



April 20, 2020

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

Re: March 2020 Lottery Results

Dear Governor Northam:

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

March sales totaled \$176.0 million, down \$45.4 million (-21%) compared to the same month last year. March profits of \$48.0 million were \$18.7 million (-28%) lower than last March. For the fiscal year to date, Lottery sales totaled \$1.57 billion, a decline of \$173.2 million (-10%) compared to last fiscal year. Profits for the year so far totaled \$439.8 million, or \$51.8 million (-11%) less than last year. Sales and profits are closely tracking with the updated forecast included in your introduced budget last December: sales are \$25.7 million (-2%) less than forecast and profits are \$1.4 million (+0.3%) ahead of forecast primarily because of lower prize expenses.

In response to state and federal declarations of emergency related to the COVID-19 pandemic, the Lottery implemented its Continuity of Operations Plan in mid March and launched a series of actions to better protect our employees, customers, and retail partners. While the bulk of our products are sold in retail locations that remain open and sell essential products including groceries and gas, we have proactively worked with our retail partners to ensure that they have flexibility. We have waived nominal weekly fees and there is no penalty if a retail licensee chooses to stop selling lottery products. For customers, we are using our website, social media, and direct customer messaging to promote safe lottery play and responsible physical distancing, including the use of our online subscription service, digital playslips and self-serve vending machines. We have canceled product advertising, extended the time periods for players to claim prizes, and implemented a mail-in process for ticket verification and prize payments since temporarily closing our customer service centers.

The Lottery field team of sales representatives continues to work remotely to service retailers, and prize drawings continue to occur. Essential employees have maintained ongoing operations necessary to continue the generation of profits for K-12 public education, though sales and profits have been significantly diminished due to the public health emergency and the related economic instability.

While results through the end of March are very close to the forecast included in your introduced budget amendments for FY2020, significant impacts on sales and profits became evident during the last two weeks of March. That slowdown has accelerated into April, and we estimate sales of all lottery products have declined 20 – 25% compared to forecast during a period that is typically the Lottery's highest seasonal period. We anticipate lottery profits will fall behind the forecast with April's results, and those declines can be expected to continue through the remainder of this fiscal year. The total shortfall in Lottery profits will reduce the transfers available to the Lottery Proceeds Fund for FY2021. We will continue to monitor sales and profits and provide information to your administration and the legislative money committees, and we also have begun to prepare for the likely interim re-forecast of FY2021 profits expected this summer.

Finally, in anticipation of our expected role in expanded gaming in Virginia, we continue to recruit key personnel and 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,



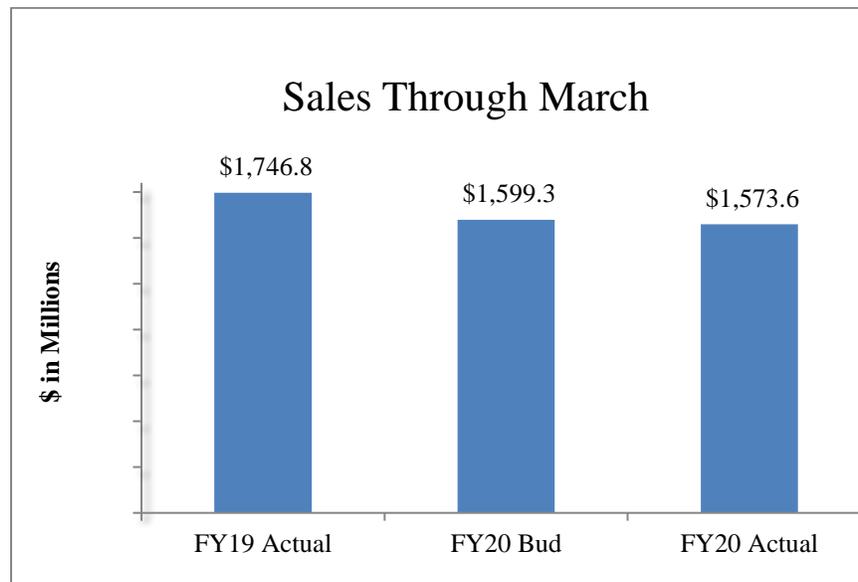
Kevin Hall

- 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 March 31, 2020

Sales

Lottery sales for the fiscal year totaled \$1,573.6 million through March. This represents a decline of \$173.2 million (-9.9%) compared to the prior year. Scratcher sales of \$859.0 million were \$63.3 million (-6.9%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$494.0 million, down \$24.6 million (-4.7%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$155.7 million, a decline of \$106.5 million (-40.6%) compared to last year because of lower jackpots this year. Sales of Print n' Play, raffle and e-games totaled \$64.9 million, \$21.2 million (+48.3%) 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

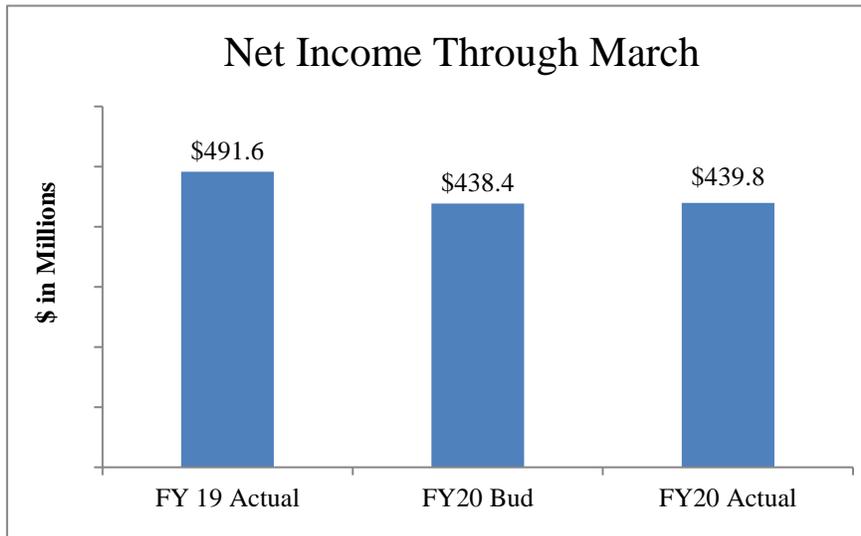
The overall prize expense rate (prizes as a percent of sales) for the year to date was 61.0%, lower than last year's rate of 61.6%. The scratcher prize rate of 70.4% was the same as last year's rate. The daily games prize rate of 47.0% was significantly lower than last year's rate of 51.8%, and well 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 \$9.5 million less than last year, for a total \$88.2 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 4.8%.

Net Income

The weakness in sales was offset slightly by a lower prize expense rate, leading to profits of \$439.8 million, a decline of \$51.8 million (-10.5%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

Through the end of March, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,510,237. Also, unclaimed prizes totaling \$10,693,102 were transferred to the Literary Fund through March this year.

MEETINGS

The Lottery Board will convene its next regular business meeting in accordance with such procedures as may be approved by the General Assembly in April, to facilitate meetings of public bodies during emergency declarations.