

November 27, 2018

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

Re: October 2018 Lottery Results

Dear Governor Northam:

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

October sales totaled \$240.3 million, a new record sales month supported by record high Mega Millions and strong Powerball national jackpots. Sales were up \$73.9 million (+44.4%) compared to the same month last year. Profits for the month totaled \$75.0 million, up \$27.8 million (+58.9%) compared to last October.

This record-shattering monthly performance was fortuitous but difficult to forecast, and while it is unfortunate that a Virginian did not win the record Mega Millions jackpot, over 800,000 tickets purchased by players in Virginia did win nearly \$8 million in other Mega Millions prizes in the final week of the run-up to the \$1.54 billion jackpot win.

For the year to date, sales totaled \$777.8 million, an overall 13.1% increase compared to last year. Profits totaled \$225.7 million, an increase of 10.5%, or \$21.5 million, due to higher sales compared to last year. 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.

As noted last month, the Lottery Board reviewed the forecast of sales and profits for the current biennium and forwarded their recommendations to you for inclusion in budget amendments. Meantime, the Lottery continues to evolve, working every day to make our products more accessible and convenient for today's adult consumers while also meeting their digital expectations in partnership with our retail stakeholders.

November 27, 2018
Page Two

These efforts, and our continued focus on providing secure financial transactions as well as our continued support in promoting responsible gaming, should help to maintain lottery profits as an important funding source for K-12 public education even as policymakers consider expanding state-sanctioned gaming in the Commonwealth.

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

Very truly yours,

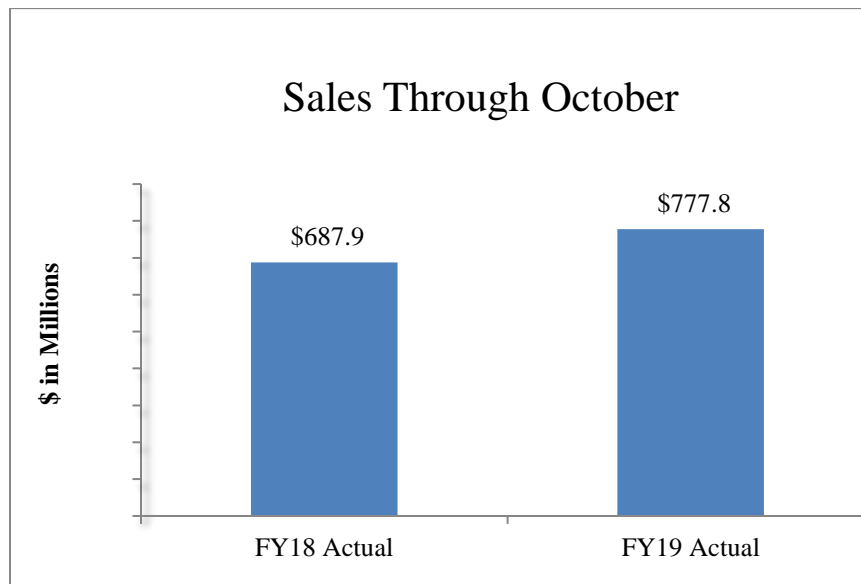
Kevin Hall

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 October 31, 2018

Sales

Lottery sales for the fiscal year totaled \$777.8 million through October. This represents an increase of \$89.9 million (+13.1%) compared to the prior year. Scratcher sales of \$394.4 million were \$23.4 million (+6.3%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$218.6 million, up \$13.3 million (+6.5%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$149.2 million, an increase of \$52.5 million (+54.3%) compared to last year because of the record Mega Millions jackpot growth to over \$1.5 billion, and the Powerball jackpot growth to over \$687 million in October. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$15.7 million, \$0.8 million (+5.3%) higher than last year.



Expenses

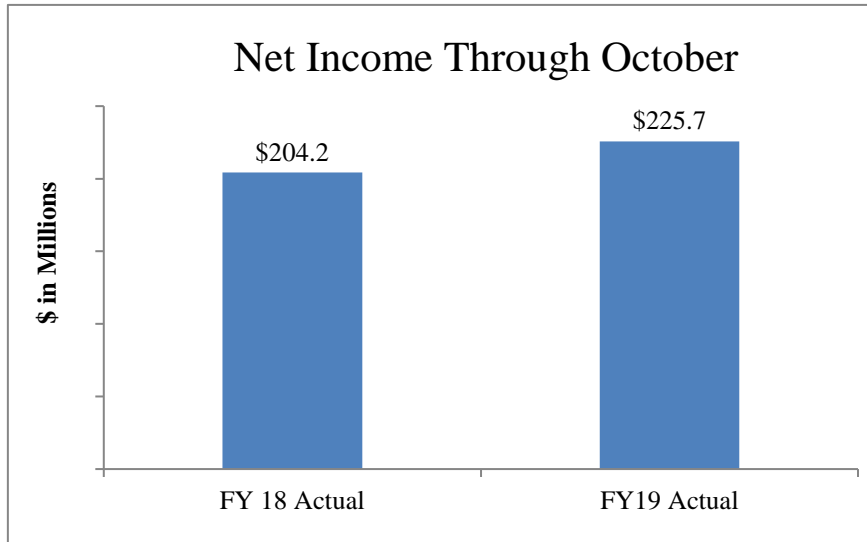
The overall prize expense rate (prizes as a percent of sales) through October was 60.7%, higher than last year's rate of 59.5%. The scratcher prize rate of 69.8% was higher than last year's rate of 69.6%. The daily games prize rate of 50.9% was higher than last year's very low rate of 44.2%, and higher than the statistically expected 50%. The jackpot games prize expense rate of 50.3% was lower than last year's rate of 52.3%, and more in line with 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 \$3.9 million more than last year, for a total \$43.3 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives, on par with the usual 5.6% earnings rate.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$2.4 million higher than the same period last year but were still low at 4.8% of sales. Last year's rate was 5.1%.

Net Income

The strength in sales was partially offset by a higher prize expense rate, leading to year-to-date profits of \$225.7 million, an increase of \$21.5 million (+10.5%) 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 \$728,535. Also, unclaimed prizes totaling \$4,231,886 were transferred to the Literary Fund so far this year.

MEETINGS

Kevin Hall, Executive Director of the Virginia Lottery, met with the Senate Finance Committee on October 25, 2018, to discuss the Lottery's record FY2018 results and to discuss the plans for the coming year. The Lottery Board will conduct a regular business meeting in Richmond on January 23, 2019.