



Ralph S. Northam, Governor | Kevin Hall, Executive Director

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December 17, 2020

The Honorable Janet D. Howell
Chairwoman, Senate Finance & Appropriations Committee
Room E509
900 E. Main St
Richmond, VA 23219

The Honorable Luke E. Torian
Chairman, House Appropriations Committee
Room W1304
900 E. Main St
Richmond, VA 23219

Dear Chairs Howell and Torian:

Language in the 2020-2022 biennium budget instructed the Virginia Lottery to “convene a working group consisting of relevant agency personnel and representatives from a suitable cross-section of the Lottery-licensed sales agents” to meet at least three times to examine the Lottery’s retail commission, bonus and incentive programs, and to compare Virginia’s program to jurisdictions that border Virginia. I am pleased to submit this report in compliance with the budget language.

The Lottery convened a working group comprised of several agency managers, including the directors of sales, finance, and government relations, as well as the Executive Director. The working group included corporate representatives from **7-Eleven** and **Kroger**, independent **restaurant** and **convenience store** owners, a manager for a **regional fuel and convenience store** chain, and the president of the **Virginia Petroleum and Convenience Marketers Association**. This group met virtually for very productive conversations in August, October and November. The Lottery appreciates the willingness of our valued retail partners to invest time and effort in this initiative.

Conversations were guided by historical and comparative data on Virginia’s retailer compensation program, which is attached for your reference. Here is a summary of relevant highlights:

- Virginia’s 5% sales commission rate was established by the Virginia Lottery Board in 1988. In 1997, the Board expanded retailer compensation to include an additional 1% bonus on the cash value of every winning ticket redeemed at retail. The Lottery statute empowers the Virginia Lottery Board to administer the retailer compensation program.

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- Overall retailer compensation in FY89 was less than \$21 million; in FY20, overall retailer compensation exceeded \$120 million, or nearly \$23,500 on average per location. Approximately 5,200 lottery retail locations earned over \$109 million in sales commissions and an additional \$10.7 million in cashing bonuses.
- Virginia's effective overall compensation rate currently stands at approximately 5.6%. Among adjoining jurisdictions, Virginia, Kentucky, and Washington D.C. each provide 5% sales commission rates. Maryland's selling commission is set at 5.5%, and West Virginia and North Carolina each offer 7% sales commissions. Virginia, West Virginia, and Kentucky also provide 1% cashing bonuses, Maryland offers a 3% cashing bonus to retailers, Washington D.C. offers a hybrid cashing bonus of between 3% and 4%, and North Carolina does not provide cashing bonuses.
- For scratch tickets, which comprise more than half of total lottery retail sales, retailer earnings-per-transaction have increased 400%, from \$0.05 in FY89 to \$0.25 per transaction in FY20. Since its founding, the Virginia Lottery has broadened its product portfolio to include a variety of games at a variety of price points and prize structures.
- The Lottery has introduced significant technological improvements which have, in effect, automated many of the time-consuming audit and accounting obligations initially experienced by retailers and their employees, and improved overall efficiencies related to selling and servicing lottery products. This includes more than 2,000 vending machines at retail, for which host retailers continue to earn full 5% sales commission and 1% cashing bonuses. Also, each retail location has a self-service "ticket checker" for players to use to determine the winning value of tickets, removing a time-consuming function historically required of retailer employees.
- Virginia's statute authorizes lottery purchases by cash and debit card only, and expressly prohibits purchases by credit cards. Beginning in 2018, the Lottery began accepting cashless (debit card) payments through its vending machines, and cashless payments currently represent about 10% of vending sales. The Lottery -- and not the retailer -- pays the 1.5% banking transaction fee on each debit transaction at vending, or approximately \$1 million in transaction fees per year.

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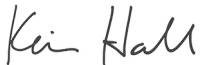
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- While the base selling commission rate has not changed since 1988, the total retailer earnings have increased significantly over time as the direct result of overall Lottery sales growth from \$409 million in sales in FY89 to more than \$2 billion in FY20. Since the first ticket was sold in 1988, the Lottery has valued its partnerships with retailers throughout Virginia, and continually works to responsibly increase sales and retailer earnings at each licensed location.

