

February 25, 2020

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

Re: January 2020 Lottery Results

Dear Governor Northam:

I am pleased to provide our report of monthly activities and financial update for the month of January 2020, as required in §58.1-4006 of the *Code of Virginia*.

January sales totaled \$185.1 million, down \$5.3 million (-2.8%) compared to the same month last year. January profits of \$54.6 million were \$0.4 million (+0.8%) higher than last January. For the fiscal year to date, Lottery sales totaled \$1,228.1 million, a decline of \$124.8 million (-9.2%) compared to last year. Profits for the year so far totaled \$343.8 million, or \$31.8 million (-8.5%) less than last year. As you know, Virginia Lottery profits are constitutionally required to be directed to public K-12 programs. Compared to the updated forecast of sales and profits submitted and included in your introduced budget, sales are \$2.3 million (-0.2%) less than forecast and profits are \$4.9 million (+1.5%) ahead of forecast.

In January, the Virginia Lottery's annual "Thank a Teacher" art contest was opened to all K-12 public school students to submit original artwork for a chance to be featured on tens of thousands of thank-you notes distributed to Virginia teachers during National Teacher Appreciation Week later this spring. In 2019, more than 50,000 of these thank-you notes were delivered to public school teachers across the commonwealth, and our goal is to distribute even more this year. We have greatly appreciated the support of the Administration in celebrating this annual initiative in support of our K-12 public school students and teachers.

In addition, to mark National Problem Gambling Awareness Month in March, we once again have taken several steps to highlight our long-standing commitment to responsible gaming. In partnership with the Virginia Council on Problem Gambling, the Lottery continually funds a statewide hotline which serves as a gateway to additional resources for individuals and their families concerned about problem gambling. This hotline number also is printed on every Virginia Lottery product, and messages and links to responsible gaming resources are featured on our website and all of our marketing materials. Additionally, we replace broadcast advertising for Lottery products during the first half of March with public

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service announcements which highlight responsible gambling resources. We are proud to be one of the first lotteries participating in a nationwide verification program through the National Council on Problem Gaming and the North American Association of State and Provincial Lotteries.

Finally, we continue to monitor legislation with potential impacts on Lottery sales and profits, as well as legislation that would expand our gaming oversight responsibilities. We continue to work closely with the Secretary of Finance team and the members and staffs of the money committees related to the impacts of these legislative initiatives. We remain eager to work with the Administration and the General Assembly to address the challenges and opportunities related to expanded gaming.

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

Sincerely yours,

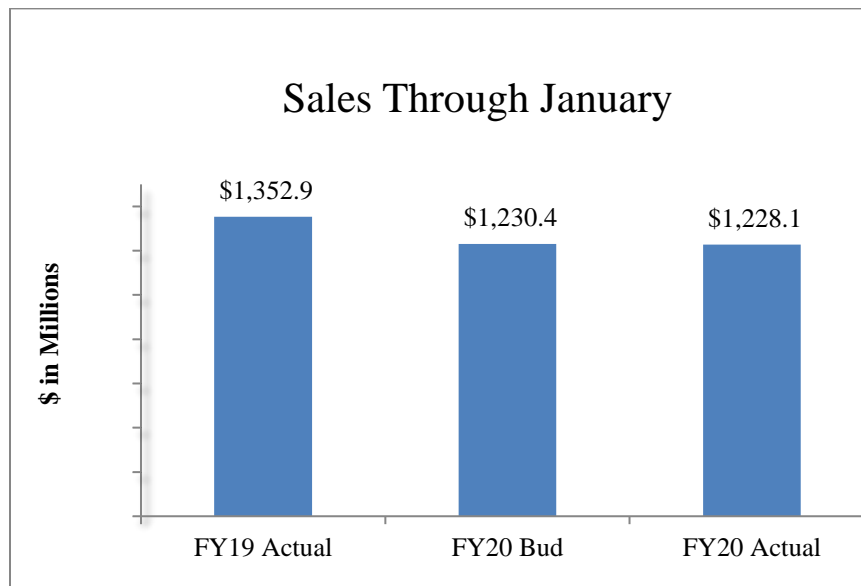
Kevin Hall

c: The Honorable Janet D. Howell, Chairwoman, Senate Finance & Appropriations Committee
The Honorable Luke E. Torian, Chairman, House Appropriations Committee
The Honorable Vivian E. Watts, Chairwoman, 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, Director, Senate Finance & Appropriations Committee
Anne E. Oman, 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 January 31, 2020

Sales

Lottery sales for the fiscal year totaled \$1,228.1 million through January. This represents a decline of \$124.8 million (-9.2%) compared to the prior year. Scratcher sales of \$665.5 million were \$41.7 million (-5.9%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$383.9 million, down \$17.8 million (-4.4%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$125.4 million, a decline of \$83.4 million (-39.9%) compared to last year because of lower jackpots this year. Sales of Print n' Play, raffle and e-games totaled \$53.3 million, \$18.0 million (+51.0%) higher than last year, supported by the introduction of e-games and the new Print n' Play game style featuring a rolling jackpot prize.



Expenses

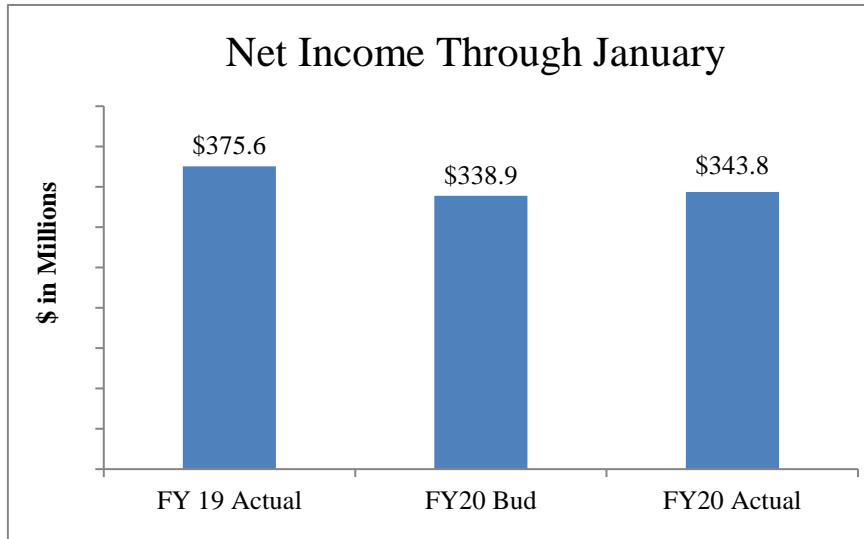
The overall prize expense rate (prizes as a percent of sales) for the year to date was 60.8%, lower than last year's rate of 61.9%. The scratcher prize rate of 70.2% was slightly higher than last year's rate of 70.1%. The daily games prize rate of 47.1% was significantly lower than last year's rate of 53.3%, 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 \$7.1 million less than last year, for a total \$68.9 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives for the year so far, in line with the usual 5.6% earnings rate.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were 5.7% of sales, higher than last year's rate of 4.9%.

Net Income

The weakness in sales was offset slightly by a lower prize expense rate, leading to profits of \$343.8 million, a decline of \$31.8 million (-8.5%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

Through the end of January, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,150,072. Also, unclaimed prizes totaling \$8,535,221 were transferred to the Literary Fund through January this year.

MEETINGS

The Lottery Board will hold its next regular business meeting in Richmond on April 22, 2020.