

May 27, 2020

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

Re: April 2020 Lottery Results

Dear Governor Northam:

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

April sales totaled \$168.8 million, down \$15.2 million (-8%) compared to the same month last year. April profits of \$44.8 million were \$6.9 million (-13%) lower than last April. For the fiscal year to date, Lottery sales totaled \$1.74 billion, a decline of \$188.4 million (-10%) compared to last fiscal year. Profits for the year so far totaled \$484.6 million, or \$58.7 million (-11%) less than last year. However, sales and profits included in the approved budget are tracking closer to the October 2019 forecast: sales are \$42.0 million (-2%) less than forecast and profits are \$3.7 million (-1%) behind forecast.

We continue to extend maximum flexibility and support for the decisions made by our 5,300 retail partners to promote safe practices inside their stores. As reported last month, the Lottery continues to follow its Continuity of Operations Plan invoked in mid-March due to the COVID-19 public health emergency. The majority of our employees continue to telework, and we have not yet set a date for their safe return to the office. To date, we are not aware of any illnesses among the 300 members of our workforce related to COVID-19. Beginning in March, we cancelled product advertising, rescheduled marketing events, revisited sponsorship agreements, extended time periods for players to claim prizes, and promoted the safe use of digital play slips, online subscriptions and submission of winning prize claims by mail. On June 1, we intend to begin reopening many of our eight customer service centers for the first time since our March 23rd closure. We will incorporate extensive new safety protocols based on the latest public health guidelines and the recommendations included in your “Forward Virginia” plan.

As predicted last month, our profits have fallen behind the forecast as of the end of April. However, with the current improvement in public health indicators and gradual reopening of portions of the economy, we are cautiously optimistic that our Fiscal Year 2020 results could end closer to the pre-COVID-19 forecast.

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This achievement will depend on factors that include not only player luck and expected prize payouts, but more importantly the apparent continued improvement of overall public health and economic conditions related to COVID-19. We will continue to monitor sales and profits and provide information to your administration and the legislative money committees. We also continue to prepare for the likely interim reforecast of FY2021 profits expected this summer.

Last month, we reported that the sharp disruption to lottery sales seen in mid-March continued to apply downward pressure on our results into early April. By late-April, however, as consumers evidently became more comfortable adapting to public health guidance and navigating the reasonable restrictions at retail, our sales began a gradual return closer to pre-COVID-19 levels. Based on my discussions with colleagues across the country the same trend has been evident in many other lottery states.

In Virginia, it also might be significant that consumers who enjoy responsible gaming activities have had fewer options available to them during this public health emergency. Licensed locations providing historical horse race wagering have been temporarily closed during the pandemic, and consumers have had limited access to slot-like gray machines at bars, restaurants and convenience stores due to public health restrictions on commercial activities.

Finally, as a result of 2020 General Assembly action to rescind a 2006 prohibition on online lottery sales, our agency is working to begin providing a full digital sales option as soon as possible. We are working with our business partners to accelerate deployment of this exciting new sales platform on July 1. We remain committed to implementing online sales in a way that supports our existing retailer relationships while also enhancing the overall relevance of trusted lottery products in an environment that soon will feature other legal gaming options.

During the first-ever virtual meeting of the Virginia Lottery Board on May 13, I provided Board members with an update on the Lottery's progress in its new role in licensing and regulating casinos and sports betting. We are recruiting nationally for top-tier talent to help us design this new regulatory framework while also building-out the structures necessary to enact these important new regulatory functions. The Virginia Lottery remains deeply committed to ensuring that, when expanded gaming is launched in the Commonwealth, regulations and procedures will be in place to ensure it is conducted in an appropriate, responsible and transparent way.

