

April 24, 2018

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

Re: March 2018 Lottery Results

Dear Governor Northam:

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

March sales totaled \$209.6 million, up \$26.9 million (+14.7%) compared to the same month last year. Net income for the month totaled \$62.1 million, an increase of \$7.3 million (+13.4%) compared to last March. Sales and profits were significant in March, and much of it was attributable to unpredictably high Powerball and Mega Millions jackpot runs. We also saw higher-than-expected strength in scratch ticket sales. In March, monthly sales exceeded \$200 million for only the second time in Lottery history.

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 \$40.1 million (+2.6%) ahead of expected levels. The forecast variance is mainly from the jackpot games; actual sales vs. forecast for scratcher games and daily games – which make up nearly 85% of total lottery sales – is only 1%. Forecasts for the national jackpot games are developed by modeling jackpot rolls and sales, developing an annual sales forecast from those modeled outcomes, and then dividing the annual sales evenly throughout the year. Because sales escalate exponentially as the jackpots reach levels over \$400 million, these products have highly variable sales. It typically requires 12-14 weeks for jackpot levels to exceed \$400 million, so current jackpots in both multistate draw games have at most one more opportunity to reach these levels before the end to the fiscal year.

With strong sales and prize payouts near forecast levels, profits stand \$20.1 million ahead of the forecast at the end of March. The strength in jackpot rolls, and the slightly lower than expected prize expense rates, are fortunate yet unforeseen factors that can change quickly.

April 24, 2018
Page Two

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

Very truly yours,

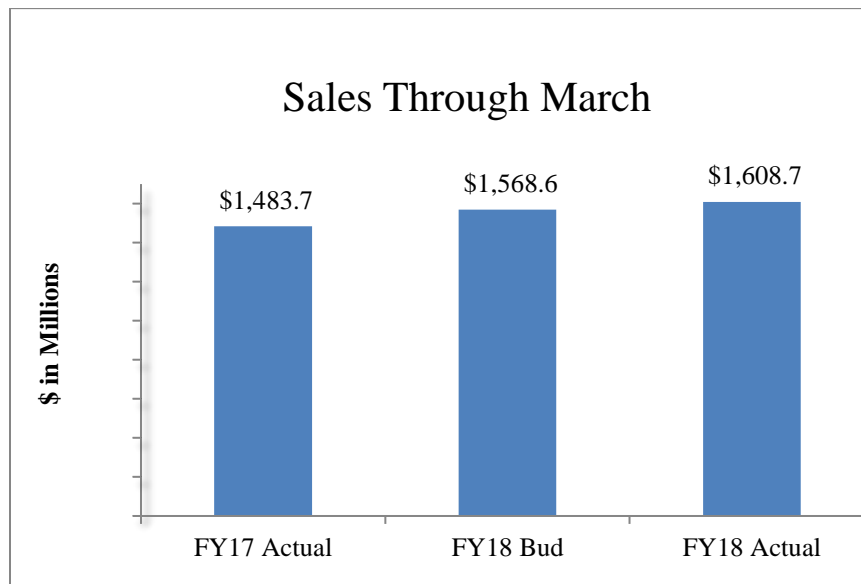
Kevin Hall

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 March 31, 2018

Sales

Lottery sales for the fiscal year totaled \$1,608.7 million through March. This represents an increase of \$125.0 million (+8.4%) compared to the prior year. Scratcher sales of \$882.8 million were \$47.8 million (+5.7%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$467.4 million, up \$26.2 million (+5.9%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash 4 Life and Bank a Million) totaled \$217.3 million, an increase of \$45.4 million (+26.4%) 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 \$41.2 million, \$5.6 million (+15.9%) higher than last year.



Expenses

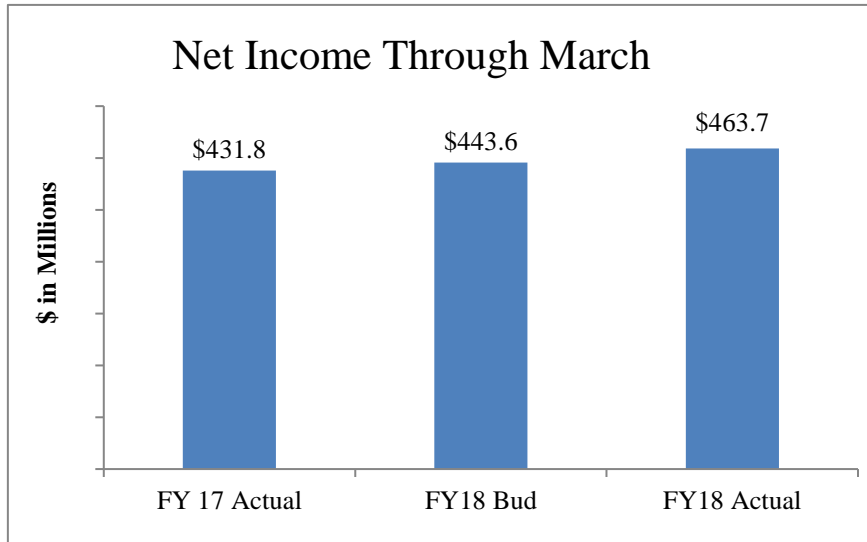
The overall prize expense rate (prizes as a percent of sales) for the year through March was 60.6%, slightly higher than last year's rate of 60.4%. The scratcher prize rate of 70.3% was slightly higher than last year's rate of 69.9%. The overall daily games prize rate of 45.4% was lower than last year's low rate of 46.1%, and significantly lower than the average 50% payout rate expected. The jackpot games prize expense rate of 53.4% was higher than last year's rate of 50.0%. 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 \$8.0 million more than last year, for a total \$91.1 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 \$5.5 million higher than the same period last year – expected with higher sales – but remain low at 4.9% of sales.

Net Income

Due to higher sales, profits totaled \$463.7 million through March, an increase of \$31.9 million (+7.4%) compared to the same period last year, and \$20.1 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 \$1,488,973. Also, unclaimed prizes totaling \$9,824,175 were transferred to the Literary Fund so far this year.

MEETINGS

The Virginia Lottery Board conducted a regular business meeting in Richmond on April 11, 2018. The next meeting is scheduled to be held in Richmond on July 11, 2018.