

October 25, 2019

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

Re: September 2019 Lottery Results

Dear Governor Northam:

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

September sales totaled \$165.6 million, down \$6.9 million (-4.0%) compared to the same month last year. The sales declines occurred in two key areas: instant scratch tickets and multistate jackpot games. Jackpot levels in both the Powerball and Mega Millions multistate games have not grown to a significant enough level over several recent drawings to engage occasional players, and scratch ticket sales continue to be significantly depressed by the continued proliferation of so-called “games of skill” at a growing number of our licensed lottery retail locations. In fact, we now count more than 5,200 of these unregulated and untaxed devices in over 1,500 lottery licensed retail locations, which is nearly 30% of our retail footprint. As recently as April, Lottery personnel counted fewer than 1,000 of these devices at our licensee locations.

September profits of \$43.7 million were \$8.7 million (-16.6%) lower than last September. Profits declined at a higher rate than sales because of prize expenses. In September 2018, daily games prizes were much lower than normal, while players experienced average luck last month. Also, the national jackpot games had winners at guaranteed jackpot levels this September, which required additional prize funding. In September 2018, both multistate games were rolling toward record-breaking jackpot amounts.

For the fiscal year to date, Lottery sales totaled \$506.7 million, a decline of \$30.8 million (-5.7%) compared to last year. Profits for the year so far totaled \$144.6 million, or \$6.1 million (-4.1%) less than last year.

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We continue to collect data and refine our estimates of sales and profits for the current year and the coming biennium. At its quarterly meeting on Oct. 30, the Lottery Board will consider and discuss adjustments to our previous forecasts, which appear likely to include significant reductions for the current fiscal year. We will pass along any updated information so it can be reflected in the Administration's budget process this Fall.

In addition to continuing efforts to address the challenges impacting our current business, we have completed an internal review of key casino regulatory models deployed by other states in preparation for November's release of the JLARC study mandated by SB1126. We will continue to gather information and expand our baseline of knowledge on regulatory structures enacted in other states while we await potential legislative action on expanded gaming in 2020.

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

Sincerely yours,

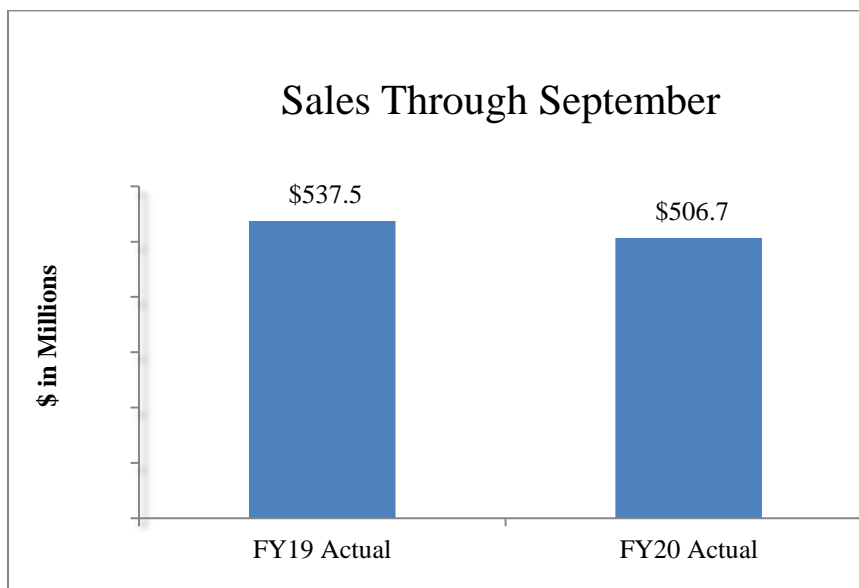
Kevin Hall

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 September 30, 2019

Sales

Lottery sales for the fiscal year totaled \$506.7 million for the first quarter. This represents a decline of \$30.8 million (-5.7%) compared to the prior year. Scratcher sales of \$277.4 million were \$20.3 million (-6.8%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$161.4 million, down \$3.5 million (-2.1%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$50.0 million, a decline of \$13.3 million (-21.1%) compared to last year because of lower jackpots this year. Sales of Print n' Play and e-games totaled \$18.0 million, \$2.2 million (+13.6%) higher than last year, supported by the introduction of a new Print n' Play game style featuring a rolling jackpot prize.



Expenses

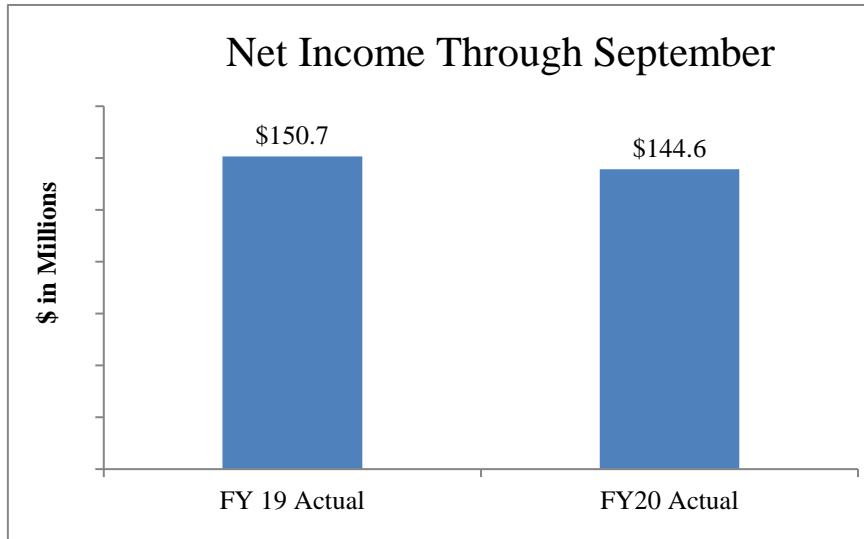
The overall prize expense rate (prizes as a percent of sales) for the year to date was 60.1%, lower than last year's rate of 61.6%. The scratcher prize rate of 70.3% was higher than last year's rate of 70.0%. The daily games prize rate of 44.3% was significantly lower than last year's rate of 50.3%, and well below the statistically expected 50%. 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 \$1.9 million less than last year, for a total \$28.4 million in earnings. Overall, retailers earned 5.7% of Lottery sales in commissions and incentives for the year so far, close to the usual 5.6% earnings rate.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were 5.9% of sales, higher than last year's rate of 4.8%.

Net Income

The weakness in sales were offset slightly by a lower prize expense rate, leading to profits of \$144.6 million, a decline of \$6.1 million (-4.1%) compared to 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 \$502,474. Also, unclaimed prizes totaling \$1,323,632 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.