Virginia Gaming Commission Operating Model

June 17, 2024

Agenda

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1	**Engagement Progress and Key Takeaways**
2	Overview of Benefits
3	Overview of Costs and Risks
4	Key Decision Points
5	Next Steps
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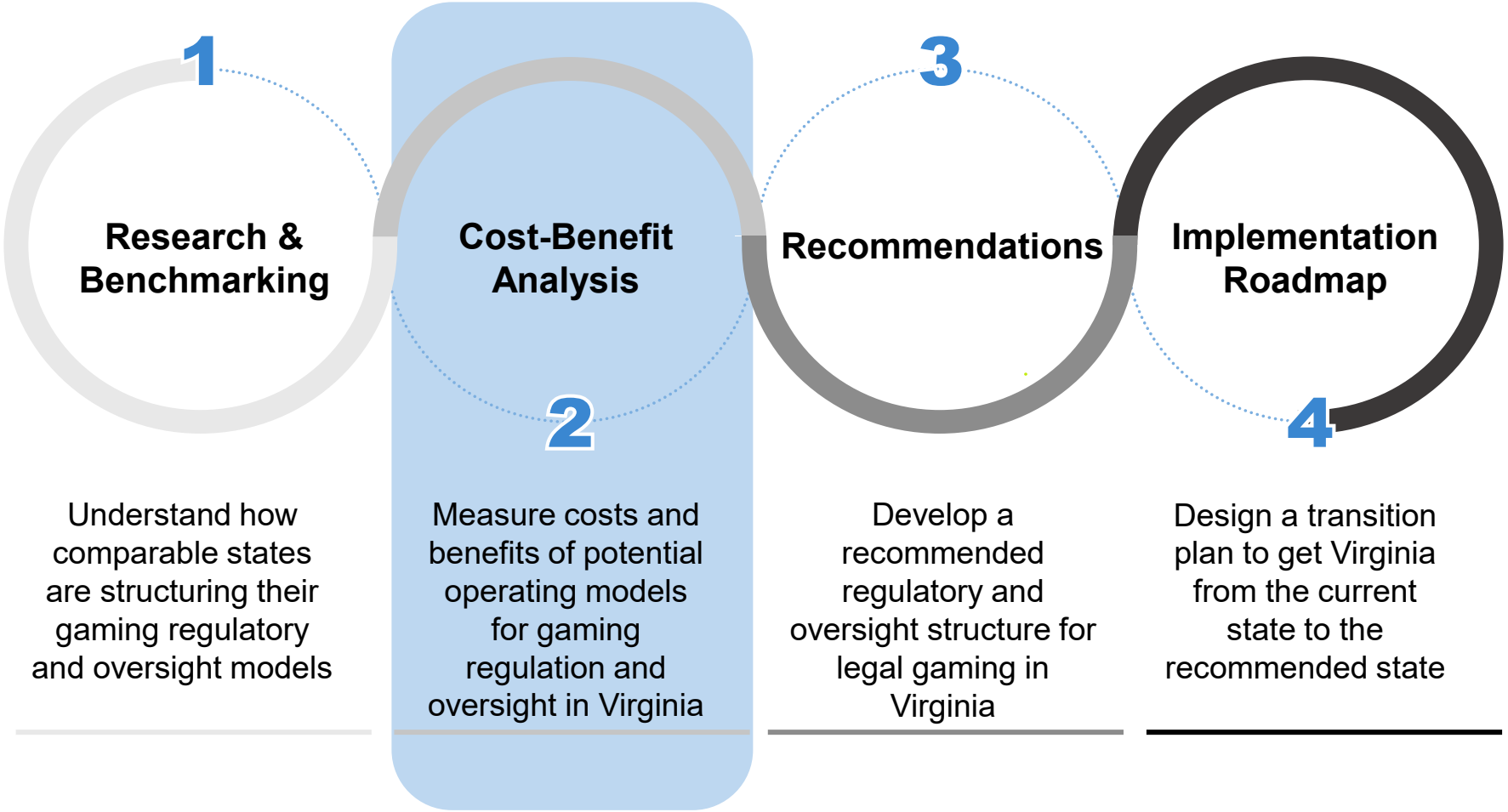
Engagement Progress



