



Virginia Lottery

**Briefing for House Appropriations &
Senate Finance Committees**
Sept. 16-17, 2019

Kevin Hall, Executive Director

Fiscal Year 2019 - Highlights

- Record sales of \$2.29 Billion
- Record prizes of \$1.4 Billion
- Record retailer commissions of \$129 Million
 - Record profits of \$650 Million
 - *Deposited \$6.5 million in unclaimed prizes in Literary Fund*
 - *Collected \$4.9 million in Virginia income tax withholdings*
 - *Collected \$2.5 million in overdue taxes, fines, child support*



Where does each Lottery dollar go?



WHERE VIRGINIA LOTTERY PROFITS GO

Since 1999, all Virginia Lottery profits have been used for K-12 public education in the Commonwealth. The Virginia Lottery funds a wide variety of programs each year based on priorities set by the Governor and General Assembly.



FY2020 – Early Lottery Results

	July/Aug FY20	July/Aug FY19	Change from Prior Year
Lottery Sales	\$341.1M	\$364.9M	- \$23.8M -6.5%
Less: Prizes	(\$202.0M) (59.2% of sales)	(\$229.0M) (62.8% of sales)	- \$27.0M
Retailer Commissions	(\$18.9M) (5.5% of sales)	(\$20.2M) (5.5% of sales)	- \$1.3M
Expenses	(\$19.6M) (5.7% of sales)	(\$17.5M) (4.8% of sales)	+\$2.1M
Lottery Profits	\$100.6M (29.5% of sales)	\$98.2M (26.9% of sales)	+ \$2.4M



FY20 Business Plan: Expanded Accessibility



Virginia Lottery



Introduced in May 2019

Registered adults can purchase Lottery products on their mobile device when on the premises of a licensed VaLottery retailer

- *200,000 customer downloads*
- *200 MobilePlay retailers*

New retail tradestyles: restaurants, arcades, entertainment venues

New suite of e-game offerings

Secure transactions by registered players with age/ID verification, responsible gaming controls and features



Virginia Lottery

FY20 Business Plan

The Virginia Lottery is the Commonwealth's leading gaming authority, with a 30-year reputation for integrity, a robust retail footprint, proven sales & marketing skills, and a demonstrated commitment to responsible gambling.



Virginia Problem
Gambling Helpline:
1-888-532-3500



Virginia Lottery



FY20 Business Plan

Continued Emphasis on the Lottery's Positive Social Purpose



Richmond Times-Dispatch

'Skill' games are threat to revenue, Va. Lottery says

BY GRAHAM MOOMAW AND MICHAEL MARTZ

Wed., Aug. 21, 2019

The Virginia Lottery has raised concerns that unregulated "skill" games that have appeared in bars and convenience stores across the state may be contributing to a slowdown in lottery ticket sales.

"We had a great year at the Lottery, but the last three months have not been what they were," said Secretary of Finance Aubrey Layne.



Virginia Lottery

Recent Developments: Historical Horse Racing

- Up to 3,000 HHR machines approved
- **Rosie's locations**
 - New Kent / Colonial Downs: April 2019 (600 machines)
 - Vinton: May 2019 (150 machines)
 - Richmond: July 2019 (600 machines)
 - Hampton: October 2019
- Appeals to different type of consumer seeking a different type of gaming experience
- To date, minimal impact on overall Lottery sales in the vicinity of Rosie's locations
- All Rosie's locations are licensed Lottery retail outlets



Vinton – a Closer Look

- There are 15 Lottery retailers in the vicinity of the Vinton Rosie's

From July 2018 – April 2019, the Vinton-area Lottery retailers performed very close to the overall state average in Lottery sales growth

- In May, the Rosie's facility opened:

Half of the retailers in the vicinity of Rosie's with no other changes in their businesses continued to experience Lottery sales growth in line with the overall state growth rate in June, July and August

The other half of the retailers in the vicinity of Rosie's introduced Gray Machines into their locations in May, and their Lottery sales declined in June, July and August