As a result of conversations with the working group, Virginia Lottery leadership has committed to take steps, in conjunction with the Board's authority and approval, to deploy a variety of available tools to increase the effective overall compensation rate, including increased cashing bonuses and other incentive programs designed to increase overall sales and strengthen the existing solid partnership between the Lottery and its retailer network.

Please let me know if you have questions or desire more information.

Sincerely yours,



Kevin Hall

c: April Kees, Director, Senate Finance & Appropriations Committee
Anne E. Oman, Staff Director, House Appropriations Committee
Ferhan Hamid, Chairman, Virginia Lottery Board
Members, Retailer Commission Workgroup



Virginia Lottery

Retailer Compensation

August 10, 2020

October 14, 2020

November 10, 2020



Introductions

- Kevin Hall – Executive Director – Lottery
- Tom Sawyer – Director of Sales – Lottery
- Kelly Gee – Manager of Government Relations – Lottery
- Deborah Courtney – Director of Finance – Lottery
- Jerry Marfut – Senior Category Manager – 7-Eleven
- Carly Sholler – Category Manager – Kroger
- Jessica Macleod – Senior Category Manager – Kroger
- Chris Heppert – Owner – Breakers Sports Bar & Grill
- Ricky Talati – Owner – Quick-n-Easy Convenience
- Maurice Lamarche – Director of Operations – Tiger Fuel
- Mike O'Connor – President – Virginia Petroleum and Convenience Marketers Association (VPCMA)



Objectives

Item 488 #4c/HB30:

Independent Agencies - Virginia Lottery

Language:

"B.1. The Director of the Virginia Lottery shall convene a working group consisting of relevant agency personnel and representatives from a suitable cross-section of the Lottery-licensed sales agents, to meet at least three times between July 1, 2020 and January 1, 2021 to examine the following: (i) Virginia Lottery sales agent compensation, including standard commissions and any bonuses and incentives which are paid; (ii) how Virginia Lottery sales agent compensation compares to jurisdictions that border Virginia; and (iii) the impacts on sales agent commissions when Lottery purchases are made by means other than cash.

2. The Director is to share conclusions of the working group's analysis with the Chairs of the House Appropriations Committee and the Senate Finance and Appropriations Committee no later than January 1, 2021."



Compensation

Virginia Lottery

11VAC5-31-150. Licensed Retailers' Compensation.

- A. A licensed retailer shall receive up to 5.0% compensation based on his net ticket sales and up to 1.0% of the cash value of all prizes which the retailer paid.
- B. Except as provided pursuant to the State Lottery Law (§ 58.1-4000 et seq. of the Code of Virginia), the board shall approve any bonus or incentive system for payment to retailers. The director may then award such cash bonuses or other incentives to retailers.
- C. Retailers may not accept any compensation for the sale of lottery tickets other than compensation approved under this section, regardless of the source.
- D. Nothing in this regulation shall be inconsistent with §§ 58.1-4006 D and 58.1-4007 A 11 of the Code of Virginia.

North Carolina State Lottery

§ 18C-142. Compensation for lottery game retailers.

The amount of compensation paid to lottery game retailers for their sales of lottery tickets or shares shall be seven percent (7%) of the face value of the tickets or shares sold for each lottery game. The Commission shall require submission of reports and remission of lottery revenues to the Commission on a timely basis. (2005-344, s. 1; 2005-276, s. 31.1(n); 2009-357, s. 11.)

Tennessee Education Lottery

§ 4-51-108(a)(6) Retailer Compensation.

(1) The corporation shall provide for compensation to lottery retailers in the form of commissions for the sale and cashing of lottery tickets or shares in an amount of not less than six and one-half percent (6 1/2%) of gross sales. Each lottery retailer shall be required to cash lottery tickets or shares up to the amount authorized pursuant to § 4-51-108(a)(6) in the manner adopted by regulation, policy, or procedure of the board.