Overview of Operating Models

Decentralized (Current State)	**Lottery**		**VDACS**	**VRC**		**States with similar models**	**Recently Consolidated[3]**
	• Lottery • iLottery	• Sports Wagering • Casinos	• Charitable gaming • Fantasy contests	• HHR	• Live Horse racing • Simulcast racing • ADW		
			New gaming types[1]				
Option A Consolidation	**Lottery**	**Virginia Gaming Commission (VGC)**			**VRC**	• Indiana[2] • New Jersey[2] • Ohio[2] • Pennsylvania[2]	 ✓
	• Lottery • iLottery	• Sports wagering • Casinos • Charitable gaming	• Fantasy Contests • HHR • *New gaming types[1]*		• Live horse racing • Simulcast Racing • ADW		
Option B Consolidation	**Lottery**	**VGC**				• Florida • Massachusetts[2] • Michigan • Mississippi[2] • South Dakota	✓ ✓ ✓ ✓
	• Lottery • iLottery	• Sports wagering • Casinos • Charitable gaming	• Fantasy Contests • HHR • *New gaming types[1]*		• Live horse racing • Simulcast Racing • ADW		
Option C Consolidation	**Lottery/VGC**			**VRC**		• Maryland[2]	✓
	• Lottery • iLottery	• Sports wagering • Casinos • Charitable gaming	• Fantasy Contests • HHR • *New gaming types[1]*		• Live horse racing • Simulcast Racing • ADW		
Option D Consolidation	**Lottery/VGC**					• New York	✓
	• Lottery • iLottery	• Sports wagering • Casinos • Charitable gaming	• Fantasy Contests • HHR • *New gaming types*		• 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] Initial peer state. Out of seven peer states, charitable gaming is only regulated by the gaming commission in Indiana. Peer states were identified based on gaming environment, population, gaming revenue, median income &geographic proximity.
[3] Gaming Commission created or consolidated after 2011. Mississippi created a Lottery in 2019.

Key Takeaways

- Following a review of costs and benefits, **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**

	Relative Benefits	Relative Costs and Risks
Option A Consolidation	• **Improved mission delivery** – streamlined, standardized approach to regulation and oversight (e.g., licensing, investigations, auditing, enforcement) • Improved ability to forecast gaming revenues • Easier to facilitate a state-wide problem gambling strategy • Single source of specialized information and resources for gaming (policy, enforcement, industry partners) • Increased **transparency and accountability** • Increased **scalability** (e.g., workforce, technology) • Best position to respond to emerging gaming types	• **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		
Option C Consolidation		
Option D Consolidation		

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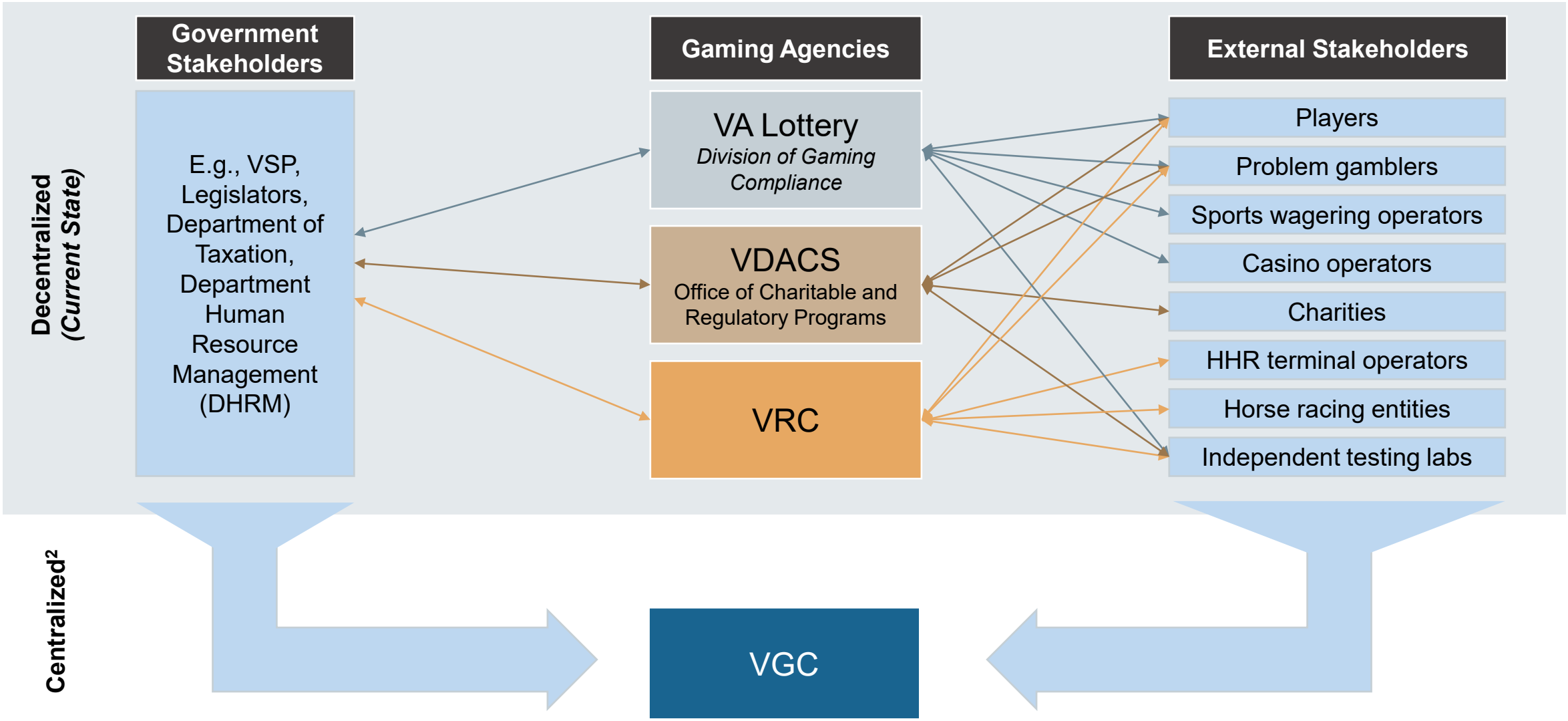
Relative Benefits of Consolidation: Improved Mission Delivery

