

May 31, 2018

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

Re: April 2018 Lottery Results

Dear Governor Northam:

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

April sales totaled \$177.1 million, up \$13.8 million (+8.4%) compared to the same month last year. Net income for the month totaled \$49.7 million, an increase of \$7.4 million (+17.5%) compared to last April. Sales and profits were stronger than the prior year across all product lines, with much of the strength supported by strong scratcher sales and the continued strength in the national jackpot games, Mega Millions and Powerball. Monthly sales were very close to anticipated levels, up less than 1% compared to the forecast.

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 \$41.2 million (+2.4%) 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%. Both national games started rebuilding in May and will not reach peak levels for high sales again this fiscal year.

With strong sales and overall prize payouts near forecast levels, year-to-date profits stand \$21.8 million ahead of the forecast at the end of April. The strength in jackpot rolls, and the slightly lower than expected prize expense rates, are fortunate yet unforeseeable factors that can change quickly. Prize payouts in May have been higher than expected so far, but we anticipate ending the fiscal year with record sales and profits.

I'm also pleased to report that the Virginia Lottery concluded its annual Thank a Teacher campaign in May, coinciding with the national Teacher Appreciation Week. Our campaign included close collaboration with the Governor's Office, the First Lady, the Secretary of Education, the Virginia PTA, the Virginia Tourism Corporation, and the Virginia Department of Rail & Public Transportation. As you know, lottery sales and profits support K-12 public education, and through important efforts like this, we are able to remind consumers that Lottery profits help support our shared priority of sustaining the good work performed daily by Virginia's local schools.

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

Very truly yours,

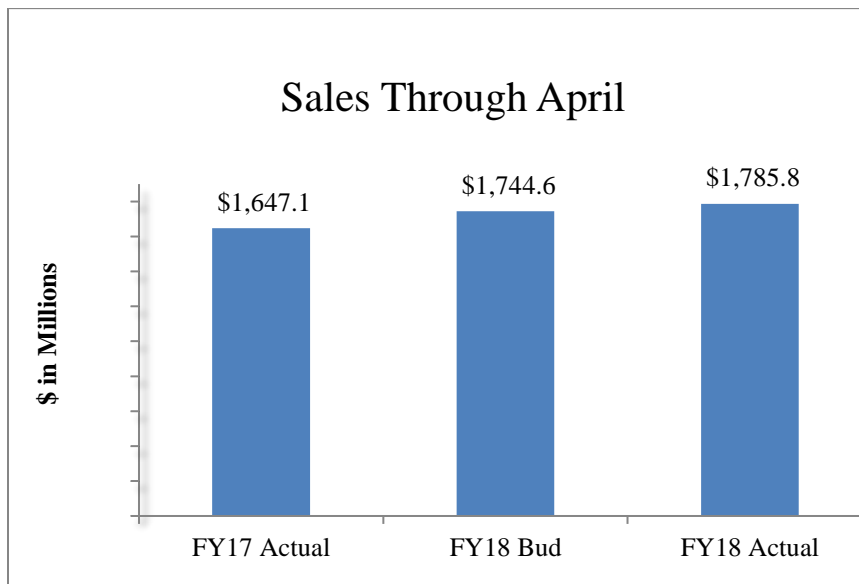
Kevin Hall

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 April 30, 2018

Sales

Lottery sales for the fiscal year totaled \$1,785.8 million through April. This represents an increase of \$138.8 million (+8.4%) compared to the prior year. Scratcher sales of \$984.1 million were \$56.6 million (+6.1%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$523.0 million, up \$28.6 million (+5.8%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash 4 Life and Bank a Million) totaled \$233.5 million, an increase of \$47.5 million (+25.6%) 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 \$45.2 million, \$6.0 million (+15.3%) higher than last year.



Expenses

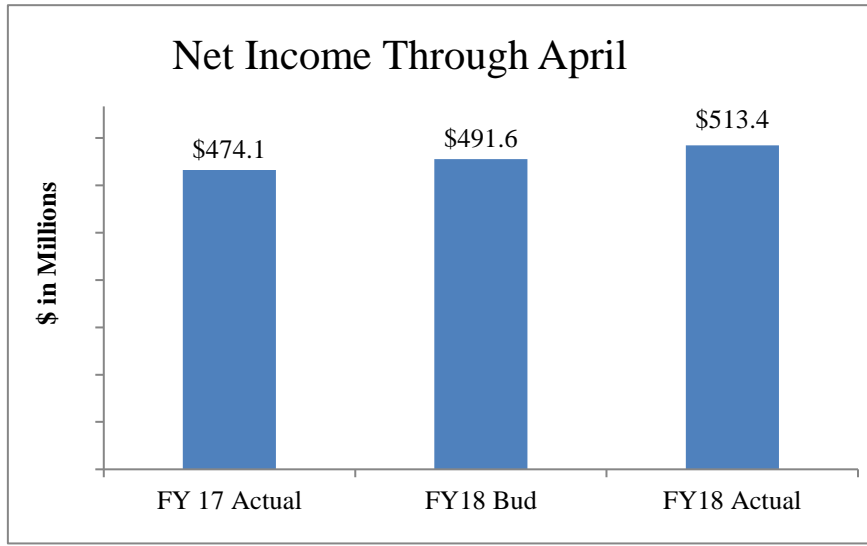
The overall prize expense rate (prizes as a percent of sales) for the year through April was 60.8%, the same as last year's rate. The scratcher prize rate of 70.3% was slightly higher than last year's rate of 69.8%. The overall daily games prize rate of 45.8% was lower than last year's low rate of 47.4%, and significantly lower than the average 50% payout rate expected. The jackpot games prize expense rate of 53.0% was higher than last year's rate of 50.2%. 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 \$8.6 million more than last year, for a total \$101.0 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 and effectiveness 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 4.9% of sales.

Net Income

Due to higher sales, profits totaled \$513.4 million through April, an increase of \$39.3 million (+8.3%) compared to the same period last year, and \$21.8 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 \$1,630,783. Also, unclaimed prizes totaling \$10,586,316 were transferred to the Literary Fund so far this year.

MEETINGS

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