(2) In addition to the commissions for services rendered by lottery retailers pursuant to subdivision (c)(1), the corporation may provide for other forms of compensation for services rendered by lottery retailers relating to the sale of lottery tickets or shares.



Compensation

West Virginia Lottery

§29-22-10. Licensed lottery sales agents; commissions;

(1) Licensed lottery sales agents shall receive seven percent of gross sales as commission for the performance of their duties: Provided, That a portion of the commission not to exceed one and one quarter percent of gross sales may be paid from unclaimed prize moneys accumulated under section sixteen of this article. In addition, the commission may promulgate a bonus-incentive plan as additional compensation not to exceed one percent of annual gross sales. The method and time of payment shall be determined by the commission;

Maryland Lottery

§ 9-117. Lottery sales agent compensation

In general

(a)(1) A licensed agent shall receive regular commissions of 5.5% of the licensed agent's gross receipts from ticket sales.

(2) A licensed agent may further receive a cashing fee not to exceed 3% of valid prizes paid for services rendered in cashing winning tickets.

Bonus or incentive

(b)(1) The Commission may authorize the payment of special bonuses to licensed agents and their employees.

(2) The total of the bonuses may not exceed one-half of 1% of the gross receipts from ticket sales for the year for which the bonuses are awarded.

(3) Lottery sales agents may not offer patrons inducements of alcoholic beverages to purchase or redeem lottery tickets.

Kentucky Lottery

AS A KENTUCKY LOTTERY RETAILER:

5% Commission - On the sale of all lottery products

1% Cashing Bonus - For all tickets cashed at your store

1% Selling Bonus - For all validated tickets over \$600 sold from your store, including bonuses for games like Keno and the Powerball and Mega Millions jackpot games



Compensation

State	Sales Commissions
Kentucky	5.0%
Maryland	5.5%
North Carolina	7.0%
Tennessee	6.5%
Virginia	5.0%
West Virginia	7.0%
Total	6.0%



Retailer Compensation

Virginia Lottery – Compensation Structure

5% Sales Commission

- 5% of every sales dollar, including player reinvestments of winnings

1% Cashing Bonus

- 1% of every prize dollar redeemed
- Cash in customer's hands in your store, to buy lottery and other goods

Incentive Programs

- Up to \$50,000 for selling a winning ticket
- Enhanced commissions
- Joint promotions

Overall Earnings Rate

5.0% in 1988

5.6% in 2020



Sales Commission

While the rate is the same as 1988, earnings per transaction are higher

Average transaction amount has increased significantly since 1988

- All tickets sold in 1988 were \$1
- Average scratch ticket purchased is now over \$5, an increase of 400%
- Except for daily draw games, all “draw game” tickets cost \$2 per play or more

New Year Raffle - \$20 per ticket (\$1 per transaction earned)

\$30 scratcher ticket (\$1.50 per ticket sold)

