

June 27, 2019

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

**Re: May 2019 Lottery Results**

Dear Governor Northam:

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

May sales totaled \$189.8 million, an increase of \$8.2 million (+4.5%) compared to the same month last year. Profits for the month totaled \$57.3 million, an increase of \$7.5 million (+15.0%) compared to last May. For the year to date, sales totaled \$2.12 billion, an overall 7.8% increase compared to last year. Profits totaled \$600.7 million, an increase of \$37.4 million, or 6.6%, 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 \$27.4 million (+4.8%) compared to forecast profits through May.

As reported last month, 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. On June 20, the Lottery initiated the final 2019 transfer to the Lottery Proceeds Fund, with a total \$632.4 million as anticipated in the Appropriation Act. In August, after the Auditor of Public Accounts certifies Lottery profits as required by law, the 2019 fiscal year residual profits will become a part of the 2020 total transfers available to the Lottery Proceeds Fund.

The Virginia Lottery continues to focus its efforts on providing responsible, secure gaming options for adult consumers in support of our Constitutional and fiduciary obligations to generate revenue for public education in Virginia. Additionally, the Lottery has been working closely and constructively with the Joint Legislative Audit and Review Commission in its study of potential oversight structures for expanded gaming in Virginia.

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Finally, I wish to update you on my March 4, 2016 letter expressing serious concerns about a controversial opinion issued by the U.S. Department of Justice (DOJ) Office of Legal Counsel. The DOJ opinion raised significant potential legal issues about the interstate transmission of sales information and financial settlement data used in multi-state jackpot games, as well as secure banking transactions and other important vendor relationships common to state lotteries across the country. On Feb. 15, 2019, the New Hampshire Lottery Commission, with the active support of several state lotteries, including the Virginia Lottery, filed a federal court challenge to DOJ's recent problematic reinterpretation of the 1961 Wire Act. On June 3, 2019, U.S. District Court Judge Paul Barbadoro set-aside DOJ's arguments, granting summary judgment in favor of the New Hampshire Lottery Commission and other lotteries across the country. The DOJ has not yet indicated if it intends to appeal the ruling.

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

Sincerely yours,

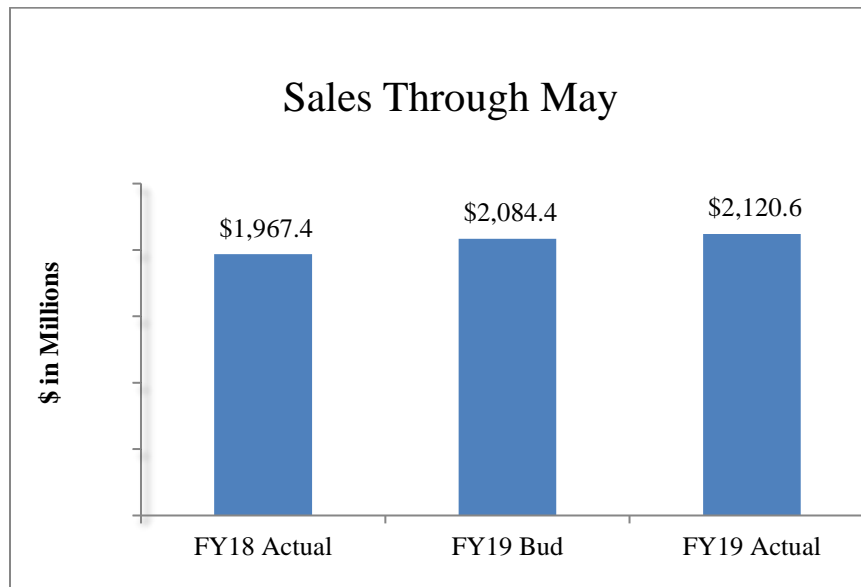
Kevin Hall

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 May 31, 2019**

Sales

Lottery sales for the fiscal year totaled \$2,120.6 million through May. This represents an increase of \$153.2 million (+7.8%) compared to the prior year. Scratcher sales of \$1,127.5 million were \$40.1 million (+3.7%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$636.0 million, up \$56.9 million (+9.8%) 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 \$304.3 million, an increase of \$52.5 million (+20.8%) 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 \$45.2 million, \$3.5 million (+8.5%) higher than last year. Overall, sales are \$36.3 million (+1.7%) ahead of the forecast for the fiscal year.



Expenses

The overall prize expense rate (prizes as a percent of sales) through May was 61.3%, higher than last year's rate of 60.9%. The scratcher prize rate of 70.4% was slightly higher than last year's rate of 70.2%. The daily games prize rate of 50.0% was higher than last year's very low rate of 46.1%, and on par with the statistically expected 50%. The jackpot games prize expense rate of 49.9% was lower than last year's rate of 53.9%, 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 61.3% prize expense rate is 0.4% lower than the expected 61.7% rate for the year so far.

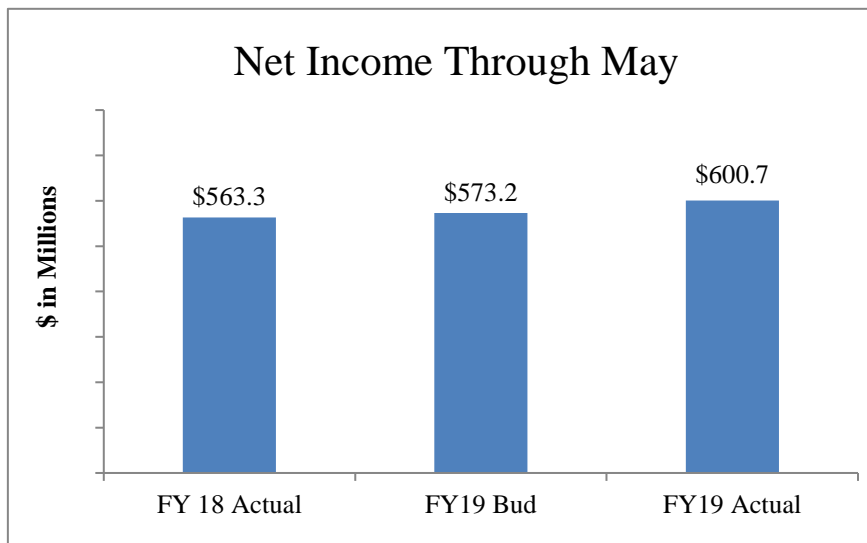
Retailers earned \$7.5 million more than last year, for a total \$118.7 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives, on par with the usual 5.6% earnings rate.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$8.3 million higher than the same period last year but were still low at 4.9% of sales. Last year's rate was also 4.9%.

### Net Income

The strength in sales was partially offset by a higher prize expense rate, leading to year-to-date profits of \$600.7 million, an increase of \$37.4 million (+6.6%) compared to the same period last year.

Profits through May are \$27.4 million (+4.8%) 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 \$2,295,877. 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.