

Virginia Gaming Commission Operating Model

November 8, 2024



Agenda

Topic

1 Introduction

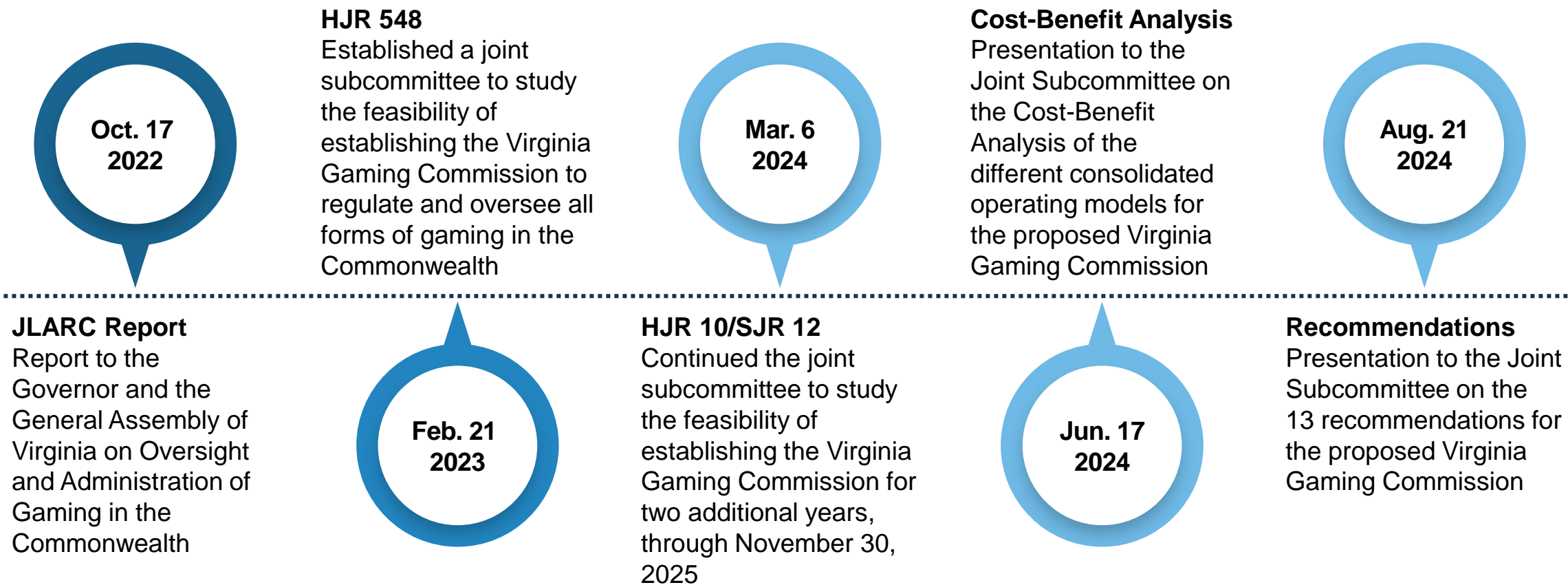
2 Overview of Recommendations

3 Potential Option for VGC Transition Readiness Governance

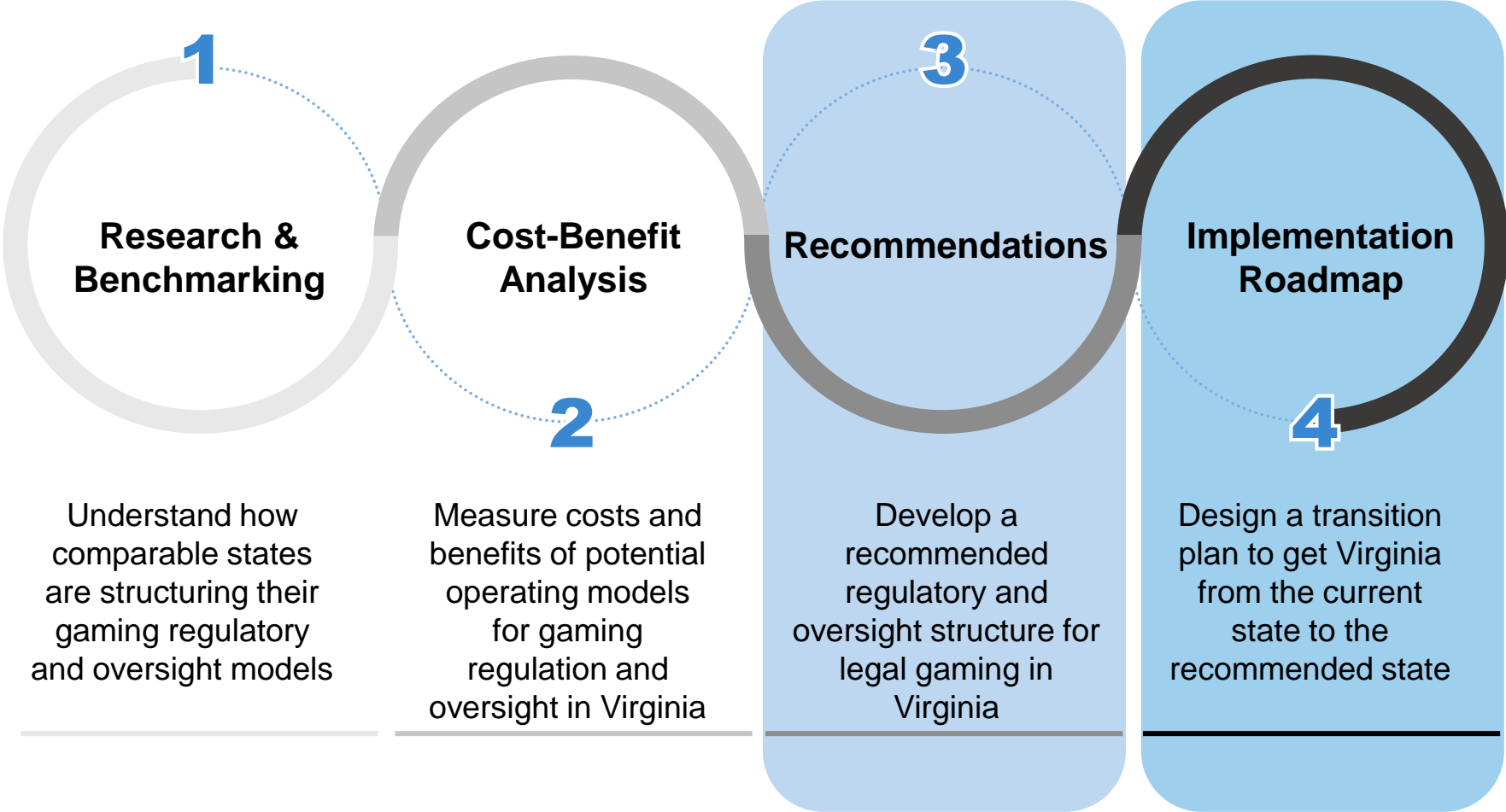
4 Appendix

History of the Virginia Gaming Commission Study

Below is a timeline of the key milestones from the Virginia Gaming Commission study to date



