)

Consolidation Key

A	VA Lottery	VGC	VRC
B	VA Lottery	VGC	
C		VGC	VRC
D		VGC	

Relative Costs and Risks of Consolidation: Managing Conflicts of Interest (2/2)

The consolidation of gaming functions:

- Creates potential for **short-term competition between objectives and cultures** of the agencies involved in the consolidation
- Requires review and potential **adjustment of board structures to protect the interests and missions** of gaming types (e.g., live horse racing)

Context: VA Lottery

Current VA Lottery Structure:

- Lottery operations are strictly siloed; casinos and sports wagering functions in the Division of Gaming Compliance operate independently
- Lottery operations has different staff, leadership, and even technology contracts
- The only commonality is shared support services for functions such as HR, procurement, and legal services

Note: Maryland and New York are examples of states which successfully include their lottery operations within their gaming commissions

Relative Costs and Risks of Consolidation: Technology

- Gaming types are currently using a variety of technology to carry out regulatory and oversight functions (see table)
- Consolidation offers flexibility in terms of whether and when to consolidate systems with options to:
 - Maintain existing systems** (i.e., each gaming type continues to use its current systems)
 - Consolidate select systems** (e.g., licensing, case management, and user complaints) and transition certain paper and spreadsheet-based processes into existing systems
 - Consolidate most systems across gaming types in the long-term¹**

System Function	Current Systems*	Consolidation Opportunity?
Admin		
ERP/HR	<ul style="list-style-type: none"> Cardinal UKG 	Yes - Long-Term
Regulatory and Oversight		
Background Checks	<ul style="list-style-type: none"> VSP/NCJS FBI LexisNexis Dun & Bradstreet Equifax PACER 	Yes - Long-Term
Central Monitoring	<ul style="list-style-type: none"> IGT Exacta Ainsworth 	No
Licensing**	<ul style="list-style-type: none"> Caliber MS Technologies Oracle ARCI Microsoft 365 	Yes - Near-Term
Case Management**		
Complaints Log**		

*Lottery operations uses several additional gaming technology systems that are not reflected in this table.

** One or more agencies currently manages function with paper/spreadsheet-based processes.

Relative Costs and Risks of Consolidation: Technology – Near-term Options

In the near-term, there are two ways to manage technology systems:

- Maintain existing systems¹
 - No upfront implementation or change management costs
- Consolidate select systems (i.e., Caliber, MS Technologies, Oracle, ARCI, Microsoft 365)
 - Key opportunity: Potential for operational benefits and efficiencies, including **automation of largely manual processes**, improved **reporting and tracking**, **reduced duplication**, and **centralized/more accessible data**
 - **Requires upfront implementation costs**, but offers minor reductions in annual technology costs, and may result in **longer-term cost savings**

Consolidation Models	Annual Est. Cost Savings ²	Upfront Implementation Cost*
A, C	\$62,000	\$495,000 – \$2,475,000
B, D	\$59,000	\$990,000 – \$4,950,000

*Wide range of possible upfront costs is due to unknown requirements for implementation of these near-term consolidations

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A1: Current Gaming Landscape in Virginia

The VA Lottery, VDACS, and VRC regulate and oversee legal forms of gaming in the Commonwealth.

Note: Virginia ABC formerly regulated skill games.

Gaming Regulation & Oversight in Virginia

Agency	Gaming Staff ¹	Gaming Operations	Total Handle in Millions (\$)	Time Period
Lottery	289	Lottery	2,550	7/1/22 – 6/30/23
		iLottery	2,060	
	102	Sports wagering	5,130	
		Casinos (<i>Note: limited operations</i> ²)	2,870	
VDACS	24	Charitable gaming ³	1,390	1/1/23 – 12/31/23
		Fantasy contests ⁴	Not reported	
VRC	10	Historical horse racing (HHR)	4,160	1/1/23 – 12/31/23
		Live horse racing ⁵	5	
		Simulcast racing	30	
		Advance-deposit wagering (ADW)	120	

¹ Includes full-time and part-time staff

² Bristol was operational for the 12-month period, Portsmouth opened in Jan. 2023, Danville opened in May 2023