- Streamlines and standardizes 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
  - **Knowledge sharing and development of institutional knowledge** across auditing and compliance experts
  - **Improved analytics, reporting, and potential improvements of compliance processes** due to centralization of compliance-related data
- Allows for **improved ability to forecast revenues** for gaming types
- **Easier communication, data collection, and logistical coordination to support the problem gambling work of DBHDS and the Virginia Council on Problem Gambling**

Relative Benefits of Consolidation: Transparency and Streamlined Communication

- **Clarifies the points of contact for key stakeholders** (e.g., Virginia State Police [VSP], legislators, players, industry)
  - Creates a **single 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
- Leads 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

Overview of Stakeholder Engagement: Gaming Regulation[1]



[1] VA Lottery's lottery/iLottery 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

- **Positions VGC to leverage future synergies and scale with industry growth**
  - Easier to respond to new regulatory and oversight needs from emerging gaming types
- Enables economies of scale in staffing and technology that can lead to longer-term cost savings and operational efficiencies as gaming continues its rapid growth[1]
  - **Staffing: allows for cross-training of staff** in functions that are similar across gaming types (e.g., auditing, licensing, investigations, inspections)
    - **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] 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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Relative Costs and Risks of Consolidation: New Staff

- Requires hiring between 6-39 new staff depending on the model
  - While some **new staff would likely be added across all consolidated options** (e.g., HHR compliance analysts/investigators, Problem Gambling Manager), some specialized support staff positions would only need to be added for certain consolidation options
    - Consolidation Options **A and B** would require hiring an **estimated 32-39 new staff**, the bulk of this to stand up **new support functions** in the VGC
    - Options **C and D leverage existing lottery and iLottery support staff** – limiting new hires to an **estimated 6-13**

Consolidation Model	Approx. Additional Annual Cost[1] of Staffing
Option A	$5.5M
Option B	$4.9M
Option C	$1.6M
Option D	$1.1M

- Results in an upfront investment in hiring and training new support staff

[1] Annual cost of staffing includes salaries and fringe costs

Relative Costs and Risks of Consolidation: Operational and Transition Costs

- Potentially requires the acquisition and/or expansion of office space[1]
- Necessitates the following **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.)

[1] Additional costs that may need to be considered related to office space include ongoing costs such as Wi-Fi, security, and office supplies, and upfront costs for moving and IT relocation

Relative Costs and Risks of Consolidation: Conflicts of Interest

- Any form of consolidation 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 existing autonomy and revenue streams** of gaming types (e.g., live horse racing)
- Carries the **risk of potential conflicts of interest** between gaming types
  - Unlike other gaming types in VA, lottery/iLottery is operated by the Commonwealth, meaning that it 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 kind of gaming over another
- Options C and D increase the need to manage conflicts of interest between lottery/iLottery and other gaming types
  - Note: lottery and iLottery staff could be siloed from other gaming staff to reduce this conflict of interest

Case in Point

Maryland and New York both use internal silos in their organizational structures to manage operations of the state lottery in the same agency that regulates and oversees casinos, sports wagering, and other forms of gaming.