Engagement Progress



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Setting up the Virginia Gaming Commission for Success

The recommended operating model aligns with the following design principles:

- **Maintaining funding** of beneficiaries
- Providing the best support to **prevent, treat, and provide recovery services for problem gamblers**
- Allowing existing employees to **continue to serve their customers** while benefiting from cross-training opportunities and additional resources
- Creating a structure that can effectively regulate **diverse gaming types** and is **sustainable for new gaming types**
- Allowing the Commonwealth to **understand new gaming types** and their **impact to the existing gaming landscape**
- Bolstering the accountability ecosystem through **consistent compliance and regulatory standards**
- Providing state and local law enforcement, industry, the public, and other stakeholders with a **single point of contact and information**

Executive Summary: Recommendations (1/2)

The General Assembly may wish to consider the following recommendations:

- 1 Consolidating all gaming regulatory and oversight operations in the Commonwealth (except VA Lottery) into an independent, centralized Virginia Gaming Commission
- 2 Structuring the Virginia Gaming Commission to maximize forecasted economies of scale, facilitate cross-training, and leverage best practices within similar functions across different gaming types
- 3 Creating the Virginia Gaming Commission (Board) and assigning it regulatory and oversight responsibilities over all gaming types except live horse racing and the lottery
- 4 Maintaining the Virginia Racing Commission (Board) and transferring HHR, ADW, and simulcast racing regulatory and oversight responsibilities to the Virginia Gaming Commission (Board)
- 5 Directing the Charitable Gaming Board to advise the Virginia Gaming Commission on all aspects of the conduct of charitable gaming in Virginia
- 6 Establishing a Problem Gambling Division in the VGC that could coordinate with local, state (e.g., DBHDS, VCPG), and national stakeholders to manage problem gambling prevention, recovery, and treatment efforts
- 7 Establishing an External Affairs & Policy Division in the VGC to recommend gaming policy decisions to legislators and communicate with relevant stakeholders in Virginia

Executive Summary: Recommendations (2/2)

The General Assembly may wish to consider the following recommendations:

8	Establish the Executive Leadership team in the VGC and define roles and responsibilities with clear division of duties, including elevating the role of the Executive Secretary of Racing
9	Maintaining existing beneficiaries of revenue streams from each gaming type (e.g., HHR revenue continuing to support the live horse racing industry)
10	Directing the Virginia Gaming Commission to review consolidating technology systems to increase efficiency of core functions (e.g., licensing, auditing)
11	Directing the Virginia Gaming Commission to develop a standardized approach for reporting to the General Assembly on a regular basis across all gaming types
12	Following implementation of the consolidated gaming commission, consider how to further invest in gaming enforcement
13	Following the successful launch of the Virginia Gaming Commission, reconsider Virginia Lottery operations consolidation

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Potential Option for VGC Transition Readiness Governance

To continue carrying out foundational work for the future Virginia Gaming Commission, a temporary transitional body could be established for the next phase of the VGC's transition:

Stakeholder	Potential Members	Potential Responsibilities
Virginia Gaming Transition Oversight Committee	Members of the General Assembly and relevant agency heads (e.g., Lottery, VDACS, VRC)	Provide legislative oversight and policy direction (as needed) to enable the foundational work needed for the Virginia Gaming Commission until permanent governance is established.
Legislative Transition Executive Committee	Subgroup of General Assembly members from the Virginia Gaming Oversight Committee	Make decisions and provide direction to the work of the PMO team and guide broader decisions related to the VGC (as appropriate).
Project Management Office (PMO)	Team led by Division of Legislative Services (DLS)	Serve as the PMO, with PMO staff leading transitional work under the direction of DLS on behalf of the Virginia Gaming Oversight Committee and its Executive Committee. Assistance would be provided by key Virginia agencies as needed (e.g., DHRM, DGS, VITA).

Sample VGC Transition Readiness Tasks

- Facilitate options for facilities transition
- Prepare and begin technology application rationalization
- Collect and analyze data, documentation, processes, and financials for each agency/group expected to transition
- Develop and execute change management plan
- Plan and set up transition workstreams
- Establish hiring priorities and develop recruitment strategy
- Prepare job descriptions/EWPs for new roles in VGC
- Conduct staffing analysis (in partnership with DHRM)
- Assist in developing branding and marketing materials

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4 **Appendix**

Engagement Background

Study Mandate¹

Analyze and make recommendations with respect to:

1. **The feasibility of establishing a new agency** in the executive branch of state government, to be known as the Virginia Gaming Commission (the Commission), under which all legal forms of gaming in the Commonwealth, except for the state lottery established and operated pursuant to the Virginia Lottery Law (§ 58.1-4000 et seq.), shall be consolidated for the purposes of regulation and oversight.
2. **The timely and orderly transition of the regulatory authority** over casino gaming and sports betting, charitable gaming, and pari-mutuel wagering on horse racing from the Virginia Lottery, the Virginia Department of Agriculture and Consumer Services (VDACS), and the Virginia Racing Commission (VRC), respectively, to the Commission.
3. **Ways to effectively prioritize problem gambling prevention and treatment efforts.**
4. **All potential options to consolidate gaming regulation and oversight** and provide a **detailed transition plan** in support of recommendations.

Our Role

1. Providing project management support.
2. Conducting independent research and review.
3. Reporting on gaming oversight and regulatory models implemented by other states.
4. Determining the feasibility and conducting a cost-benefit analysis consistent with the establishment of the Virginia Gaming Commission or any other gaming regulation and oversight consolidation options.
5. Developing a transition plan in support of any gaming regulation and oversight recommendations.

¹ Language from HJR 548 (2023) and the Appropriations Act (2023 Special Session I). HJR10 and SJR12 (2024) continue the study and Joint Subcommittee.

