

August 15, 2019

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

**Re: June 2019 Lottery Results**

Dear Governor Northam:

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

June sales totaled \$172.9 million, up \$0.5 million (+0.3%) compared to the same month last year. Lottery sales for the fiscal year ending June 30 totaled \$2.29 billion, an increase of \$153.7 million (+7.2%) over last year and a new record for total sales. Total annual profits also set a new record at just under \$650 million for the first time.

As reported last month, 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, 2019. Total transfers of \$632,398,647 representing estimated profits of \$622,835,457 from fiscal year 2019 activities, plus \$9,563,190 in residual fiscal year 2018 profits, have been deposited in the Lottery Proceeds Fund for 2019.

Today, the Auditor of Public Accounts certified the fiscal year 2019 Lottery results: \$649,703,969. The transfer of \$26,868,512 (representing residual profits from fiscal year 2019) was initiated today by the certification letter issued by the APA. This residual transfer of profits will be included in the Lottery's updated transfer forecast, as part of the state revenue forecast process this Fall.

While results were preliminary, I was proud to share this information with the Lottery Board during its July 17<sup>th</sup> quarterly meeting. In FY19, the Lottery set all-time records in sales (\$2.29 billion), prize winnings (\$1.4 billion), overall profits (nearly \$650 million), and retailer commissions (\$129 million). We are very proud of our agency's FY19 performance, and we especially appreciated your office's help in sharing the good news of our record-breaking success in a July 17<sup>th</sup> news release.

In addition to the FY19 transfers into the Lottery Proceeds Fund in support of Virginia's K-12 public education programs, we also collected nearly \$4.9 million in Virginia income tax withholdings, and we collected nearly \$2.5 million from winners who owed taxes, court fines, or overdue child support during FY19. Additionally, unclaimed Lottery prizes totaling \$6.5 million were deposited in the Literary Fund, which unlocks low-interest loans to help localities upgrade school facilities and classroom technology.

It is important to note that while the Lottery's annualized performance in FY19 set new records, we have begun tracking a general softening in sales activity which appeared to become more pronounced during the final quarter of FY19. Several factors can contribute to fluctuations in sales, especially when viewed over a compressed timeframe. However, we currently are working to identify the reasons for softening sales and to quantify the potential revenue impacts. I would note that the last quarter of FY19 featured these significant new developments in our markets:

- In mid-April, Colonial Downs and its Rosie's Gaming Emporium partners rolled-out historical horse race (HHR) wagering at locations in New Kent, Vinton and Richmond. Reports filed with the Virginia Racing Commission indicate players wagered \$317 million on historical horse race machines between April 18-July 31, 2019. An additional Rosie's location in Hampton with additional HHR devices is scheduled to open in coming weeks.
- FY19 also featured the continued aggressive deployment of so-called games-of-skill across Virginia. Over the previous year or more, these untaxed, unlicensed and unregulated machines reportedly have been installed at thousands of ABC-licensed restaurants and bars, as well as in some private clubs. During the third and fourth quarters of FY19, we began to view with growing concern an aggressive expansion in the number of these machines installed at Lottery-selling retail locations. By our unofficial count, nearly 4,300 of these unregulated games-of-skill machines now operate in more than 1,350 lottery licensed retailers – one-quarter of our licensed retail locations. We are looking very closely at same-store sales figures and other data in an attempt to estimate the potential fiscal impacts of these gaming devices on lottery revenues, and these early impact assessments are expected in the coming weeks.

We continue to work closely and constructively with the staff of the Joint Legislative Audit & Review Commission in its ongoing study of expanded gaming in Virginia. Please be assured the Virginia Lottery is committed to the continued successful and responsible generation of profits in support of K-12 education in this increasingly competitive gaming environment.

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, 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