- In Maryland, the lottery is regulated and overseen in the same agency as casinos and sports wagering (Maryland Lottery and Gaming Control Agency)
- In New York, the New York Gaming Commission oversees all forms of gaming in the state, including the state lottery

Relative Costs and Risks of Consolidation: Technology

- Offers flexibility in terms of whether and when to consolidate systems; **minimal immediate technology costs** are required with consolidation
- Creates near-term opportunities to consolidate select systems (e.g., licensing, case management, and user complaints) and **transition certain paper and spreadsheet-based processes into existing systems**
  - **Requires upfront implementation costs,** but offers minor reductions in annual technology costs, which may result in **longer term cost savings**
  - Potential for **operational benefits and efficiencies**, including automation of largely manual processes, improved reporting and tracking, reduced duplication, and centralized/more accessible data
- Creates **opportunities for additional consolidations long-term** (ERP, HR, background checks)[1]
  - Opportunities exist across all consolidation options, but synergies vary by level of consolidation

Current Technology Systems*	
Admin	
ERP/HR	• Cardinal • UKG
Regulatory and Oversight	
Background Checks	• VSP/NJCS • FBI • LexisNexis • Dun & Bradstreet • Equifax • PACER
Central Monitoring	• IGT • Exacta/Ainsworth
Licensing**	• Caliber • MS Technologies • Oracle • ARCI
Case Management**	
Complaints Log**	• Microsoft 365 • Caliber • Oracle

**Lottery/iLottery has several additional gaming technology systems that are not reflected in this table.*
*** One or more agencies currently manages function with paper/spreadsheet-based processes.*

[1] Additional studies would be needed to assess feasibility

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Key Decision Points Across Consolidation Options

Given clear benefits, all options include the consolidation of HHR and gaming types currently operating in VDACS. Other key decision points remain across the operating models.

1. Should **lottery/iLottery remain a separate entity**?
2. Should **Racing (i.e., live horse racing, simulcast racing, and ADW)** be regulated separately?
3. Should the new commission be an **independent** or **executive branch** agency?

Centralized

	1 Lottery separate?	2 Racing separate?
Option A Consolidation	Yes	Yes
Option B Consolidation	Yes	No
Option C Consolidation	No	Yes
Option D Consolidation	No	No

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			New gaming types[1]		
Option A Consolidation	**Lottery**	**Virginia Gaming Commission (VGC)**			**VRC**
	• Lottery • iLottery	• Sports wagering • Casinos • Charitable gaming	• Fantasy Contests • HHR • *New gaming types*[1]		• Live horse racing • Simulcast Racing • ADW
Option B Consolidation	**Lottery**	**VGC**			
	• Lottery • iLottery	• Sports wagering • Casinos • Charitable gaming	• Fantasy Contests • HHR • *New gaming types*[1]		• Live horse racing • Simulcast Racing • ADW
Option C Consolidation	**Lottery/VGC**				**VRC**
	• Lottery • iLottery	• Sports wagering • Casinos • Charitable gaming	• Fantasy Contests • HHR • *New gaming types*[1]		• Live horse racing • Simulcast Racing • ADW
Option D Consolidation	**Lottery/VGC**				
	• Lottery • iLottery	• Sports wagering • Casinos • Charitable gaming	• Fantasy Contests • HHR • *New gaming types*		• Live horse racing • Simulcast Racing • ADW
Additional Decision Point	Independent Agency vs. Executive Branch Agency[2]				

[1] New gaming types that may be authorized in the future

[2] Executive branch agencies are subject to the requirements of the Virginia Public Procurement Act, the Personnel Act, must leverage VITA, and receive budgetary funding from general fund appropriations