Review of Cost Benefit Analysis Key Takeaways

- Following a review of costs and benefits, the team deemed **options for a consolidated Virginia Gaming Commission feasible and consolidation could be pursued**
- Although there are additional temporary costs to consolidation, a **Virginia Gaming Commission would be more beneficial to the Commonwealth** than the current fragmented structure
- **Separating lottery operations** from a centralized commission **would best mitigate the risk of a conflict of interest**, while still capturing most synergies

		Relative Benefits	Relative Costs and Risks
<div>Centralized</div>	Option A Consolidation	<ul style="list-style-type: none">• Improved mission delivery – streamlined, standardized approach to regulation and oversight (e.g., licensing, investigations, auditing, enforcement)	<ul style="list-style-type: none">• New staff• Operational update and transition costs• Potential for short-term competition among agency objectives and cultures during transition• New governance to mitigate conflicts of interests and protect the existing policy autonomy and revenue streams of gaming types (e.g., live horse racing)• New technology systems in the long-term (if pursued)
	Option B Consolidation	<ul style="list-style-type: none">• Improved ability to forecast gaming revenues• Easier to facilitate a state-wide problem gambling strategy	
	Option C Consolidation	<ul style="list-style-type: none">• Single source of specialized information and resources for gaming (policy, enforcement, industry partners)• Increased transparency and accountability	
	Option D Consolidation	<ul style="list-style-type: none">• Increased scalability (e.g., workforce, technology)• Best position to respond to emerging gaming types	

Recommendation 1: Consolidating all gaming regulatory and oversight operations in the Commonwealth (except VA Lottery) into an independent, centralized Virginia Gaming Commission

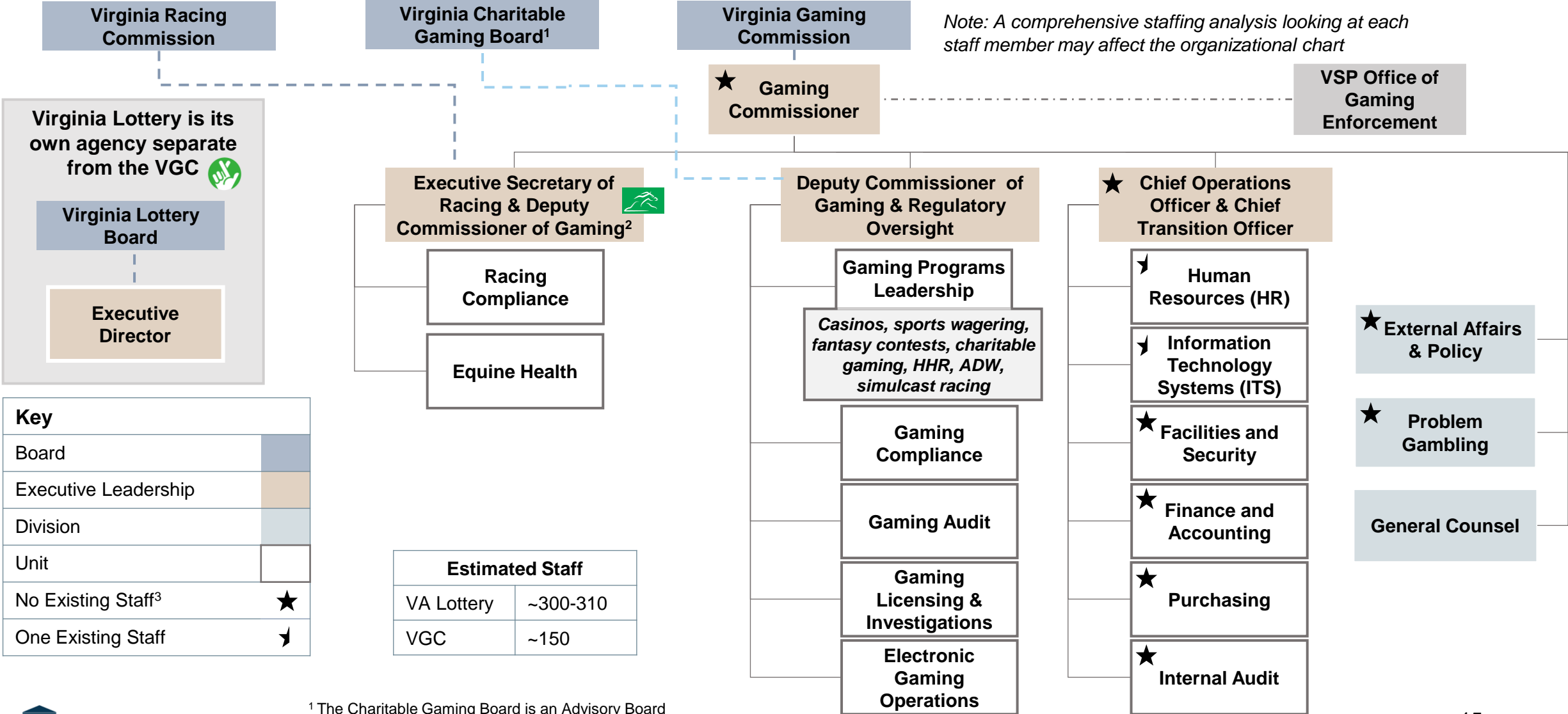
Option B Consolidation	VA Lottery	VGC (Independent Agency)		
	<ul style="list-style-type: none">• Lottery• iLottery	<ul style="list-style-type: none">• Sports wagering• Casinos• Charitable gaming	<ul style="list-style-type: none">• Fantasy contests• HHR• <i>New gaming types</i>¹	<ul style="list-style-type: none">• Live horse racing• Simulcast racing• ADW

The target operating model for the Virginia Gaming Commission is an **efficient, cost-effective, and strong regulator**. This is achieved through consolidation Option B, which is designed to:

- Respond to new regulatory and oversight needs from emerging gaming types
- Maintain the Commonwealth's commitment to the horse racing and charitable gaming industries
- Capture long-term forecasted economies of scale and operational efficiencies in staffing and technology as the gaming industry continues its rapid growth
- Increase transparency through centralized annual reporting to the public and the Virginia government and increase accountability for gaming regulation and oversight
- Facilitate a consistent state-wide problem gambling strategy across gaming types
- Clarify the points of contact for key stakeholders (e.g., Virginia State Police [VSP] and local law enforcement, legislators, players, industry) by:
 - Creating a centralized source of specialized information and resources for gaming
 - Encouraging effective collaboration with VSP Office of Gaming Enforcement to combat gaming-related criminal activity across all gaming types