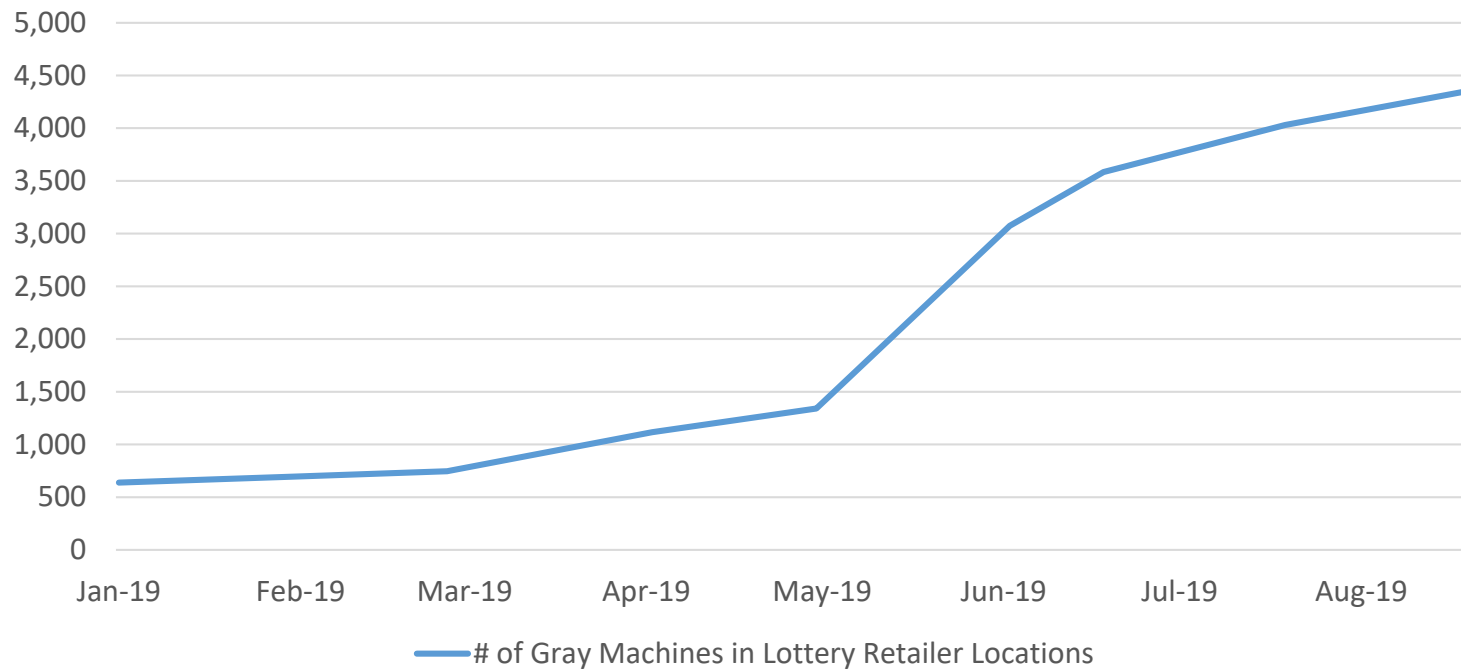
Recent Developments: Gray Machines



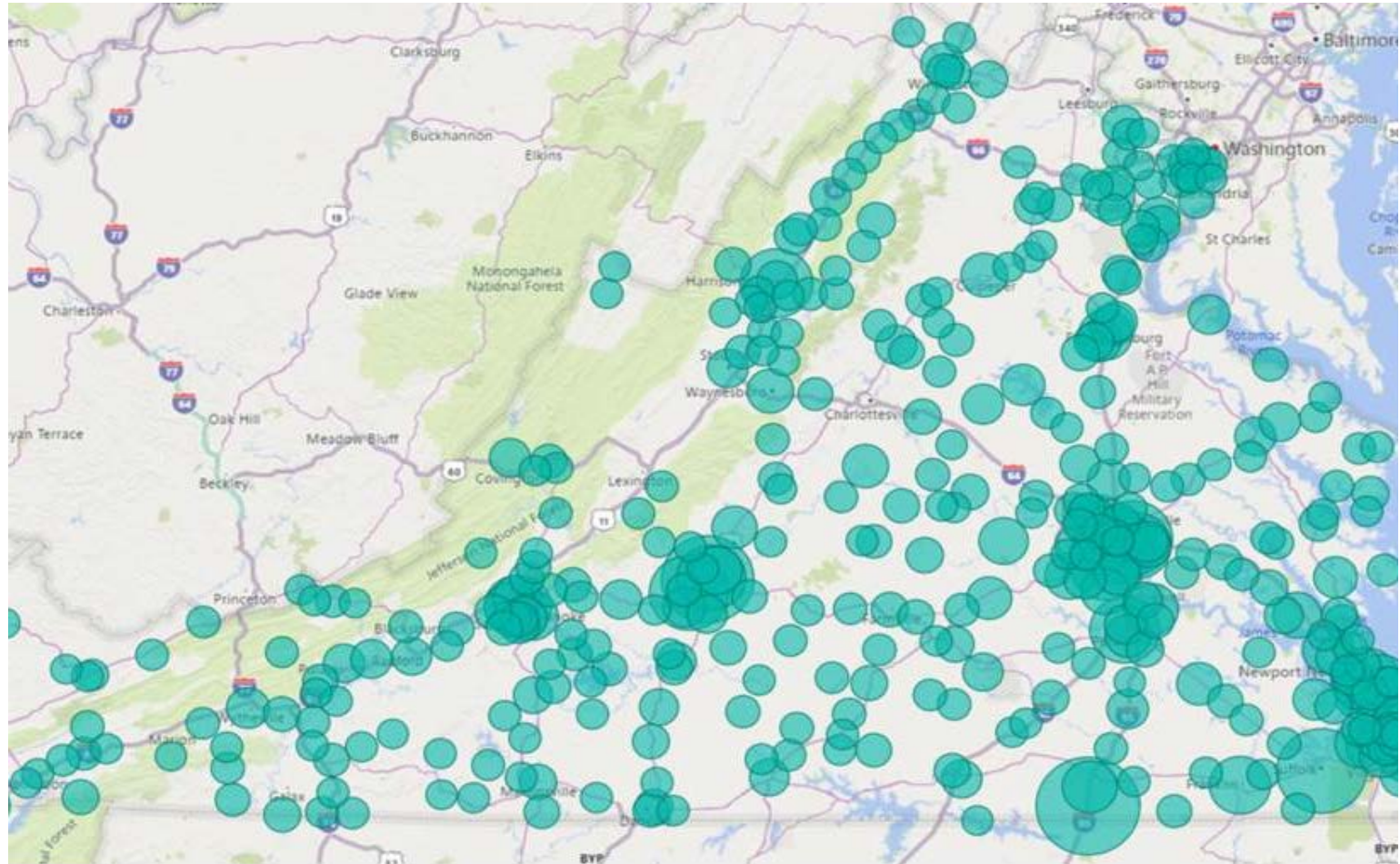
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Gray Machines - Background

- Entered the market in Summer 2017
- Began appearing in Lottery-licensed locations in 2018
- Significant growth in Spring/Summer 2019



Gray Machines - Concerns



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Gray Machines - Concerns

- **Consumer Protections**
 - Unlicensed, unregulated and untaxed
- No requirement for age restriction or for responsible gaming protections
 - **Revenue**
 - Cash activity not linked to a system of record
 - No mechanism for consistent reporting of revenues
 - **Lottery Brand**
 - Players presume machines are Lottery devices
- Over a quarter of Lottery licensed retailers currently have at least one machine
 - **Lottery Profits for Education**
 - Gaming dollars diverted, impacting profits for K-12 programs