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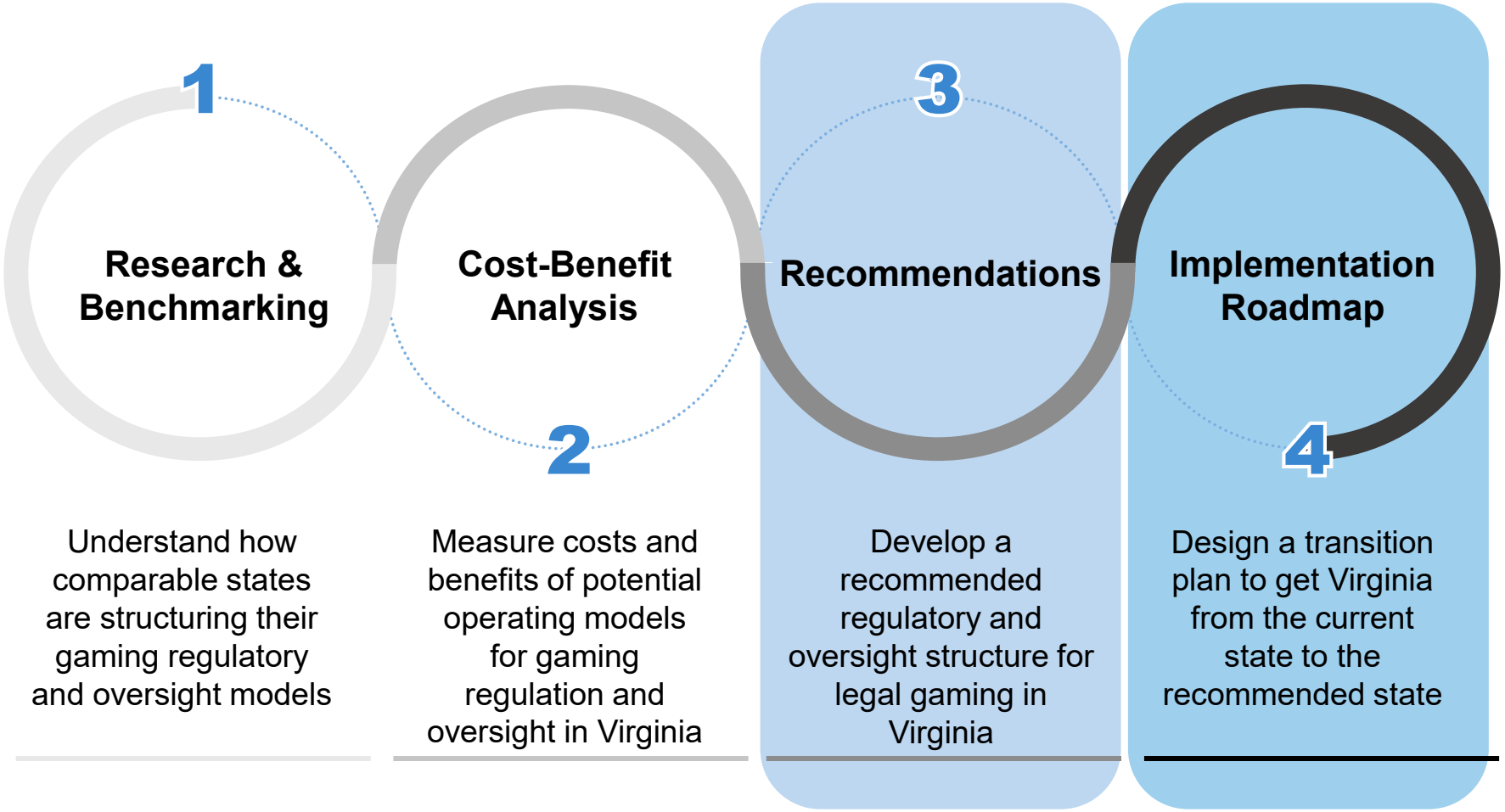
1
Research & Benchmarking
Understand how comparable states are structuring their gaming regulatory and oversight models
2
Cost-Benefit Analysis
Measure costs and benefits of potential operating models for gaming regulation and oversight in Virginia
3
Recommendations
Develop a recommended regulatory and oversight structure for legal gaming in Virginia
4
Implementation Roadmap
Design a transition plan to get Virginia from the current state to the recommended state

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A1: Recent Approaches to Gaming Operating Models

State	Lottery	Racing	Casinos	Sports Betting	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	●	●	●	●	County	2012[2]	$2,497
Massachusetts	●	●	●	●	Attorney General	2011	$1,668
Ohio	●	●	●	●	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 betting, HHR, racing, charitable gaming, and lottery.
- **Wyoming** established its lottery in 2013 as a separate entity from the Gaming Commission, which regulates sports betting, HHR, racing, and charitable gaming.[3]
- **DC**'s Office of Lottery and Charitable Games renamed to the Office of Lottery and Gaming in 2019 after sports betting 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] Wyoming also has a Pari-Mutuel Commission