¹ New gaming types that may be authorized in the future

Recommendation 2: Structuring the Virginia Gaming Commission to maximize forecasted economies of scale, facilitate cross-training, and leverage best practices within similar functions across different gaming types *(illustrative organizational structure below)*



Note: A comprehensive staffing analysis looking at each staff member may affect the organizational chart

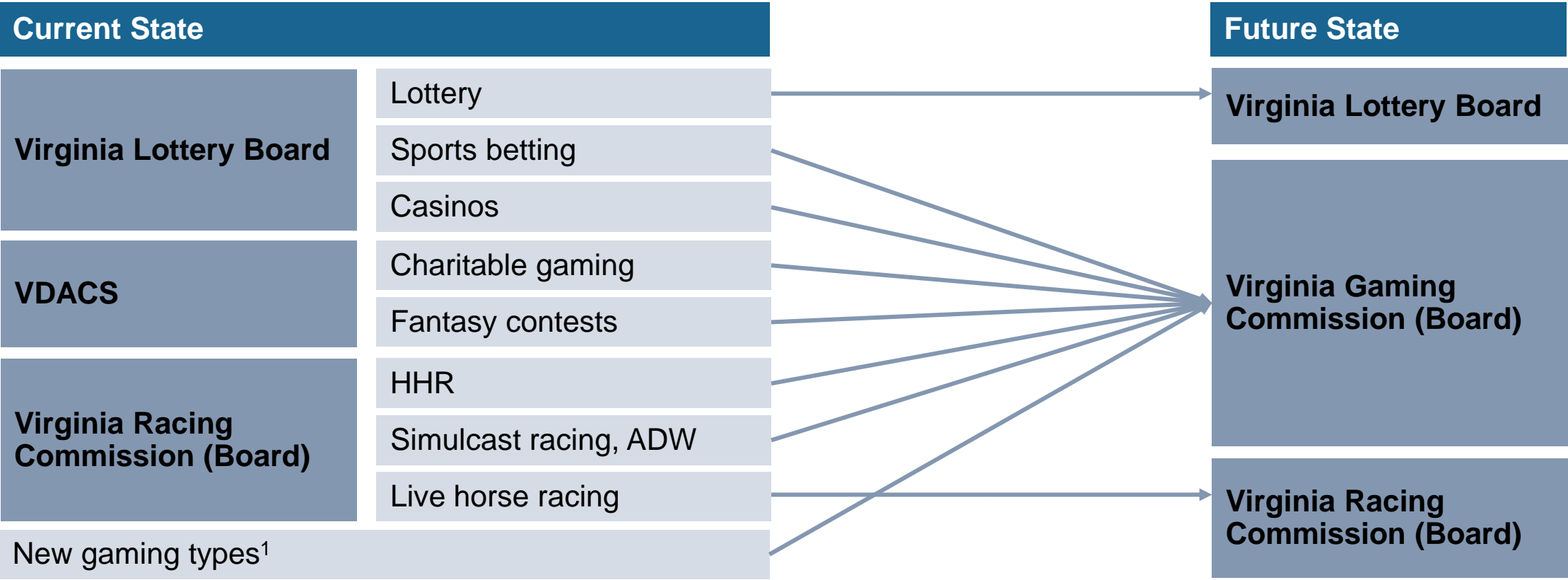
¹ The Charitable Gaming Board is an Advisory Board

² Oversees non-gaming responsibilities associated with live horse racing such as equine health and drug testing of horses and jockeys

³ Requires all new hires

Recommendation 3: Creating the Virginia Gaming Commission (Board) and assigning it regulatory and oversight responsibilities over all gaming types except live horse racing and the lottery

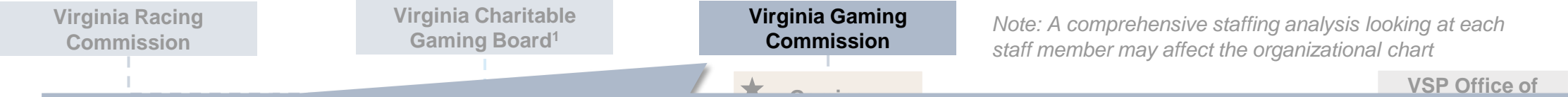
Recommendation 4: Maintaining the Virginia Racing Commission (Board) and transferring HHR, ADW, and simulcast racing regulatory and oversight responsibilities to the Virginia Gaming Commission (Board)



Note: In the current state, the Virginia Charitable Gaming Board advises VDACS on charitable gaming. In the future state, they would advise the Virginia Gaming Commission.

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Recommendation 3: Creating the Virginia Gaming Commission (Board) and assigning it regulatory and oversight responsibilities over all gaming types except live horse racing and the lottery



Virginia Gaming Commission (Board)

The Virginia Gaming Commission (Board) could regulate and oversee all gaming types in the Commonwealth, except for live horse racing and the Virginia Lottery. The regulation and oversight of casinos, and sports wagering, which currently reside in the Virginia Lottery Board would transfer to the VGC (Board).

Overview of New Role

- Adopting regulations governing sports wagering, casinos, charitable gaming, fantasy contests, HHR, ADW, simulcast racing, and any new gaming types in the Commonwealth
- Providing recommendations to the Gaming Commissioner and studying the future direction of gaming in the Commonwealth

Conflict of Interest

- VGC board members shall have no direct or indirect ownership, financial interests, or management interests in any gaming activities or services in connection with any gaming establishment or gaming activity