Gray Machines – Lottery Brand

Lottery and Gray Machine Players

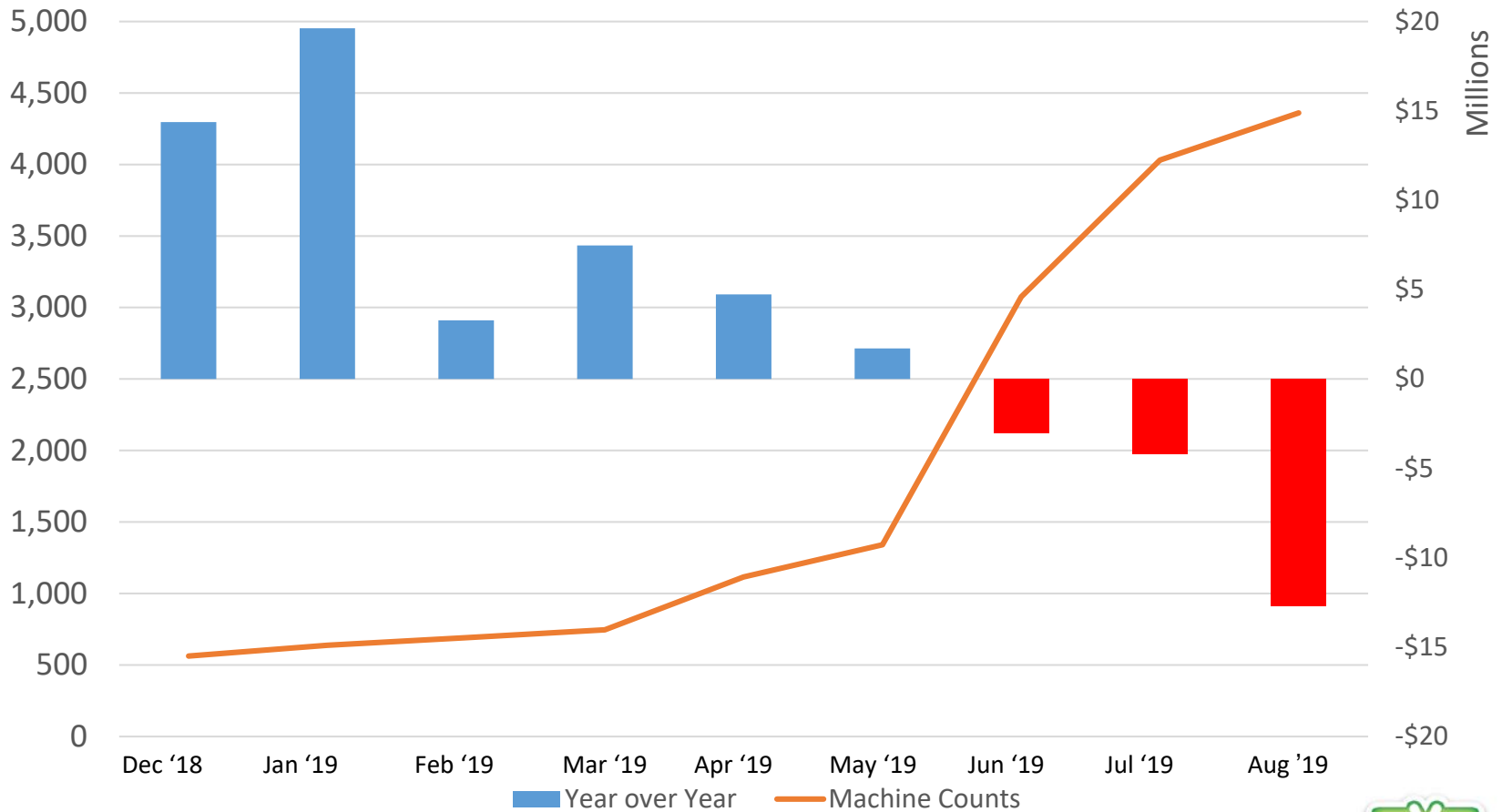
- 37% believe Virginia Lottery sponsors devices
- 21% report their Lottery spending has declined
- 23% gray machine players spend +\$100/month
 - 8% Lottery players spend +\$100/month