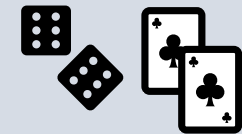
³ Includes bingo, electronic and paper pull-tabs, and raffles. *Note: poker tournaments were not live in 2023*

⁴ Although fantasy contests are not considered gambling in the Code of Virginia, it is a common practice for gaming commissions to regulate and oversee fantasy contests

⁵ Includes live Thoroughbred racing, live Harness racing, and live Steeplechase wagering


Gaming in Virginia by the Numbers


\$1 Billion 
Gaming revenue
generated in 2023



3 Operating
casinos⁶
in Danville,
Bristol, and
Portsmouth

\$636 Million
in sports bets placed
in March 2024

2,790  
HHR terminals

27 Live
Thoroughbred
racing days 
































218 Charitable gaming
licenses issued in FY 2023

BINGO

⁶ A casino is authorized but not yet operational in Norfolk. SB628 (2024) also added Petersburg to the list of cities eligible to host a casino in the Commonwealth pending referendum and reenactment.

A2: Benchmarking – Recent Approaches to Gaming Operating Models

In addition to the seven peer states, the team also analyzed the states that have made changes after 2011 to their gaming regulation operating models.



State	Lottery	Racing	Casinos	Sports Wagering	Charitable Gaming	Year Commission Established	Gaming Revenue 2023 (in millions)
South Dakota					County	2023	\$148
Florida						2021	\$691
Mississippi						1990 ¹	\$2,483
New York						2013 ²	\$4,720
Maryland ³					County	2012 ²	\$2,497
Massachusetts ³					Attorney General	2011	\$1,668
Ohio ³					Attorney General	2011	\$3,319

The following states recently made changes to their gaming agencies; however, they do not have casinos:

- **New Hampshire** Lottery Commission consolidated in 2015 to regulate all forms of gaming: sports wagering, HHR, racing, charitable gaming, and lottery.
- **Wyoming** established its lottery in 2013 as a separate entity from the Gaming Commission, which regulates sports wagering, HHR, racing, and charitable gaming.⁴
- **DC's** Office of Lottery and Charitable Games renamed to the Office of Lottery and Gaming in 2019 after sports wagering was legalized.
- **Tennessee** established the Sports Wagering Council in 2021. Tennessee also has a Lottery and a Racing Commission.

The lotteries in the following states have taken on additional gaming responsibilities as they've legalized: Delaware, Montana, Oregon, Vermont, West Virginia

Regulator

Lottery	
Racing Commission	
Gaming Commission	

¹ The Mississippi Lottery was established in 2019 as a separate entity

² Year of consolidation

³ Also a peer state identified on previous page

⁴ Wyoming also has a Pari-Mutuel Commission

A3: Overview of Staffing Data – Staffing Costs (1/3)

The staffing numbers on page 42 and the assumptions on page 43 and were used to calculate the following ranges for staffing costs.

Ongoing Staffing Costs (i.e., salaries and fringe costs)				
Consolidation Option	Approx. Salary Costs Range (\$)¹	Approx. Fringe Costs Range (\$)	Approx. Total (\$)	Median Total (\$)
Decentralized	37,000,000-38,100,000	13,100,000-13,500,000	50,100,000-51,600,000	50,900,000
A	35,600,000-47,900,000	12,400,000-16,600,000	48,000,000-64,500,000	56,300,000
B	35,200,000-47,100,000	12,300,000-16,800,000	47,500,000-63,900,000	55,700,000
C	37,300,000-40,600,000	13,000,000-14,000,000	50,300,000-54,600,000	52,500,000
D	36,900,000-39,800,000	12,900,000-14,200,000	49,800,000-54,000,000	51,900,000

Upfront Staffing Costs (i.e., hiring and training costs)				
Consolidation Option	Approx. Hiring Costs Range (\$)	Approx. Training Costs Range (\$)	Approx. Total (\$)	Median Total (\$)
Decentralized	N/A	N/A	N/A	N/A
A	146,000-167,000	33,000-40,000	179,000-207,000	193,000
B	134,000-146,000	30,000-33,000	164,000-169,000	167,000
C	54,000-63,000	10,000-13,000	64,000-76,000	70,000
D	42,000	7,000	49,000	49,000

A3: Overview of Staffing Data – Staffing Numbers (2/3)

The following approximate numbers show how many gaming staff (FTEs) are expected to be in each gaming agency depending on the operating model. These approximate numbers were used to calculate staffing costs for each operating model.