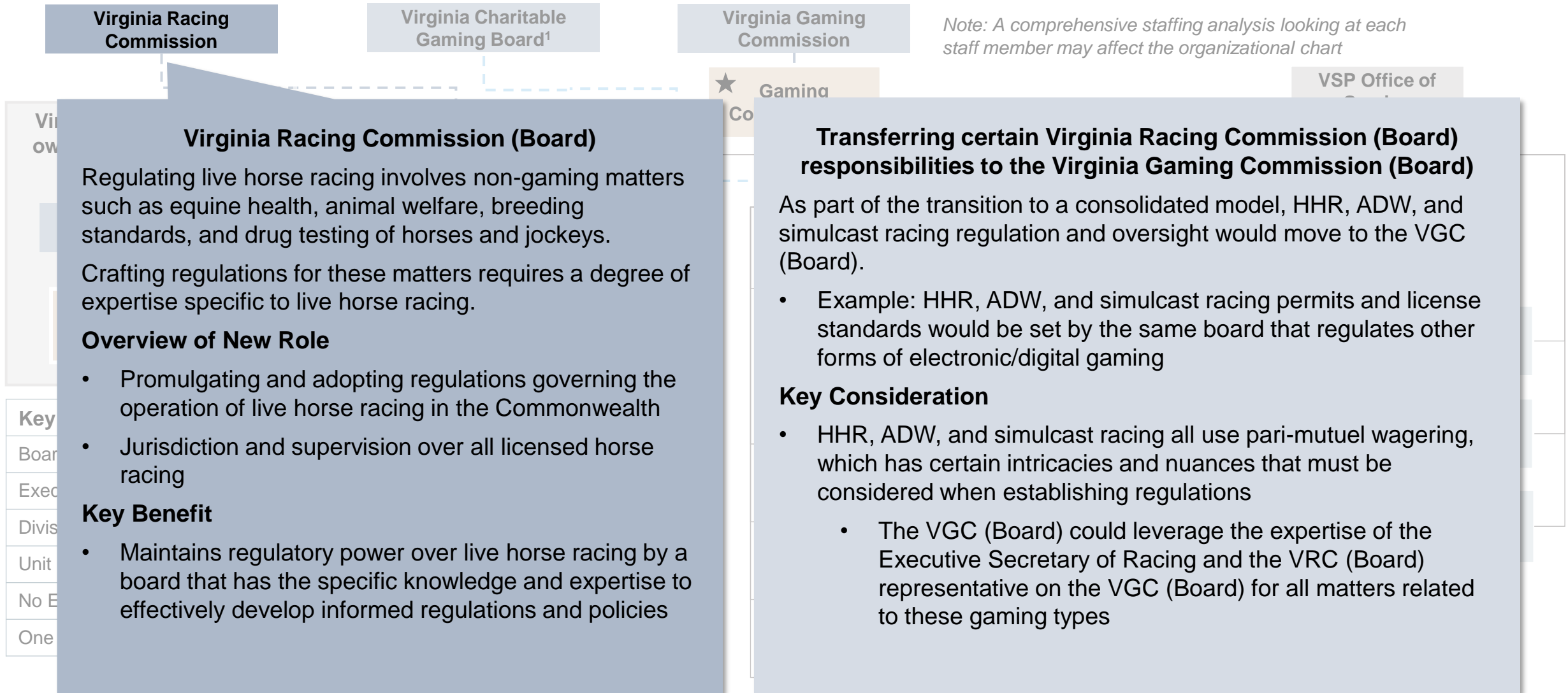
Consideration

- Other stakeholders (e.g., VSP, member of VRC, member of Charitable Gaming Board, Executive Secretary of Racing) could serve in an ex-officio capacity

Note: The Virginia Lottery Board would continue to promulgate and adopt regulations governing the establishment and operation of the lottery

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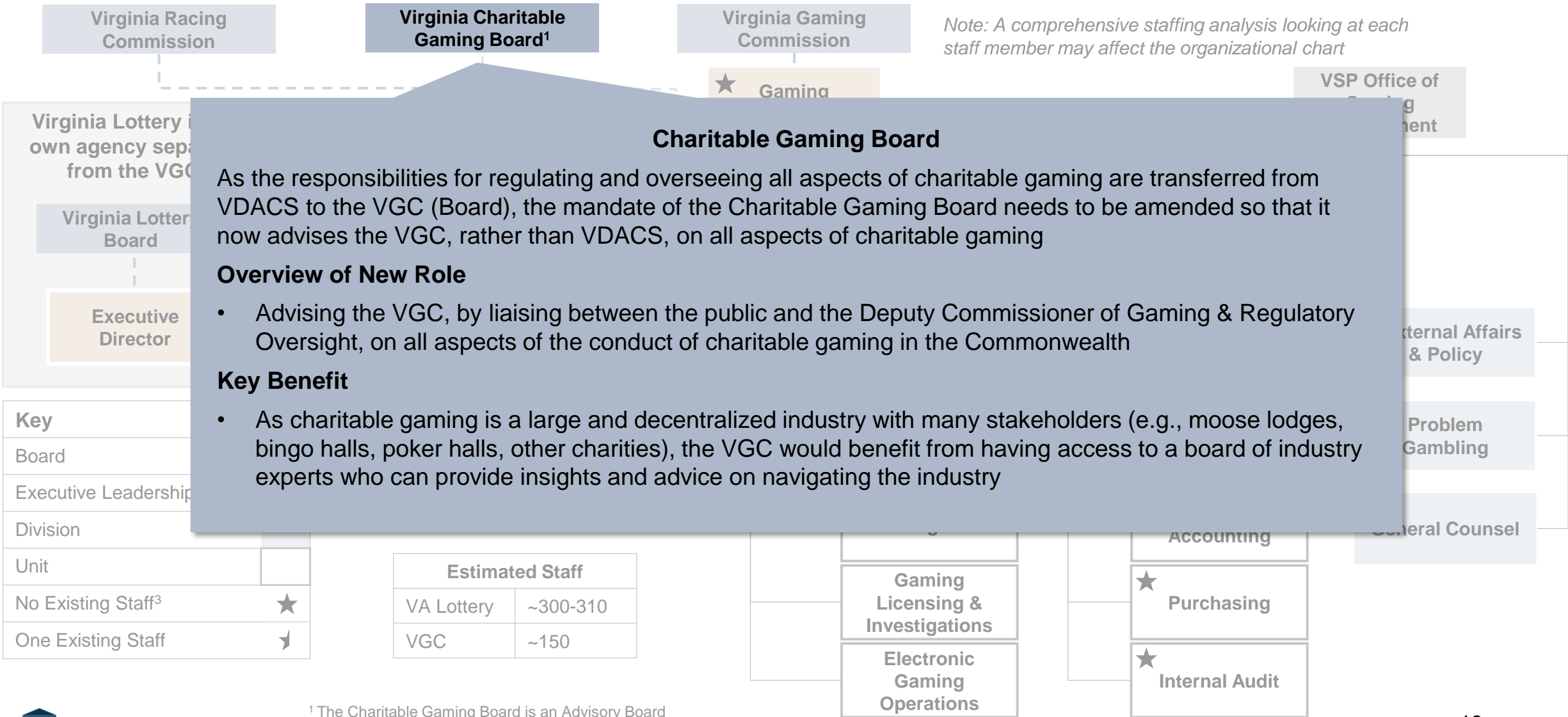