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

Sincerely yours,



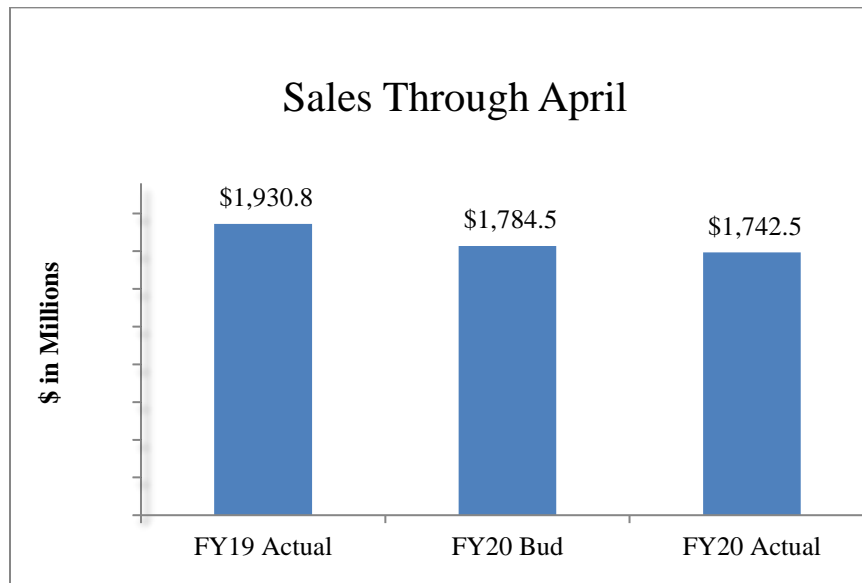
Kevin Hall

- 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 April 30, 2020

Sales

Lottery sales for the fiscal year totaled \$1,742.5 million through April. This represents a decline of \$188.4 million (-9.8%) compared to the prior year. Scratcher sales of \$947.9 million were \$76.4 million (-7.5%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$553.6 million, down \$24.6 million (-4.3%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$169.4 million, a decline of \$111.0 million (-39.6%) compared to last year because of lower jackpots this year. Sales of Print n' Play, raffle and e-games totaled \$71.6 million, \$23.6 million (+49.1%) 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

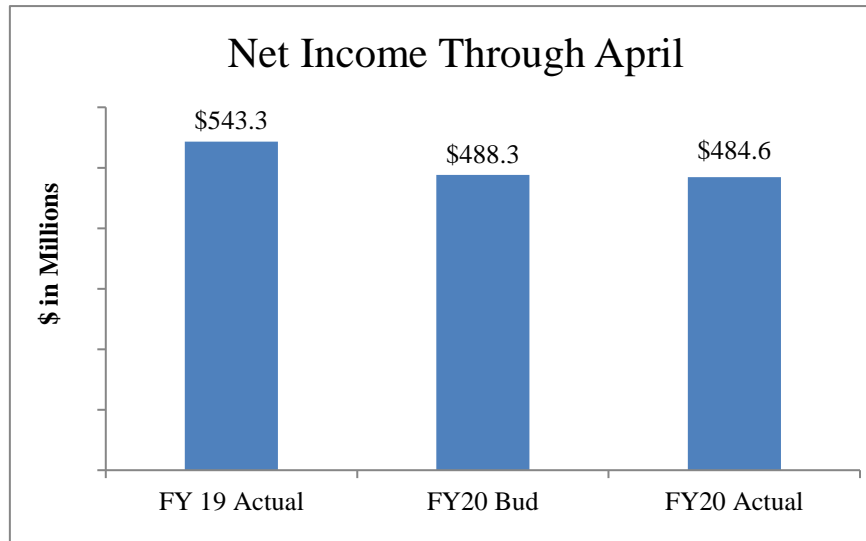
The overall prize expense rate (prizes as a percent of sales) for the year to date was 61.1%, lower than last year's rate of 61.5%. The scratcher prize rate of 70.2% was lower than last year's rate of 70.4%. The daily games prize rate of 47.9% was significantly lower than last year's rate of 51.1%, and 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 \$10.5 million less than last year, for a total \$97.8 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 \$484.6 million, a decline of \$58.6 million (-10.8%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

Through the end of April, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,544,281. Also, unclaimed prizes totaling \$12,066,829 were transferred to the Literary Fund through April this year.

MEETINGS

The Lottery Board will hold its next regular business meeting on July 15, 2020.