Virginia Lottery

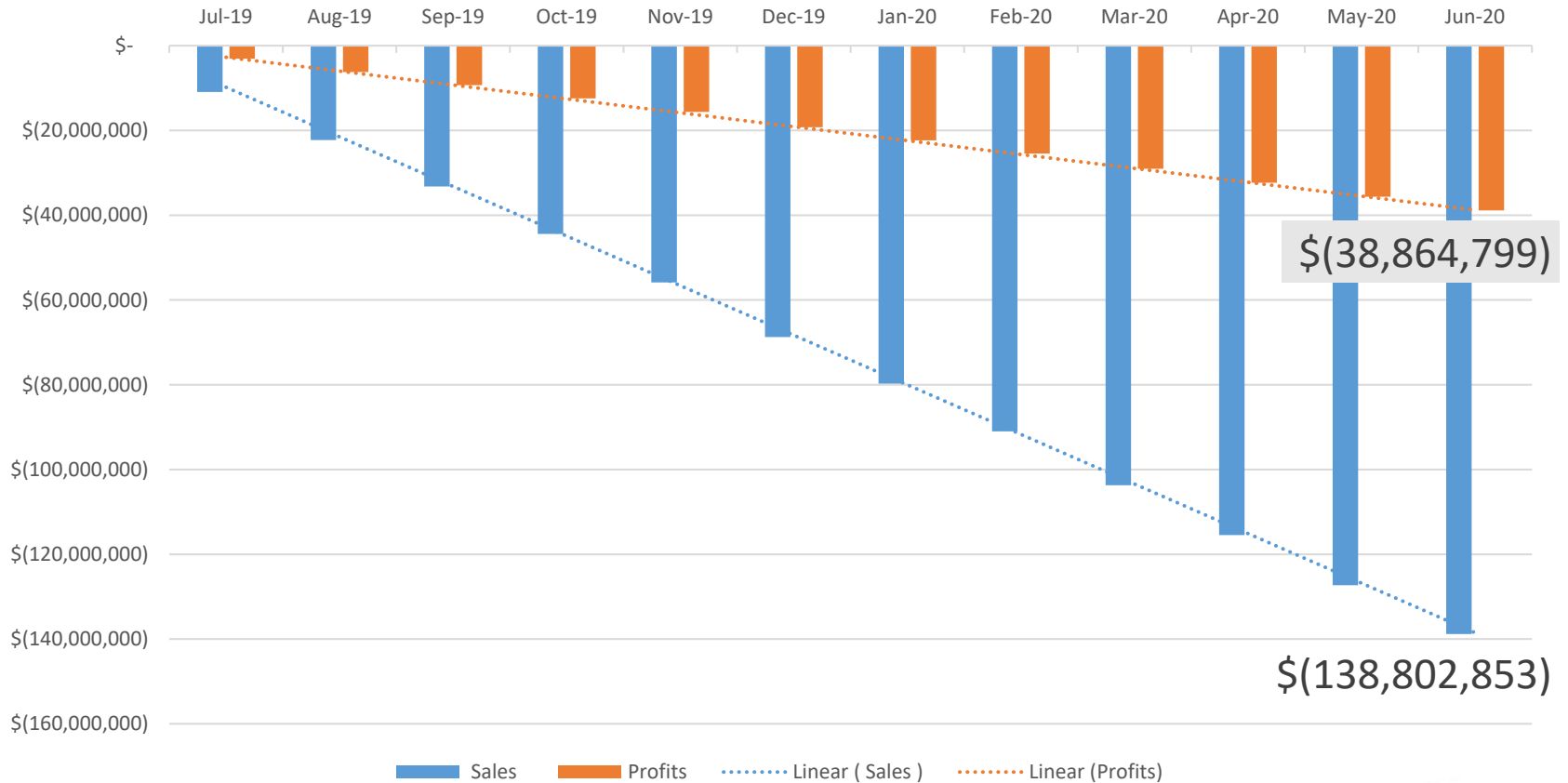
Gray Machines – Lottery Revenue Impacts

Change in Scratch & Daily Games Sales (year over year)



Gray Machines – Estimated Lottery Impacts

Estimated Cumulative Sales/Profit Impact on Overall Lottery Sales



The Daily Progress

'Skill machines' on uneasy legal ground

By Tyler Hammel

June 16, 2019

Danville Register & Bee

After hours of talk, Danville Planning Commission tables gaming machine issue

By Caleb Ayers

Sept. 9, 2019

'Skill' video games thrive in Nebraska, but their legality is in doubt

By Paul Hammel / World-Herald Bureau Mar 18, 2018 0

State gambling regulators say slot machines spreading across Missouri are illegal

By Kurt Erickson St. Louis Post-Dispatch Jul 16, 2019 0

Firm pushing for electronic skill games hopes Wyoming AG's office will change opinion about legality

Katie King 307-266-0581, Katie.King@trib.com Mar 20, 2019 0

Arcade Arkansas organizes for 'amusement machine' referendum with taxes for scholarship lottery

by Roby Brock (robby@talkbusiness.net) August 30, 2019 4:49 pm 412 views



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Gray Machines – Georgia Approach

- **GA Lottery began regulating Coin Operated Amusement Machines (COAM) in 2013**
- **47 employees across 7 departments dedicated to COAM operations & an Advisory Board (9 appointed COAM licensees + Lottery Director)**
- **Licenses**
 - Class A (arcade games) – approx. 2,300 locations, 19,000 machines
 - Class B (video line-up machines) – approx. 4,600 locations, 23,000 machines
- **Revenue from Class B (2019)**
 - \$2.6B wagered, \$1.8B returned to players
 - \$800 million profit – 10% lottery, 45% location owner, 45% machine owner
 - After central accounting system and administration, Lottery profited \$66 million
- **Machine prizes cannot include cash/alcohol/tobacco**
 - Players receive vouchers for store merchandise and lottery products



Gray Machines – Pennsylvania Approach

- **In May 2019, Pennsylvania's 13 Casinos joined with the Lottery to urge action on the unregulated games of skill**
- **Pennsylvania Lottery compared year over year growth in retailers with machines versus without machines**
 - \$138M annual sales loss from the machines, \$35M in lost profit
 - Approx. 5.5% cannibalization total Scratch Sales
 - Just over 20% of PA retailers have at least one machine
- **Pending Legislation supported by PA State Police and PA Lottery**
 - SB 710: criminal violation to assemble, maintain, or lease a game of skill
 - HB931: adds game of skill to criminal code definition of slot machine regarding illegal gambling through unregistered devices
 - HB1407: redefines slot machine in criminal code to include element of skill but exempts arcade games and eSports