Overall Earnings per Transaction

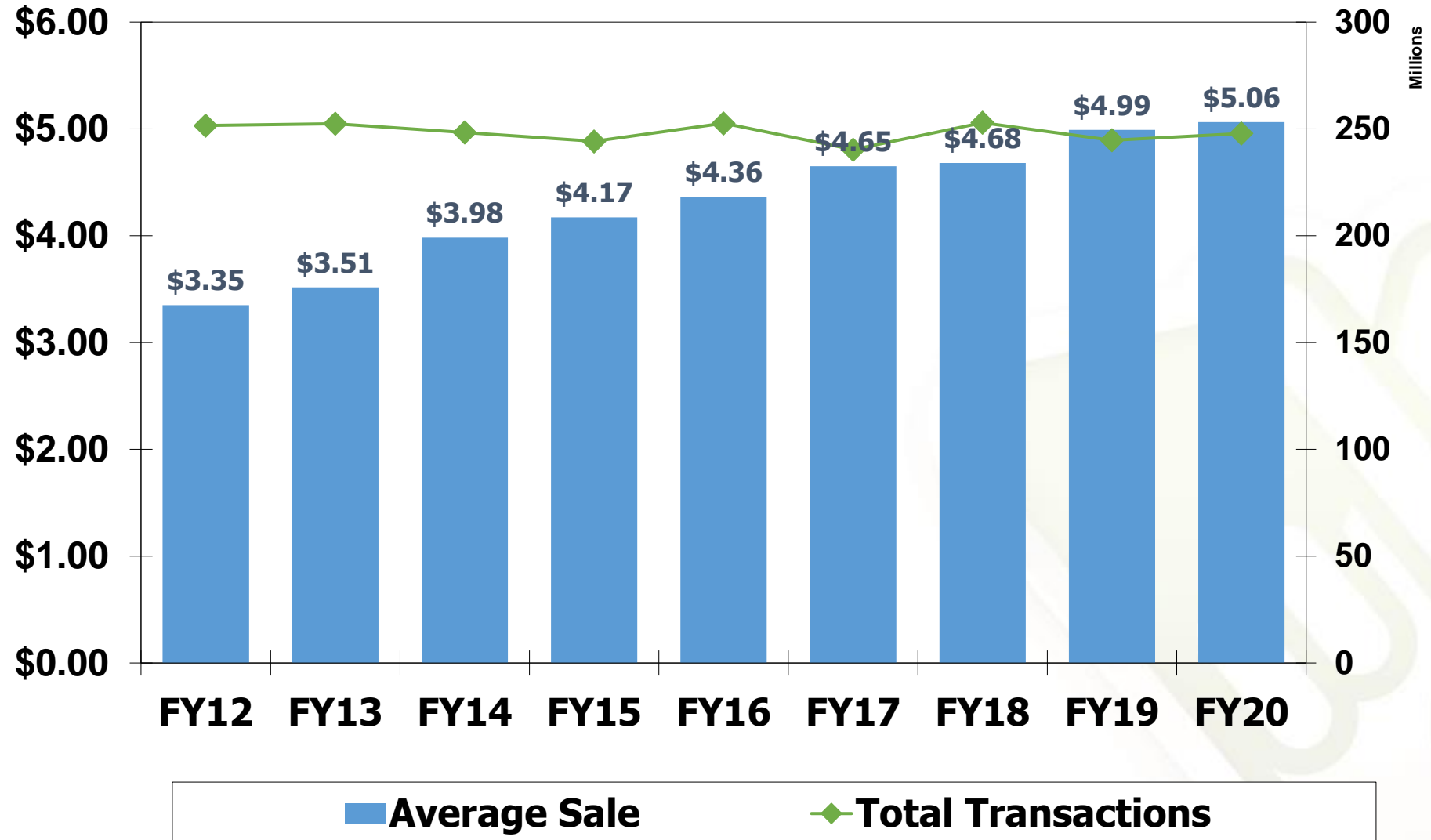
\$0.05 in 1988

\$0.25 in 2020



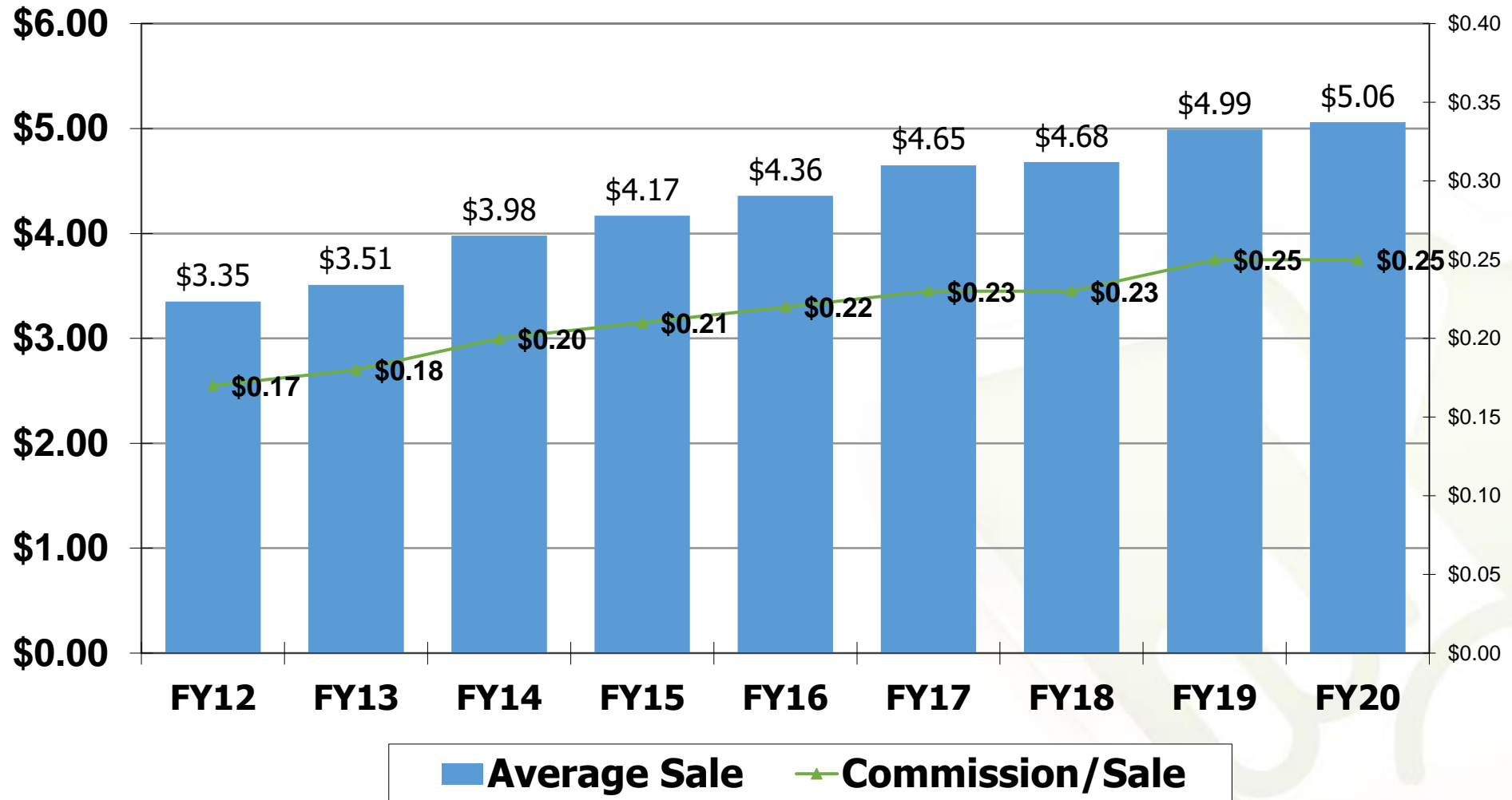
Scratcher Ticket Sales

Average Ticket Price Increasing





Scratch Sales Earnings per Transaction





Cashing Bonus

Earn 1% of all prizes cashed

- Prizes won by players have increased significantly, both in total dollars and as a percent of sales, since 1988
- Prizes validated are returned to your bank account in 2 to 9 days
- Players have cash in your store, to buy more Lottery products and any other product sold in your store (for added profits for you)

Retailers cashed **over \$1 billion** in winnings last year – earning over \$10.7 million in cashing bonuses

Lottery Prizes

100% of Pick 3 prizes can be redeemed at retail – last year, that was \$170 million – cashing a \$500 prize yields \$5 in cashing bonus commission

Scratch prizes redeemed are often replayed, creating more sales commissions for retailers



Retailer Compensation - Philosophy

Support increase earnings through sales growth and improvements

- Higher price point offerings
- Investments in equipment – vending, ticket checkers, jackpot signage, ticket dispensers
- Improved billing terms
- Increased in-store servicing, with most accounts serviced weekly
- Strong marketing support – advertising, point of sale, affiliate programs

Incent and reward key behaviors that support sales – product placement, minimize out of stock, positive customer service