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Recommendation 5: Directing the Charitable Gaming Board to advise the Virginia Gaming Commission on all aspects of the conduct of charitable gaming in Virginia

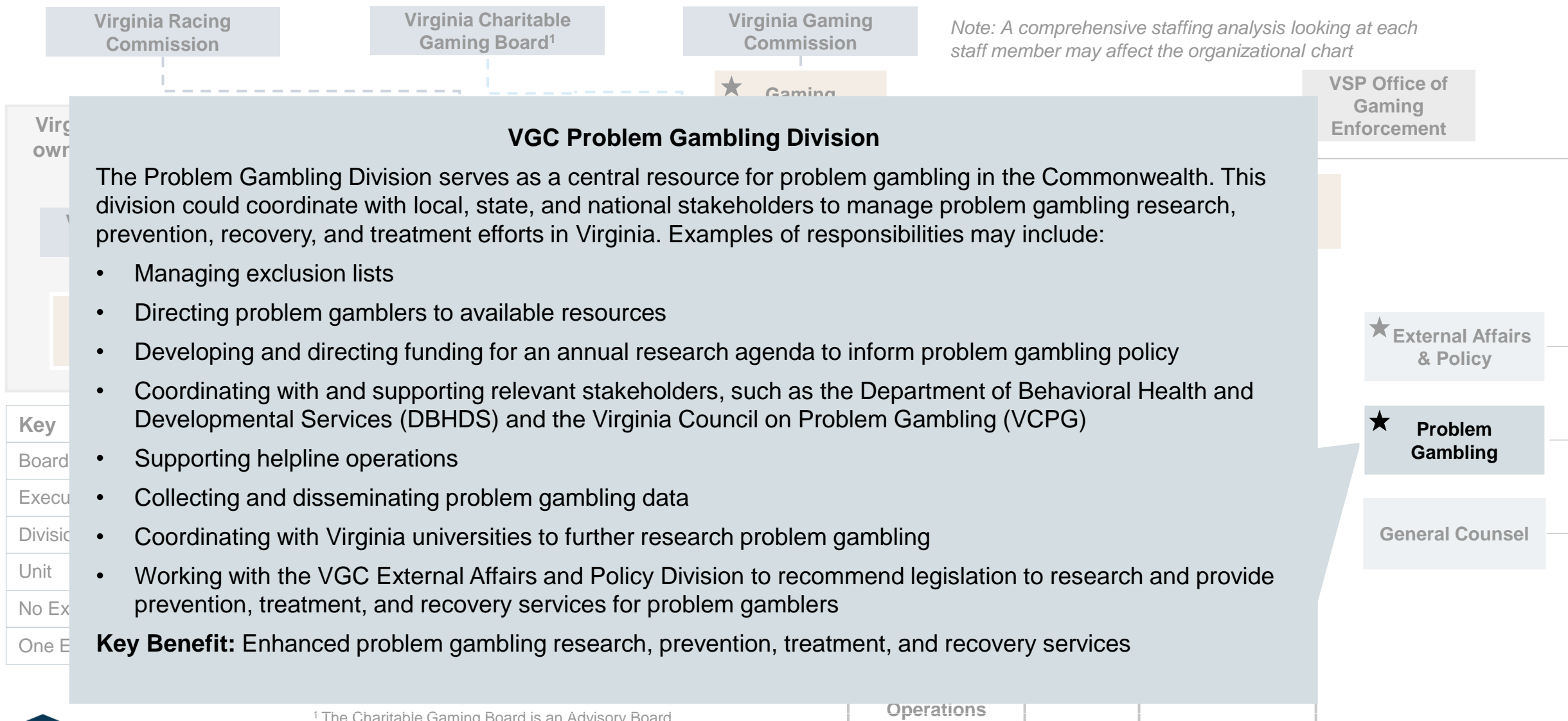


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Recommendation 6: Establishing a Problem Gambling Division in the VGC that could coordinate with local, state (e.g., DBHDS, VCPG), and national stakeholders to manage problem gambling research, prevention, recovery, and treatment efforts

