

May 30, 2019

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

Re: April 2019 Lottery Results

Dear Governor Northam:

I am pleased to provide this report of monthly activities and financial update for the month of April 2019, as required in §58.1-4006 of the *Code of Virginia*.

April sales totaled \$184.0 million, an increase of \$6.9 million (+3.9%) compared to the same month last year. Profits for the month totaled \$51.7 million, an increase of \$2.0 million (+4.1%) compared to last April. For the year to date, sales totaled \$1.93 billion, an overall 8.1% increase compared to last year. Profits totaled \$543.3 million, an increase of \$29.9 million, or 5.8%, due to higher sales in all categories compared to last year – but particularly for the national jackpot games and daily draw games. Sales and profits are tracking well to the revised forecast, up \$22.6 million (+4.3%) compared to forecast profits through April.

In short, it looks like the Virginia Lottery is on track to record yet another record fiscal year, both in sales performance and in total proceeds deposited in the Lottery Proceeds Fund to benefit Virginia's K-12 public schools. I am really, really proud of the continued high performance of the entire staff here at the Virginia Lottery in partnership with our vendors, suppliers and more than 5,200 licensee partners statewide.

On May 6, we activated our new MobilePlay digital platform statewide, which provides a modern way for customers to purchase and play our games via a smartphone while the adult customer is physically located on the premises of a licensed Lottery retailer. As I reported last month, MobilePlay products are securely delivered to customers through registered player accounts, where users are verified for age, identity and location. In addition to traditional retail outlets, MobilePlay has allowed us to license more than 150 nontraditional businesses so far as Lottery retailers. We continue to believe that MobilePlay will allow our products to be more relevant as well as more accessible because it meets consumers where they are today. We believe this new platform ultimately will help us strengthen and sustain our fiduciary obligation to support K-12 education.

May 30, 2019
Page Two

Additionally, in recent weeks the Lottery partnered once again with the Virginia PTA and Virginia Tourism Corporation to highlight and support National Teacher Appreciation Week. We especially were pleased to again have the full support of the First Lady of Virginia, the Virginia Secretary of Education, and other influential education leaders. The Virginia Lottery distributed over 50,000 Thank a Teacher notecards decorated with winning art submissions from three talented Virginia students. The annual Thank a Teacher campaign allows parents and others to directly thank teachers for all they do, and our Lottery promotion culminated with the award of Virginia-themed getaways for teachers who chose to participate in a drawing.

Finally, as mandated by SB 1126 from the 2019 General Assembly, our staff continues to work closely and constructively with the staff of the Joint Legislative Audit and Review Commission in its study of potential oversight structures for expanded gaming in Virginia. We have had several productive conversations with JLARC staff already, and I have directed key Virginia Lottery managers to simultaneously examine various regulatory models enacted in other states where lotteries have broadened their portfolios to encompass oversight of additional forms of state-approved gaming. You can be assured of our continued commitment and shared interest in ensuring that any expanded gaming in the Commonwealth which may be endorsed by the General Assembly and approved by the Governor is incorporated in the smartest and most responsible way possible.

