

March 20, 2020

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

Re: February 2020 Lottery Results

Dear Governor Northam:

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

February sales totaled \$169.6 million, down \$2.9 million (-1.7%) compared to the same month last year. February profits of \$48.0 million were \$1.3 million (-2.7%) lower than last February. For the fiscal year to date, Lottery sales totaled \$1,397.6 million, a decline of \$127.8 million (-8.4%) compared to last year. Profits for the year so far totaled \$391.8 million, or \$33.1 million (-7.8%) 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 \$5.9 million (-0.4%) less than forecast and profits are \$6.6 million (+1.7%) ahead of forecast.

In response to state and federal declarations of emergency related to the COVID-19 pandemic, the Lottery has implemented its Continuity of Operations Plan and launched a series of significant actions to better protect our employees, customers and retail partners. In alignment with recommendations from the Virginia Department of Health and the CDC, the Lottery has pulled our field team from their in-store sales routes and implemented a remote-work approach to service our retailers. In addition, Lottery prize claim centers in Abingdon, Farmville, Hampton, Harrisonburg, Henrico, Richmond, Roanoke and Woodbridge will temporarily close to the public on Mon., March 23, 2020, and remain closed for at least two weeks. Prize drawings will continue to occur, and smaller cash prizes will continue to be handled by qualified retailers. We have utilized a wide variety of messaging platforms and tools to communicate these temporary changes in our normal business operations to our customers, retailers and vendor partners. Finally, our headquarters staff in Richmond has shifted almost entirely to telework in the face of this challenging public health crisis. We will continue to work to maintain reliable and secure business operations in as safe and responsible a manner as possible.

March 20, 2020
Page Two

Finally, in anticipation of our expected role in expanded gaming in Virginia, we have begun active nationwide recruitment efforts to potentially fill several key roles as we prepare to construct significant new regulatory responsibilities. In addition, we continue to consult with gaming regulators from across the country as we consider best practices in effective state regulatory oversight of the gaming industry. The Virginia Lottery remains deeply committed to ensuring that, when expanded gaming is launched in the Commonwealth, regulations are in place to ensure it is conducted in an appropriate and responsible way.

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

Sincerely yours,

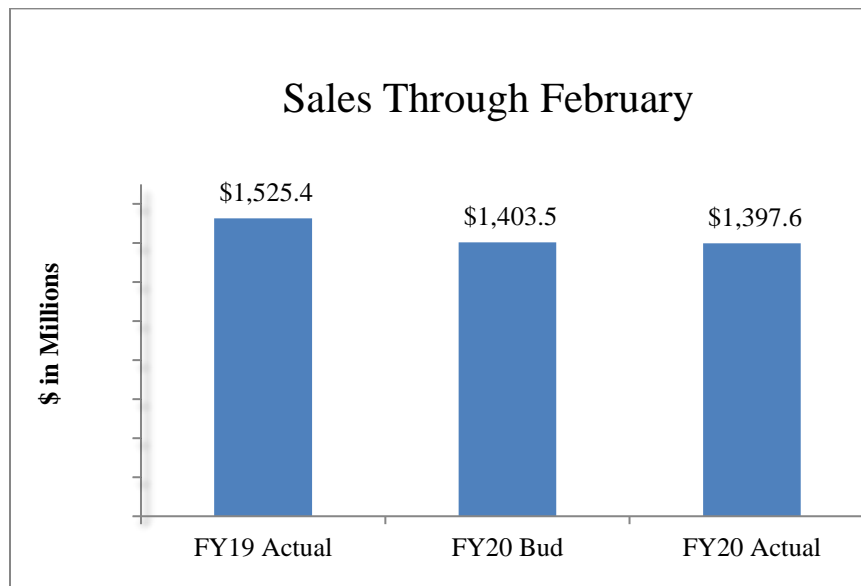
Kevin Hall

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 February 29, 2020

Sales

Lottery sales for the fiscal year totaled \$1,397.6 million through February. This represents a decline of \$127.8 million (-8.4%) compared to the prior year. Scratcher sales of \$760.6 million were \$44.1 million (-5.5%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$437.2 million, down \$17.2 million (-3.8%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$140.9 million, a decline of \$86.2 million (-37.9%) compared to last year because of lower jackpots this year. Sales of Print n' Play, raffle and e-games totaled \$58.9 million, \$19.7 million (+50.3%) 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

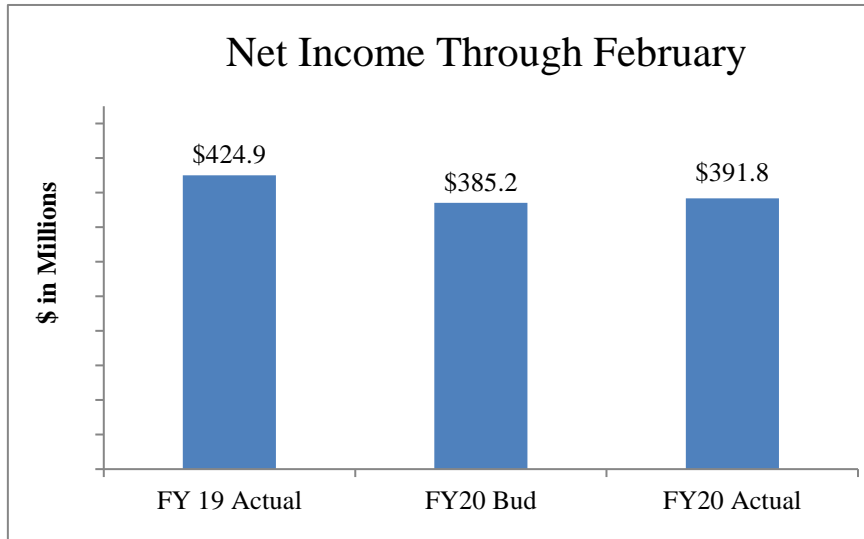
The overall prize expense rate (prizes as a percent of sales) for the year to date was 60.9%, lower than last year's rate of 61.8%. The scratcher prize rate of 70.3% was slightly higher than last year's rate of 70.2%. The daily games prize rate of 47.1% was significantly lower than last year's rate of 52.3%, 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 \$7.2 million less than last year, for a total \$78.2 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 5.6% 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 \$391.8 million, a decline of \$33.1 million (-7.8%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

Through the end of February, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,352,647. Also, unclaimed prizes totaling \$9,910,500 were transferred to the Literary Fund through February this year.

MEETINGS

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