Manage fees – bonding costs, licensing, and equipment fees

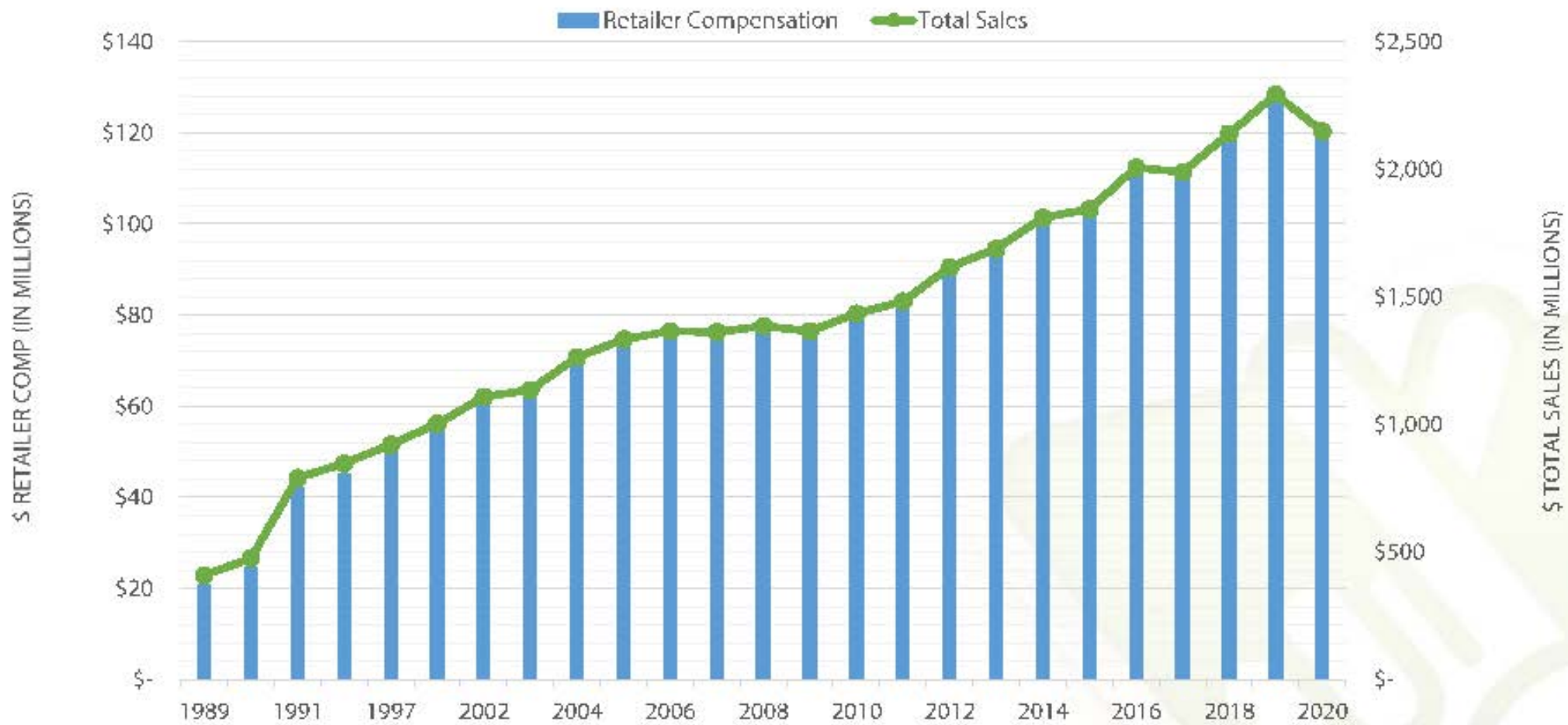
Efficient retailer network

Average Earnings

Approximately 5,200 lottery retail locations earned over \$120 million last year, or over \$23,000 per location