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

Sincerely yours,

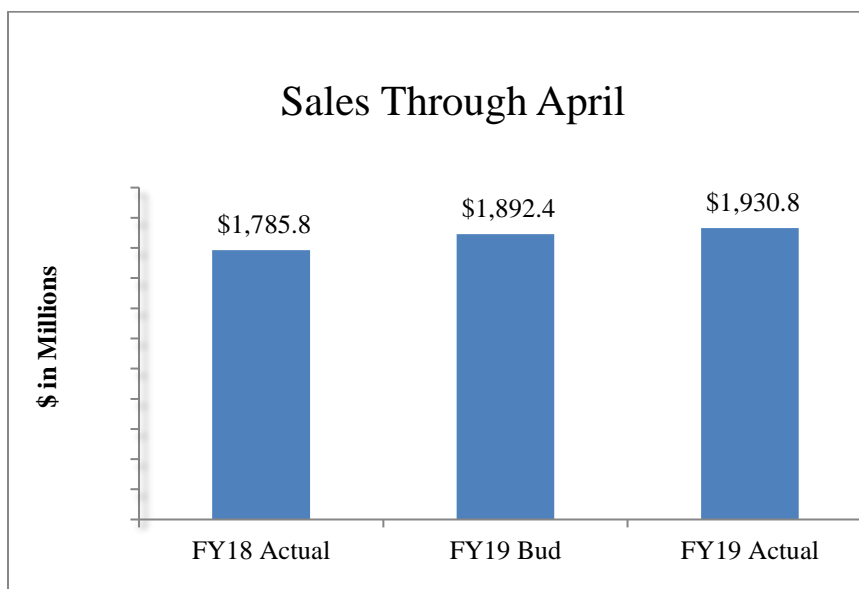
Kevin Hall

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, Co-Director, Senate Finance Committee
Jason Powell, 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, 2019

Sales

Lottery sales for the fiscal year totaled \$1,930.8 million through April. This represents an increase of \$145.0 million (+8.1%) compared to the prior year. Scratcher sales of \$1,024.3 million were \$40.1 million (+4.1%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$578.2 million, up \$55.2 million (+10.6%) from last year, bolstered by higher than statistically expected prize expenses due to the random luck of the draw. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$280.4 million, an increase of \$46.8 million (+20.1%) compared to last year because of the record Mega Millions jackpot growth to over \$1.5 billion, and two strong Powerball jackpot rolls this year. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$40.5 million, \$2.8 million (+7.6%) higher than last year. Overall, sales are \$38.5 million (+2.0%) ahead of the forecast for the fiscal year.



Expenses

The overall prize expense rate (prizes as a percent of sales) through April was 61.5%, higher than last year's rate of 60.8%. The scratcher prize rate of 70.4% was slightly higher than last year's rate of 70.3%. The daily games prize rate of 51.1% was higher than last year's very low rate of 45.8%, and higher than the statistically expected 50%. The jackpot games prize expense rate of 50.1% was lower than last year's rate of 53.0%, 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. Compared to the revised forecast, the 61.5% prize expense rate is 0.2% lower than the expected 61.7% rate for the year so far.

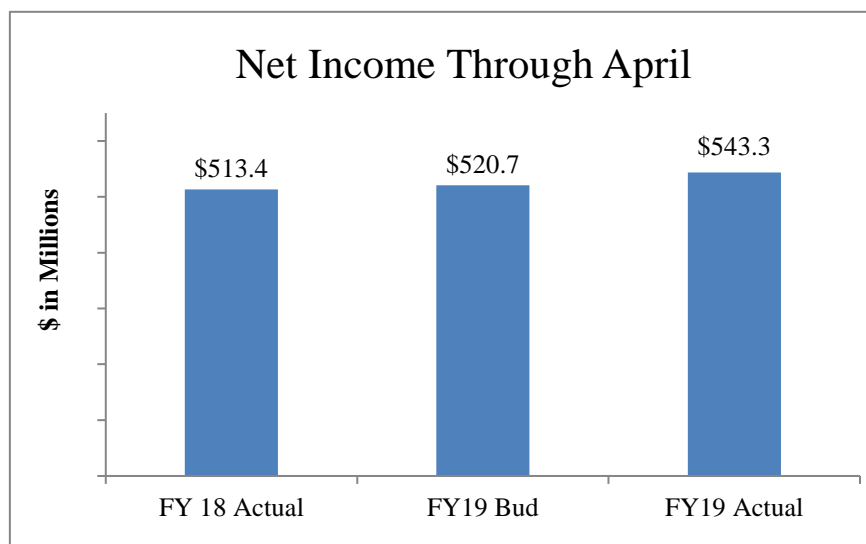
Retailers earned \$7.2 million more than last year, for a total \$108.3 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives, on par with the usual 5.6% earnings rate.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$5.8 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 partially offset by a higher prize expense rate, leading to year-to-date profits of \$543.3 million, an increase of \$29.9 million (+5.8%) compared to the same period last year.

Profits through April are \$22.6 million (+4.3%) higher than the forecast.



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 \$2,143,373. Also, unclaimed prizes totaling \$6,545,188 were transferred to the Literary Fund so far this year.

MEETINGS

The next meeting of the Board is scheduled for July 17, 2019, in Richmond.