

June 27, 2018

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

Re: May 2018 Lottery Results

Dear Governor Northam:

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

May sales totaled \$181.6 million, up \$10.6 million (+6.2%) compared to the same month last year. Net income for the month totaled \$49.9 million, an increase of \$3.5 million (+7.5%) compared to last May. Sales and profits were stronger than the prior year across all product lines, with much of the strength supported by strong scratch ticket sales.

The Lottery's updated forecast of sales and profits last Fall anticipated strong growth. With repeated jackpot rollovers and few economically disruptive weather impacts so far this year, sales are \$46.0 million (+2.4%) ahead of expected levels. The forecast variance stems mainly from the multistate jackpot games; actual sales vs. forecast for scratch ticket games and daily games – which make up nearly 85% of total lottery sales – is only 1%.

With strong sales and overall prize payouts near forecast levels, year-to-date profits stand \$23.0 million ahead of the Lottery's operating forecast at the end of May. The strength in jackpot rolls, and the slightly lower than expected prize expense rates, are fortunate yet unpredictable factors that can change quickly. As you are aware, the legislature increased anticipated transfers to the Lottery Proceeds Fund by \$10 million in the final Budget, leaving a positive variance of \$13.0 million through May.

In addition, the Lottery initiated the final transfer of profits to the Lottery Proceeds Fund, from which the legislature makes appropriations in support of K-12 public education programs, on June 20, 2018. Total transfers of \$608,478,473 representing estimated profits of \$596,659,304 from fiscal year 2018 activities, plus \$11,819,169 in residual fiscal year 2017 profits, have been deposited in the Lottery Proceeds Fund for 2018. Any residual profits from fiscal year 2018 will be transferred to the Fund in 2019, after the Auditor of Public Accounts completes the annual certification on August 15, 2018.

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As the fiscal year nears its close, we are pleased that adult Virginians continue to support the Lottery's broad, creative portfolio of games, while also providing significant support for a great cause – Virginia's public schools. Please let me know if you have any questions or if you would like more information.

Very truly yours,

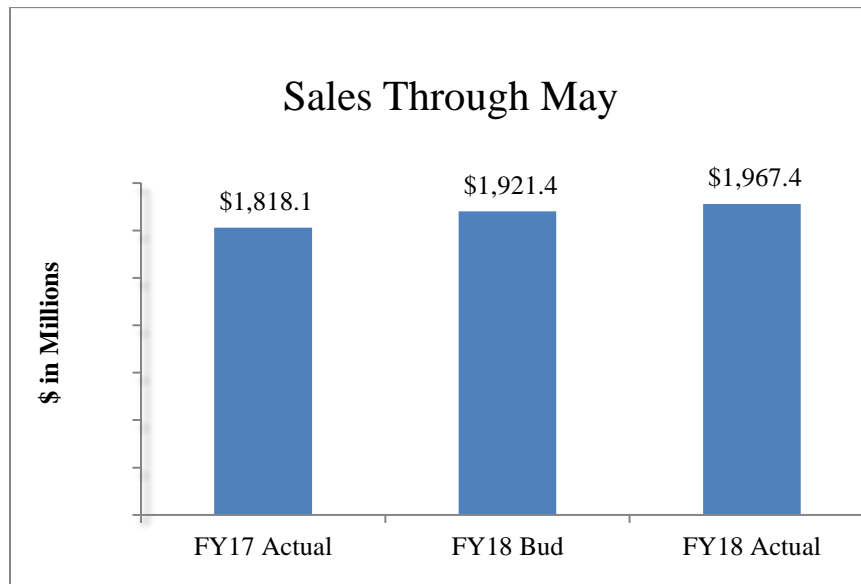
Kevin Hall

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 May 31, 2018

Sales

Lottery sales for the fiscal year totaled \$1,967.4 million through May. This represents an increase of \$149.4 million (+8.2%) compared to the prior year. Scratcher sales of \$1,087.4 million were \$65.2 million (+6.4%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$579.0 million, up \$30.8 million (+5.6%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash 4 Life and Bank a Million) totaled \$251.9 million, an increase of \$47.2 million (+23.1%) 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 \$49.1 million, \$6.2 million (+14.3%) higher than last year.



Expenses

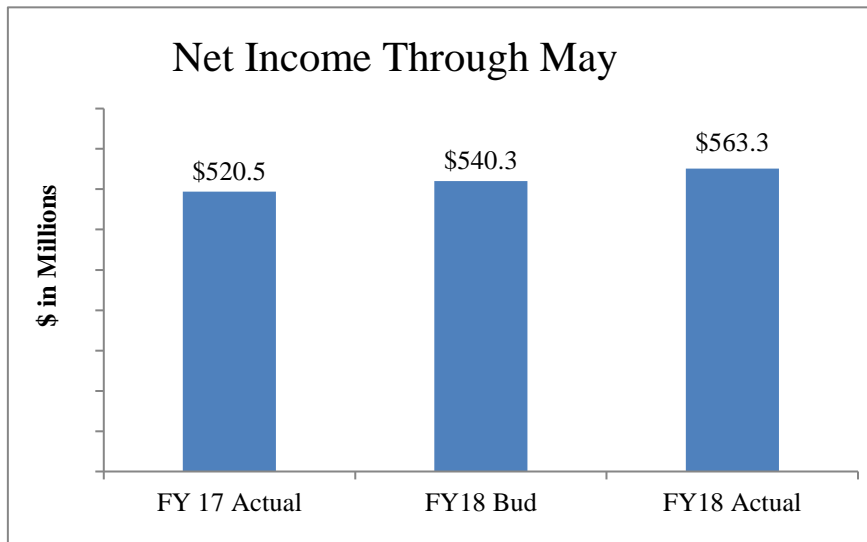
The overall prize expense rate (prizes as a percent of sales) for the year through May was 60.9%, the same as last year's rate. The scratcher prize rate of 70.2% was slightly higher than last year's rate of 69.8%. The overall daily games prize rate of 46.1% was lower than last year's low rate of 47.8%, and significantly lower than the average 50% payout rate expected. The jackpot games prize expense rate of 53.9% was higher than last year's rate of 50.3%. 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 \$9.3 million more than last year, for a total \$111.2 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 \$5.4 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 \$563.3 million through May, an increase of \$42.8 million (+8.2%) compared to the same period last year, and \$23.0 million higher than the Lottery’s forecast. A \$10 million increase was included in the final Budget for fiscal year 2018, leaving \$13.0 million excess profits over the final budget estimate through the end of May.



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 \$1,845,608. Also, unclaimed prizes totaling \$11,241,443 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.