

March 21, 2018

The Honorable Ralph S. Northam  
Governor  
Commonwealth of Virginia  
Patrick Henry Building, 3<sup>rd</sup> floor  
Richmond, VA 23219

**Re: February 2018 Lottery Results**

Dear Governor Northam:

I am pleased to provide our report of monthly activities and financial update for the month of February 2018, as required in §58.1-4006 of the *Code of Virginia*.

February sales totaled \$168.6 million, up \$8.1 million (+5.1%) compared to the same month last year. Net income for the month totaled \$43.9 million, a decrease of \$3.1 million (-7.6%) compared to last February. Profits were lower this month, in spite of higher sales, because of prize expenses; the luck of the draw tipped in favor of players this February with top prize winners in Bank a Million, and daily games players won prizes in line with expectations compared to exceptionally lower prizes in February 2017. For the year to date, both sales and profits are up about 7%.

The Lottery's updated forecast of sales and profits last Fall anticipated strong growth. With positive jackpot luck and continued minimal "bad weather" impacts so far this year, sales are \$18.0 million (+1.3%) ahead of expected levels. With the luck of the draw, prize expenses have come closer to statistically expected levels, but continue to be slightly lower than expected; savings in prize expenses declined during February, but profits still stand at \$9.5 million (+2.4%) ahead of the year-to-date expected levels. There is \$16 million in prize expense at risk, twice daily, so when popular numbers are drawn, a significant short-term impact on profits can occur. The strength in jackpot rolls, and the lower than expected prize expense rates, are fortunate factors that could change quickly.

As mentioned in our last financial update, we continue to have concerns about the intent of the legislative money committees to increase revenue expectations from the Virginia Lottery by a cumulative \$21 million over FY 18-20. These increases in profits and transfers are not in line with the financial forecast produced by the Lottery's professional staff – a forecast which was reviewed and endorsed by members of the Virginia Lottery Board as part of their statutory responsibilities.

March 21, 2018  
Page Two

Please let me know if you have any questions or if you would like more information.

Very truly yours,

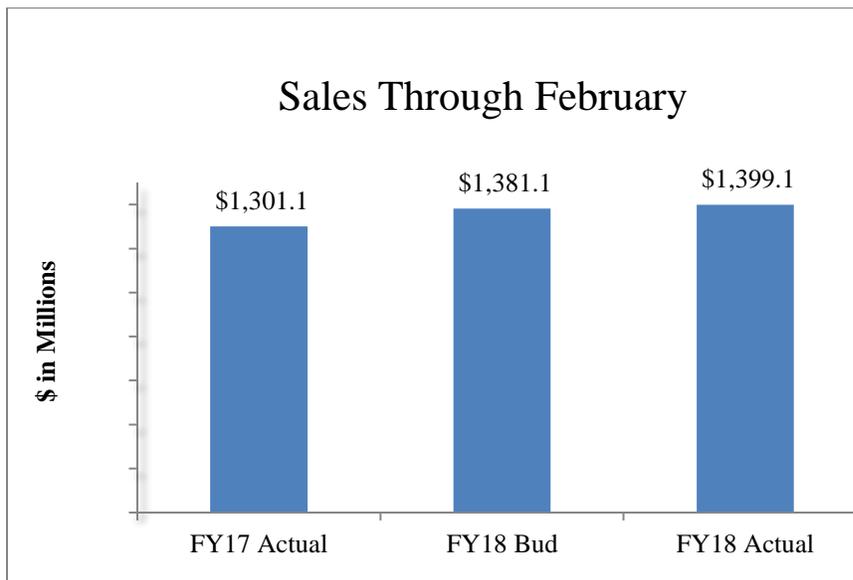
Kevin Hall

c: The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee  
The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee  
The Honorable S. Chris Jones, Chairman, House Appropriations Committee  
The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee  
The Honorable Clark Mercer, Chief of Staff, Office of the Governor  
The Honorable Aubrey Layne, Secretary of Finance  
Daniel S. Timberlake, Director, Department of Planning & Budget  
David A. Von Moll, State Comptroller  
April Kees, Interim Co-Director, Senate Finance Committee  
Jason Powell, Interim Co-Director, Senate Finance Committee  
Robert P. Vaughn, Staff Director, House Appropriations Committee  
Ferhan Hamid, Chairman, Virginia Lottery Board