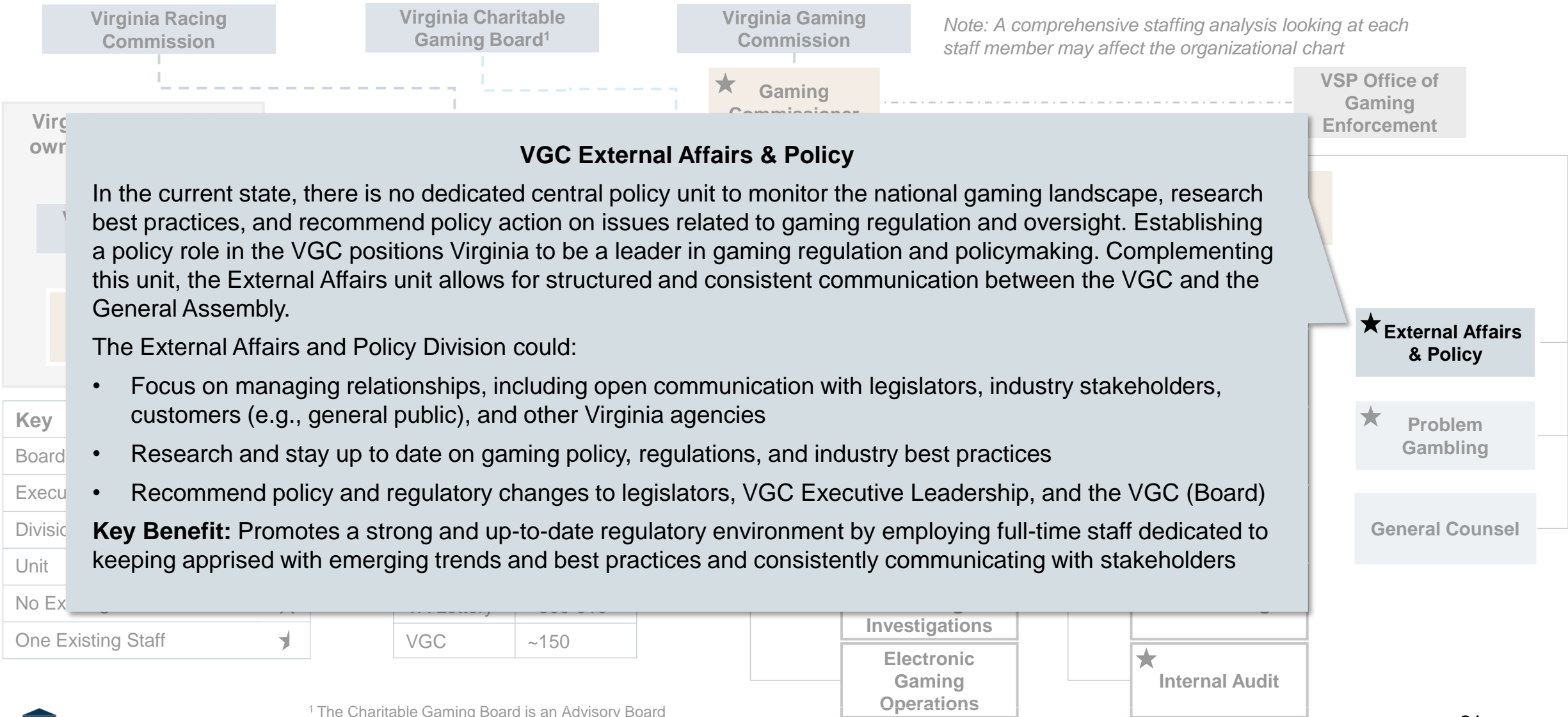


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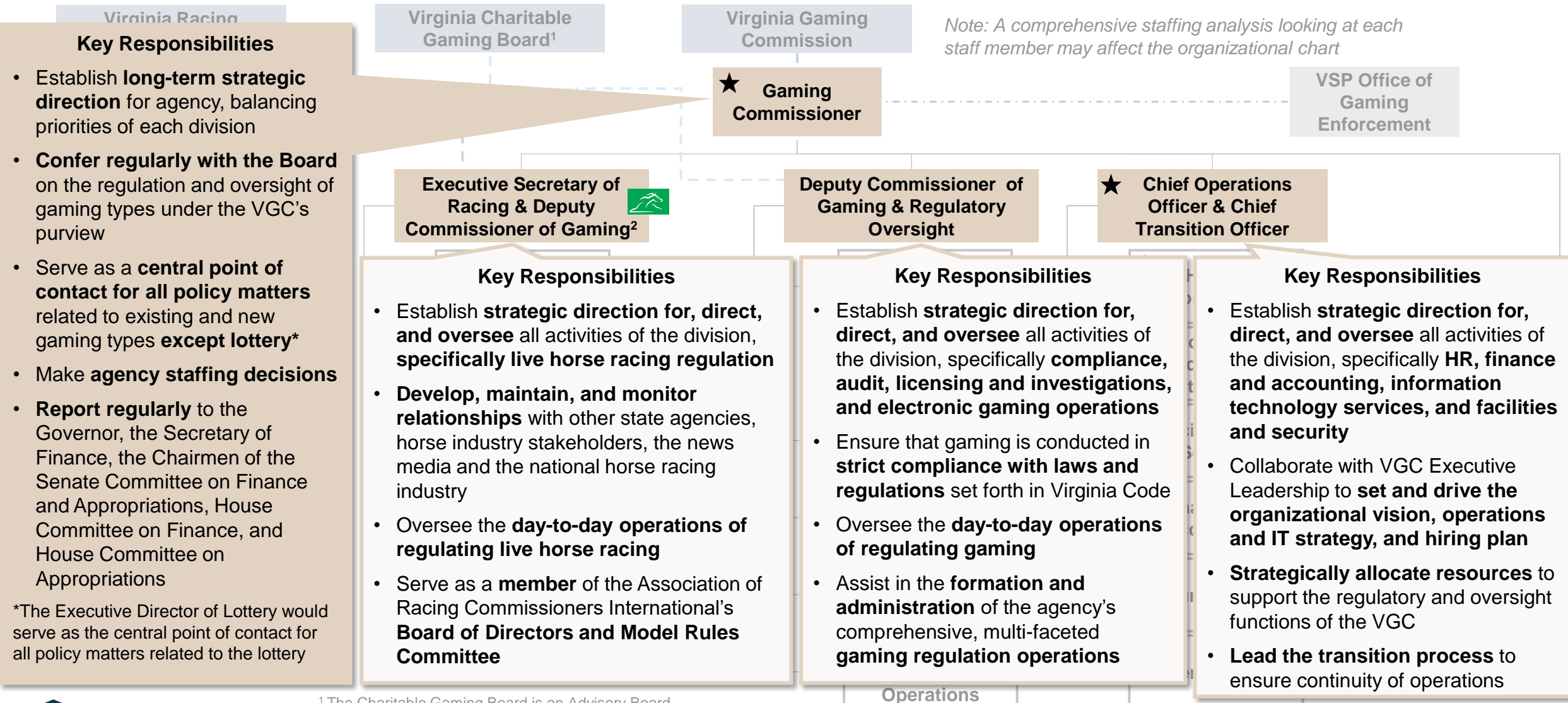
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Recommendation 7: Establishing an External Affairs & Policy Division in the VGC to recommend gaming policy decisions to legislators and communicate with relevant stakeholders in Virginia



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Recommendation 8: Establishing the Executive Leadership team in the VGC and defining roles and responsibilities with clear division of duties, including elevating the role of the Executive Secretary of Racing



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Recommendation 9: Maintaining existing beneficiaries of revenue streams from each gaming type through transition (e.g., HHR revenue continuing to support the live horse racing industry)

Currently, the proceeds (e.g., tax revenue, licensing fees) from each gaming type in Virginia have specific beneficiaries and funds:

Gaming Type	Funding Recipients
Lottery	Lottery Proceeds Fund (for public education in the Commonwealth), Literary Fund
Sports Wagering	Problem Gambling Treatment and Support Fund
Casinos	Localities hosting casinos, Virginia Indigenous People's Trust Fund, Problem Gambling Treatment and Support Fund, Family and Children's Trust Fund, School Construction Fund
Charitable Gaming	General Fund, lawful religious, charitable, community, or educational purposes for which the organization is specifically chartered or organized
Fantasy Contests	None
HHR	Problem Gambling Treatment and Support Fund, Virginia Breeder's Fund, Virginia-Maryland Regional College of Veterinary Medicine, Virginia Horse Center Foundation, Virginia Horse Industry Board, Racing Benevolence Fund
Live Horse Racing/ADW/Simulcast	Locality in which racetrack/satellite facility is located, Virginia Breeder's Fund, Virginia-Maryland Regional College of Veterinary Medicine, Virginia Horse Center Foundation, Virginia Horse Industry Board, Virginia Thoroughbred Association for the promotion of breeding in the Commonwealth, Racing Benevolence Fund

While the regulation and oversight of certain gaming types would transfer to the VGC (Board) (e.g., charitable gaming, HHR), maintaining existing beneficiaries minimizes disruption and maintains current goals of existing policy.

