

June 22, 2020

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

Re: May 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 May 2020.

May sales totaled \$207.1 million, up \$17.3 million (+9%) compared to the same month last year. May profits of \$61.2 million were \$3.8 million (+7%) higher than last May. With one month remaining in FY20, lottery sales for the fiscal year to date total \$1.95 billion, a decline of \$171.1 million (-8%) compared to FY19. Profits for the fiscal year to date totaled \$545.8 million, or \$54.9 million (-9%) less than last year. However, sales and profits included in the approved budget are tracking well compared to the official forecast: sales are \$19.1 million (-1%) less than forecast and profits are \$7.5 million (+1%) ahead of forecast.

Working closely with your Administration, the Virginia Lottery initiated the final FY20 transfer of estimated Lottery profits to the Lottery Proceeds Fund as directed in Chapter 1283, bringing the total transfers available to the Department of Education for distribution this fiscal year to \$613.5 million. While there is still more than a week remaining in the fiscal year, sales and profits continue to be on target, and we are confident that our final results will meet the forecast for the year. We anticipate working closely with your office and the legislative money committees through any updated revenue forecasting required in the coming months.

At this time, most Virginia Lottery employees continue to telework due to the public health emergency declared in March. Drawings continue uninterrupted, and our sales team continues to service our retail partners remotely. On June 1, we reopened our customer service centers statewide with strict safety protocols designed to protect both consumers and employees. We are pleased to report we processed more than 3,300 winning claims totaling a combined \$22 million in prize winnings during the first two weeks of June.

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The Lottery continues to work toward a July 1 introduction of online sales of many of our games under legislation adopted with broad bipartisan majorities in the 2020 General Assembly and which you signed into law in March. Beginning July 1, consumers will be able to access our products on a secure platform with robust age and identity verifications and a variety of responsible gaming safeguards. We are confident this additional sales channel will further support the Virginia Lottery's obligation to generate significant annual revenues for Virginia's K-12 public schools.

Additionally, we received initial submissions over the first two weeks in June from four localities eligible for casino gaming under legislation adopted by the 2020 General Assembly. As required by statute, we currently are reviewing these submissions to ensure the localities have met all of the requirements of the statute prior to seeking approval for local voter referenda this November. In addition, we continue to work on preliminary regulations governing sports betting and anticipate releasing draft regulations for public comment next month. We remain confident we will meet the statutory requirement for Lottery Board approval of a regulatory framework for legal sports betting by mid-September.

Finally, I also am pleased to announce the addition of Gina M. Smith as our new Deputy Director for Gaming Compliance. Ms. Smith will help us design, build and lead a new unit with responsibility for regulating casino gaming and sports betting. She brings a national reputation in expanded gaming regulation, having worked with the Maryland Lottery as its Deputy Director and Chief Financial Officer for almost 20 years.

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

Sincerely yours,



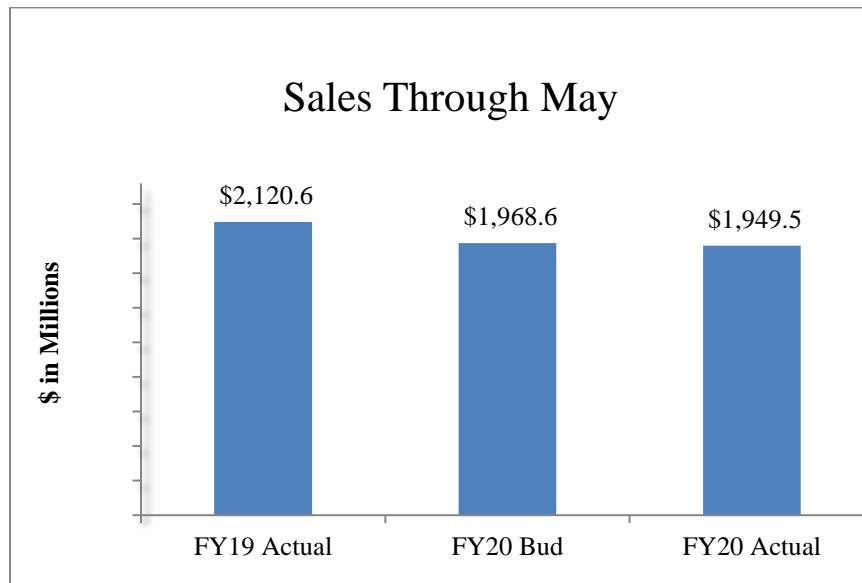
Kevin Hall

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 May 31, 2020

Sales

Lottery sales for the fiscal year totaled \$1,949.5 million through May. This represents a decline of \$171.1 million (-8.1%) compared to the prior year. Scratcher sales of \$1,060.0 million were \$67.5 million (-6.0%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$623.1 million, down \$12.9 million (-2.0%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$188.1 million, a decline of \$116.2 million (-38.2%) compared to last year because of lower jackpots this year. Sales of Print n' Play, raffle and e-games totaled \$78.4 million, \$25.5 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

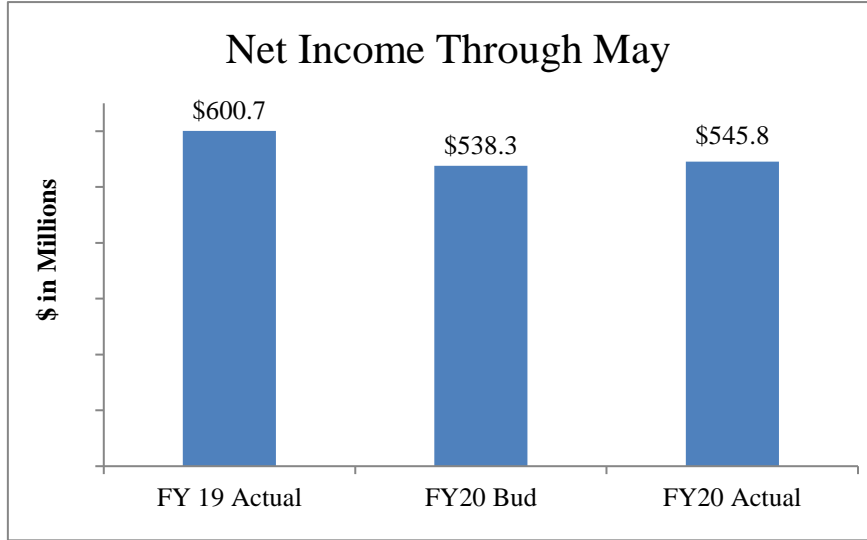
The overall prize expense rate (prizes as a percent of sales) for the year to date was 61.1%, lower than last year's rate of 61.3%. The scratcher prize rate of 70.3% was lower than last year's rate of 70.4%. The daily games prize rate of 47.9% was lower than last year's rate of 50.0%, and below the statistically 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 \$9.2 million less than last year, for a total \$109.5 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 5.4% of sales, higher than last year's rate of 4.9%.

Net Income

The weakness in sales was offset partially by a lower prize expense rate, leading to profits of \$545.8 million, a decline of \$54.9 million (-9.1%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

Through the end of May, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,614,675. Also, unclaimed prizes totaling \$12,718,911 were transferred to the Literary Fund through May this year.

MEETINGS

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