

August 30, 2019

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

Re: July 2019 Lottery Results

Dear Governor Northam:

I am pleased to provide our report of monthly activities and financial update for the month of July 2019, as required in §58.1-4006 of the *Code of Virginia*. This is my second revenue letter this month; the June 2019 Lottery Results update was posted later than usual so that we could include the Auditor of Public Accounts' official certification of our FY19 results.

July sales totaled \$168.2 million, down \$12.2 million (-6.8%) compared to the same month last year. The sales declines occurred across all product categories, with the largest decline in the sales of jackpot games (-33.6%). Sales in the multistate jackpot games are fueled by jackpot size, and neither Mega Millions nor Powerball featured jackpots higher than \$200 million during July 2019.

Virginia players also are experiencing a cyclical run of "slow luck" in our daily games (Pick 3, Pick 4, and Cash 5), with prize winnings well below the statistical average typically expected. Periods of low prize payouts have a negative effect on sales but a positive short-term effect on profits. Because of this significantly lower overall prize expense in July, Lottery profits for the month totaled \$52.0 million, which was \$4.0 million (+8.3%) ahead of last July's performance.

As I noted in my FY19 year-end letter earlier this month, we continue to closely monitor the impacts of expanded gaming competition on overall Lottery sales and profits. We are paying very close attention to the recent aggressive growth in the placement of unlicensed, unregulated and untaxed "games of skill" inside current Lottery-licensed retail locations. Scratch ticket sales in July, a category which represents over half of total Lottery sales, trailed July 2018 sales by 3%, a consistent trend that we began to see earlier this year. In fact, scratcher sales have fallen short of sales goals for every month of the 2019 calendar year so far.

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We are continuing to conduct extensive analyses of the potential fiscal impacts of the proliferation of these “games of skill,” and we will be prepared to offer an update soon after the Labor Day holiday. Additionally, I have accepted an invitation from the House Appropriations Committee to report on these issues, as well as the Lottery’s overall FY19 results, at the committee’s Sept. 16 meeting.

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

Sincerely yours,

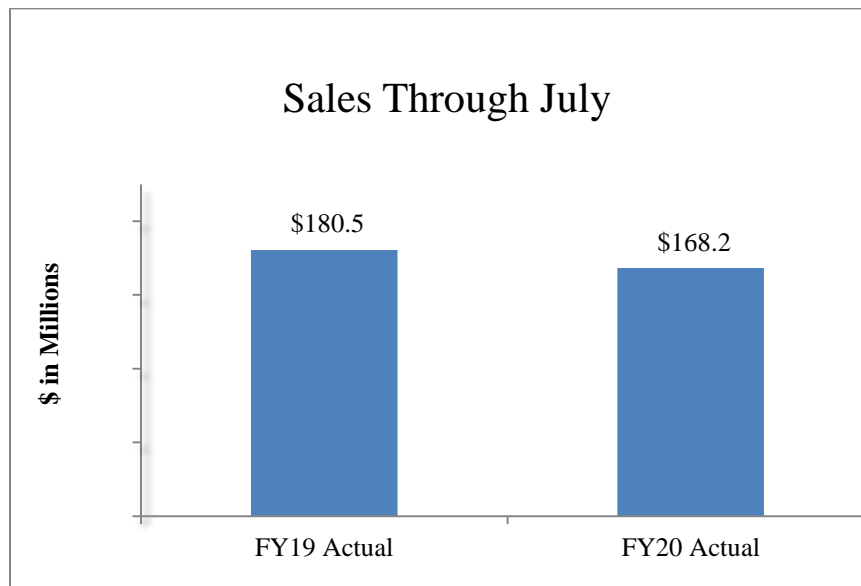
Kevin Hall

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, 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 July 31, 2019

Sales

Lottery sales for the fiscal year totaled \$168.2 million in July. This represents a decline of \$12.2 million (-6.8%) compared to the prior year. Scratcher sales of \$91.6 million were \$2.9 million (-3.0%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$54.5 million, down \$1.4 million (-2.5%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$17.5 million, a decline of \$8.8 million (-33.6%) compared to last year because of the Mega Millions jackpot growth to over \$500 million last July. Sales of Print n' Play games totaled \$4.5 million, \$0.7 million (+17.5%) higher than last year, supported by the introduction of a new game style featuring a rolling jackpot prize.



Expenses

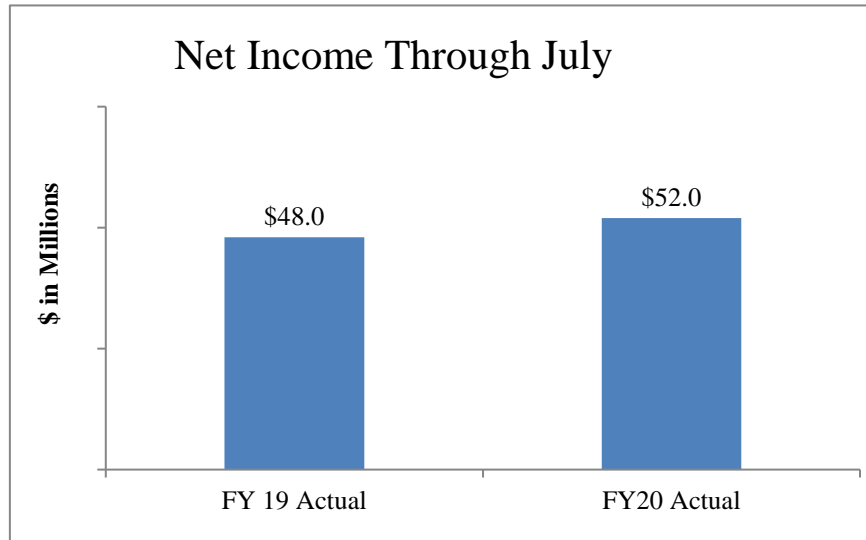
The overall prize expense rate (prizes as a percent of sales) in July was 58.1%, significantly lower than last year's rate of 63.0%. The scratcher prize rate of 68.7% was higher than last year's rate of 67.6%. The July daily games prize rate of 41.8% was significantly lower than last year's rate of 59.4%, and well below the statistically expected 50%. The jackpot games prize expense rate of 50.4% was lower than last year's rate of 53.7%, mainly due to unusual prize win activity in the Bank a Million game last year. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for games that have fixed prizes; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With lower sales, retailers earned \$0.8 million less than last year, for a total \$9.2 million in earnings. Overall, retailers earned 5.5% of Lottery sales in commissions and incentives in July, close to the usual 5.6% earnings rate.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were 5.6% of sales, higher than last year's rate was 4.8%.

Net Income

The weakness in sales was offset by a much lower prize expense rate, leading to July profits of \$52.0 million, an increase of \$4.0 million (+8.3%) compared to the same month last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2020 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$177,947. Also, unclaimed prizes totaling \$885,820 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 30, 2019.