

September 20, 2018

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

Re: August 2018 Lottery Results

Dear Governor Northam:

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

August sales totaled \$184.5 million, down \$12.1 million (-6.2%) compared to the same month last year. Last August, sales were fueled by a \$650 million Powerball jackpot, more than twice the size of the highest Powerball jackpot offered during August 2018. Sales of every other category of Lottery product experienced growth in August compared to last year.

Virginia players continued their lucky streak in August, with an overall prize payout rate for the month of 62.5%. The lower overall sales and higher prize payout rates led to a \$6.9 million reduction in profits for August compared to last year, but profits of \$50.2 million still were very solid.

For the first two months of the fiscal year, sales totaled \$364.9 million, an overall 1.6% increase compared to last year. Profits totaled \$98.2 million, a decline of 8.7%, or \$9.4 million, due to the higher prize payouts mentioned previously. It should be noted that comparisons to prior periods are not indicative of future performance, due to the volatility of sales and profits over short periods of time because of a variety of factors, including luck.

Today, Sept. 20th, marks the 30th anniversary of the sale of the first Lottery ticket in Virginia: it was a \$1 scratch game called *Match 3*, and it included a top prize of \$5,000. From that modest beginning, we are proud to have built a trusted brand providing secure and responsible gaming options while contributing a combined \$9 billion in profits to Virginia's K-12 public schools. As we look forward, we continue to focus on enhancing player convenience through our 5,200 retailer partners, many of whom are small businesses with significant and direct local economic impacts.

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I look forward to meeting with the Senate Finance Committee at their October meeting, to share information about the Lottery's record-setting FY18 (record \$2.1 billion in sales, record \$606 million in profits) and to present our business plan for the future. In addition, the Lottery Board will meet in October, and will review and discuss the updated forecast of sales and profits. Both of these discussions will include reviews of Virginia's performance compared to key benchmark U.S. lotteries.

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

Very truly yours,

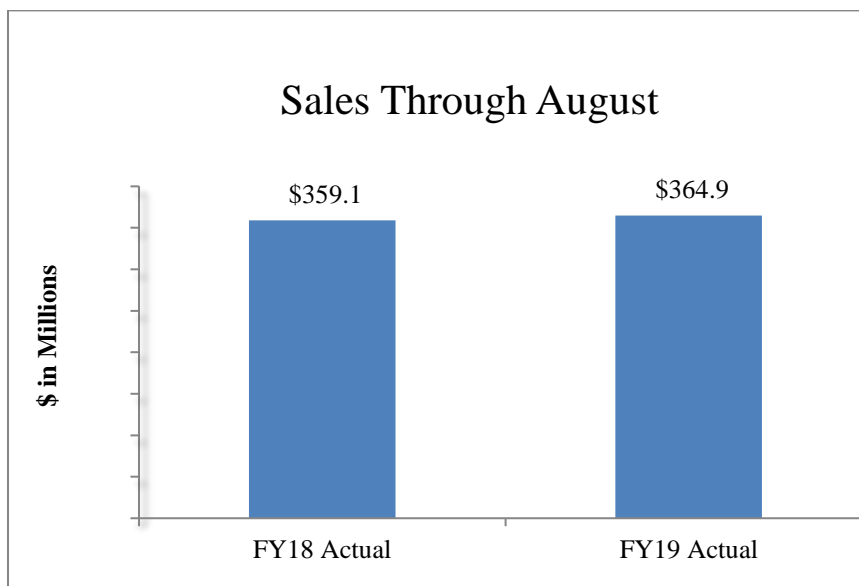
Kevin Hall

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 August 31, 2018

Sales

Lottery sales for the fiscal year totaled \$364.9 million through August. This represents an increase of \$5.8 million (+1.6%) compared to the prior year. Scratcher sales of \$200.2 million were \$19.3 million (+10.7%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$112.4 million, up \$7.0 million (+6.7%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$44.4 million, a decline of \$21.0 million (-32.1%) compared to last year because of the Powerball jackpot growth to over \$650 million last August. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$7.9 million, \$0.4 million (+5.8%) higher than last year.



Expenses

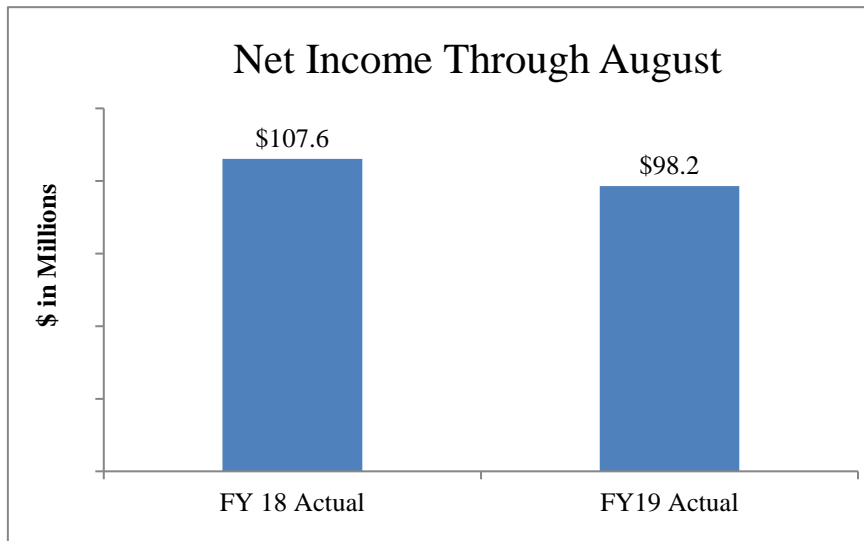
The overall prize expense rate (prizes as a percent of sales) through August was 62.8%, higher than last year's rate of 59.3%. The scratcher prize rate of 69.5% was higher than last year's rate of 69.2%. The daily games prize rate of 55.1% was higher than last year's rate of 47.1%, and higher than the statistically expected 50%. The jackpot games prize expense rate of 51.0% was higher than last year's rate of 50.7%, and also higher than the statistically expected rate. 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 \$0.5 million more than last year, for a total \$20.2 million in earnings. Overall, retailers earned 5.5% of Lottery sales in commissions and incentives, close to the usual 5.6% earnings rate.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$0.1 million higher than the same period last year but were still low at 4.8% of sales. Last year's rate was 4.9%.

Net Income

The strength in sales was offset by a much higher prize expense rate, leading to year-to-date profits of \$98.2 million, a decrease of \$9.4 million (-8.7%) compared to the same period last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2019 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$468,091. Also, unclaimed prizes totaling \$1,565,206 were transferred to the Literary Fund so far this year.

MEETINGS

The Lottery Board will hold its next regular business meeting in Richmond on October 24, 2018.