**VIRGINIA LOTTERY**  
**Report to the Governor and**  
**Selected Members of**  
**the General Assembly**  
**As of February 28, 2018**

Sales

Lottery sales for the fiscal year totaled \$1,399.1 million through February. This represents an increase of \$98.0 million (+7.5%) compared to the prior year. Scratcher sales of \$766.6 million were \$38.8 million (+5.3%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$409.4 million, up \$22.5 million (+5.8%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash 4 Life and Bank a Million) totaled \$186.2 million, an increase of \$31.5 million (+20.4%) compared to last year because of higher advertised jackpots during the period, and because of the overall Mega Millions game change that increased the price per wager to \$2. Sales of Print n' Play games and the annual New Year Raffle, a category that represents about 3% of total sales, totaled \$37.0 million, \$5.3 million (+16.7%) higher than last year.



Expenses

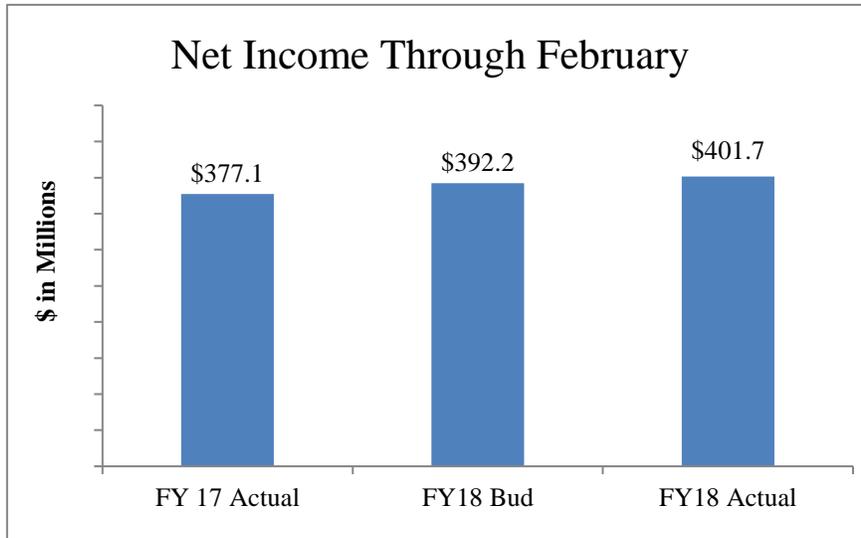
The overall prize expense rate (prizes as a percent of sales) for the year through February was 60.6%, slightly higher than last year's rate of 60.5%. The scratcher prize rate of 70.2% was slightly higher than last year's rate of 69.8%. The overall daily games prize rate of 45.4% was lower than last year's low rate of 46.7%, and significantly lower than the average 50% payout rate expected. The jackpot games prize expense rate of 53.5% was higher than last year's rate of 49.9%. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

Retailers earned \$6.5 million more than last year, for a total \$79.6 million in earnings. Overall, retailers earned 5.7% of Lottery sales in commissions and incentives during the fiscal year, slightly higher than the usual 5.6% due to the timing of some incentive programs.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$6.0 million higher than the same period last year – expected with higher sales – but remain low at 5.1% of sales.

Net Income

Due to higher sales, profits totaled \$401.7 million through February, an increase of \$24.6 million (+6.5%) compared to the same period last year, and \$9.5 million higher than forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2018 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,329,752. Also, unclaimed prizes totaling \$8,995,554 were transferred to the Literary Fund so far this year.

MEETINGS

The Virginia Lottery Board will conduct a regular business meeting in Richmond on April 11, 2018.