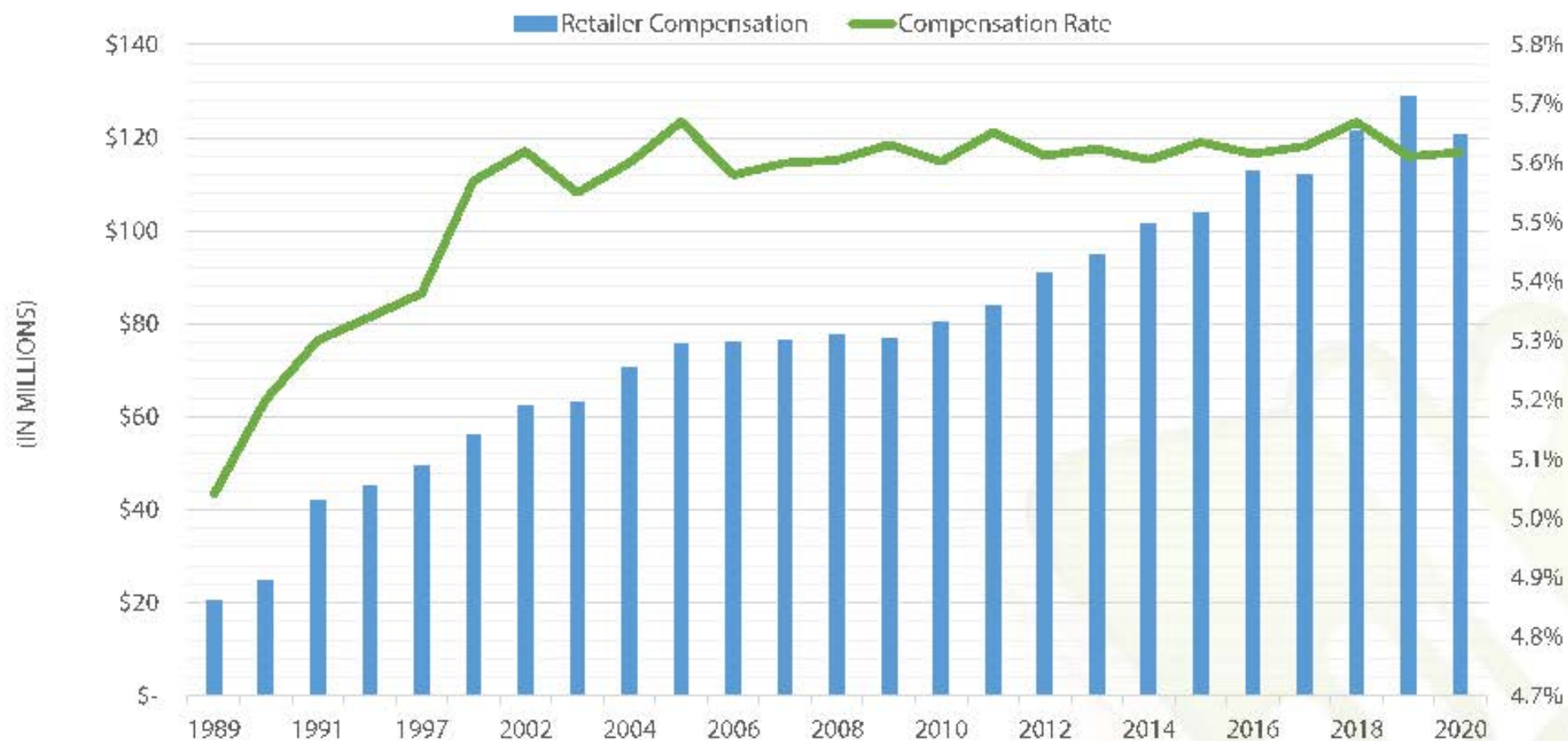


Lottery Sales and Retailer Earnings





Retailer Earnings – \$ vs. %



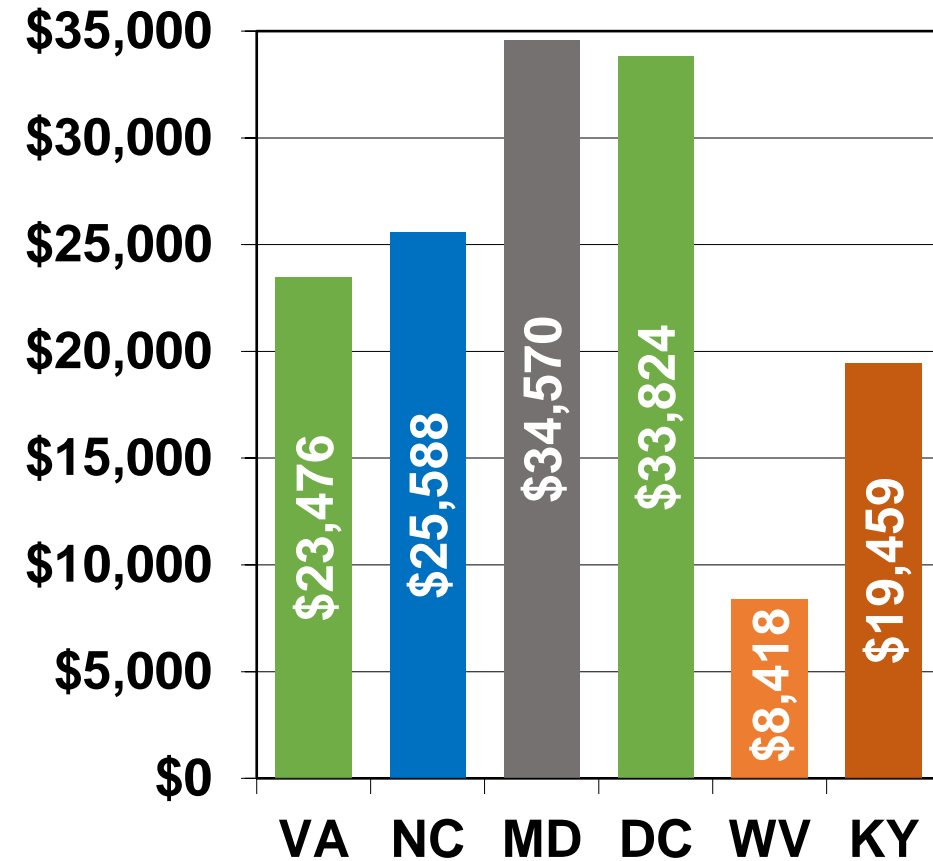


Lottery Retailers' Earnings by State

Compensation Structure

Lottery	Selling Commission	Cashing Commission
Virginia	5.0%	1.0%
North Carolina	7.0%	--
Maryland	5.5%	3%
District of Columbia	5.0%	4% scratchers 3% draw games
West Virginia	7.0%	1.0%
Kentucky	5.0%	1.0%

Average Compensation



Source: LaFleur's U.S. "Lottery Fast Facts" report, 2019



Retailer Compensation

Non-Cash Impacts on Retailer Commissions

Virginia Law

- Requires that lottery tickets be purchased only with cash or debit – credit transactions are not allowed by law
- Requires tickets to be sold at price established by the Lottery

Lottery Regulations

- Retailers may not charge a fee for the purchase of tickets
- Retailers may not charge a fee for the redemption of prizes

Accepting Debit is a Retailer's choice, not a Lottery requirement



Cashless Transactions

Lottery vending machines accept cashless payments

Implemented in 2018

Lottery pays all cashless fees

Retailers earn full commissions on vending sales, both cash and cashless

Funds come directly to Lottery, do not flow through retailer's account

Average Lottery Vending cashless transaction is \$21 (monthly averages range \$19 - \$23)

\$1 minimum; maximum \$300 per transaction

About 2,000 machines in market, continue to invest in expansion

Cashless represents about 10% of total vending sales

Prizes redeemed at vending represent about 25% of total vending sales

Overall Cashless Fees

1.5% of total cashless activity

\$1 million in fees annually

About 2% of all Lottery sales are from cashless at vending