Estimated Gaming FTEs in Each Operating Model

Consolidation Option	VA Lottery Division of Gaming Compliance	VA Lottery All Other Divisions	VDACS OCRCP	VRC	VGC	Total
Current State	102	290	22	9.5	n/a	423.5
A	n/a	290	n/a	9	140.5-147.5*	439.5-446.5
B	n/a	290	n/a	n/a	147.5-153.5*	437.5-443.5
C	n/a	n/a	n/a	9	422.5-425.5*	431.5-434.5
D	n/a	n/a	n/a	n/a	429.5-431.5*	429.5-431.5

Note: These assumptions are based on current staffing data provided by VA Lottery, VDACS, and VRC, interviews with staff and leadership at each agency, and benchmark research conducted on peer states with comparable gaming landscapes.

* These numbers include existing gaps in current gaming operations needed to become a strong regulator and new staffing needs resulting from the creation of a new agency, as outlined on page 28

A3: Overview of Staffing Data – Staffing Assumptions (3/3)

The following assumptions were made to calculate staffing costs, which include salaries, fringe, hiring, and training costs:

1. Potential synergies exist between the following gaming responsibilities:
 - Investigating customer complaints related to sports wagering and fantasy contests
 - Licensing and background investigation functions across all gaming types
 - ITS support for sportsbook operators, HHR, and fantasy sports
 - Certification of slot machines, HHR terminals, pull-tab machines
 - Auditing of financial reports submitted by gaming providers and electronic gaming device operators
3. The industry standard for average hiring costs for each new non-executive employee (e.g., mid-level manager, investigator) is approximately \$2,984 and for each executive-level employee (e.g., executive director, COO) is \$23,940¹
4. Average training cost for each new employee is approximately \$954²

¹ Source: 2022 SHRM Benchmarking: Talent Access Report, Sector: Government

² Source: Training Magazine's 2023 Industry Report

A4: Overview of Technology Systems and Costs in Current State

The table below details the current state technology systems used by gaming agencies in Virginia and associated costs. Some costs are fixed, some are variable, and some are dependent on revenues.

	VA Lottery - Division of Gaming Comp		VA Lottery – Lottery Operations		VDACS		VRC	
	System	Approx. Cost	System	Approx. Cost	System	Approx. Cost	System	Approx. Cost
Admin								
ERP	Cardinal			\$30,000	Cardinal – Finance*	\$194,341	Cardinal	\$3,871
Other Admin	UKG/Kronos			\$35,000	Cardinal – HR*	\$175,124	None	\$0
Regulation and Oversight								
Background Checks	6 Separate Systems	\$160,000	VSP	\$30,000	NJCS/VSP OARS	\$34,605	Fingerprinting through FBI/VSP	\$0
Central Monitoring	IGT	\$4,300,000	None	\$0	None	\$0	Exacta/Ainsworth	\$0
Licensing	MS Technologies	\$530,000	None	\$0	OARS (Oracle)	\$70,385	Scanned files into MS Access/ARCI	\$12,100
Case Management	MS Technologies		Caliber	\$10,000	OARS (Oracle) + Excel		Scanned files into network drive	\$0
Complaints Log	Caliber	\$24,000	Microsoft D365	\$300,000	OARS (Oracle) + Excel		Email	\$0
Document Retention	Network drive	\$0	Network drive	\$0	Network drive	\$0	Network drive	\$0
Lottery and iLottery								
Retail Gaming System	N/A	\$0	IGT	\$30,000,000	N/A	\$0	N/A	\$0
iLottery	N/A	\$0	NPI, IWG	\$60,000,000	N/A	\$0	N/A	\$0
Mobile App Support	N/A	\$0	Willowtree	\$3,000,000	N/A	\$0	N/A	\$0
Player Loyalty	N/A	\$0	Cheetah Digital/Marigold	\$600,000	N/A	\$0	N/A	\$0
Total Cost		\$5,079,000		\$93,940,000		\$280,114		\$15,971