- As an example, while HHR would be regulated by the Virginia Gaming Commission (Board) rather than the Virginia Racing Commission (Board), proceeds from HHR could continue to support the Virginia horseracing industry, as originally intended when HHR was legalized.

Key Consideration: Funding for the oversight of each gaming type also comes from a small portion of the money generated by each gaming type (e.g., a portion of the fees collected from charitable gaming fund VDACS OCRP oversight operations for charitable gaming). These **funding sources may have to be reexamined**, as appropriate.

Recommendation 10: Directing the Virginia Gaming Commission to review consolidating technology systems to increase efficiency of core functions (e.g., licensing, auditing)

Benefits of Consolidation

- Increased efficiency of core functions through reduction of manual processes (e.g., using spreadsheets/paper-based processes)
- Standardization of similar processes across different gaming types (e.g., case management, auditing, licensing)

Sample System Consolidation: Case Management

Current State

Lottery: MS Technologies

VDACS: Oracle/Excel

VRC: Network drive



Future State

VGC: One central case management system

Recommendation 11: Directing the Virginia Gaming Commission to develop a standardized approach for reporting to the General Assembly on a regular basis across all gaming types

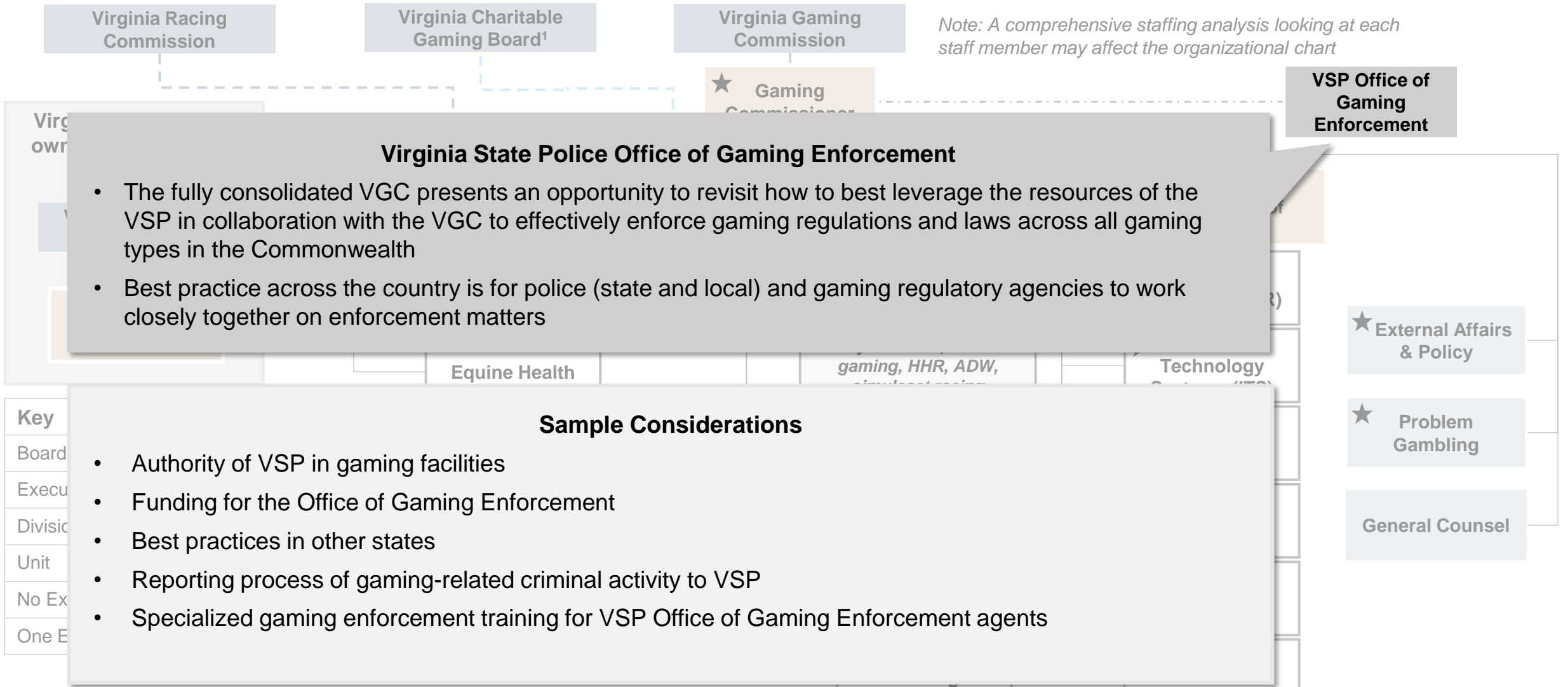
Benefits of Centralized Reporting Requirements

- Transparency to the Virginia government and the public
- Sharing of best practices for reporting among staff working on different gaming types
- Improved forecasting capabilities across gaming types

Sample of Consistent Reporting Standards

- Operators could be required to report the same data across gaming types (e.g., Fantasy contests operators and sportsbook operators could both report on total handle wagered)
- Standardized reporting periods (i.e., calendar year, fiscal year) for gaming types
- Same frequency of reports (e.g., monthly, quarterly, annually)


Recommendation 12: Following implementation of the consolidated gaming commission, consider how to further invest in gaming enforcement



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³ Requires all new hires

Recommendation 13: Following the successful launch of the Virginia Gaming Commission, reconsider consolidation of Virginia Lottery operations

- The level of consolidation could be a phased decision; the Virginia General Assembly may choose to increase level of consolidation in the future
- The Generally Assembly could consolidate with Option B now, and move to Option D in the future, if it becomes apparent that full consolidation efficiencies in Option D outweigh other considerations in Option B

Near-term recommendation	Option B Consolidation	VA Lottery	VGC			
		<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• <i>New gaming types¹</i>	<ul style="list-style-type: none">• Live horse racing• Simulcast racing• ADW	
						
Long-term option	Option D Consolidation	VGC				
		<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• <i>New gaming types</i>	<ul style="list-style-type: none">• Live horse racing• Simulcast racing• ADW	