

January 6, 2020

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

Re: November 2019 Lottery Results

Dear Governor Northam:

I am pleased to provide our report of monthly activities and financial update for the month of November 2019, as required in §58.1-4006 of the *Code of Virginia*.

November sales totaled \$169.9 million, down \$9.3 million (-5.2%) compared to the same month last year. November profits of \$48.5 million were \$6.8 million (+16.2%) higher than last November due to unusually high prize payouts in November 2018.

For the fiscal year to date, Lottery sales totaled \$849.4 million, a decline of \$107.7 million (-11.3%) compared to last year. Profits for the year so far totaled \$241.3 million, or \$26.2 million (-9.8%) 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 less than 1% behind forecast and profits are \$4.8 million (+2.0%) ahead of forecast, mainly due to lower than expected prize expenses.

As we have reported over several recent months, we continue to see declines in the sales of scratch tickets -- which represent over half of total Lottery sales -- due to the continued proliferation of unregulated "games of skill." As of Dec. 27, 2019, Lottery personnel counted approximately 6,033 of these machines in 1,727 Lottery-licensed retail locations, where they compete directly with traditional Lottery products and continue to have a dramatic impact on our sales and profits. We remain eager to work with the Administration and the General Assembly in the upcoming session to address the challenges posed by the explosive growth in the number of these devices across Virginia.

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Additionally I can report that in the first half of FY20, the Virginia Lottery has deposited \$7,421,860 in unclaimed prize money in the Literary Fund, which also supports Virginia's public K-12 system in a variety of important ways. Additionally, in the first six months of the current fiscal year, the Lottery collected \$1,003,448 in unpaid fines, taxes, child support and other past due obligations from prizewinners through the Set-off Debt Collection Act.

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

Sincerely yours,

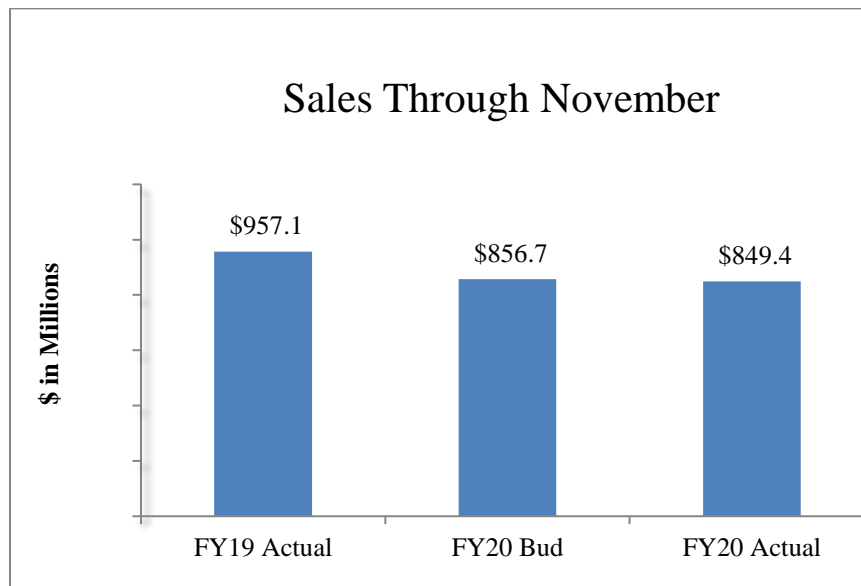
Kevin Hall

c: The Honorable Thomas K. Norment, Co-Chairman, Senate Finance Committee
The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee
The Honorable Janet D. Howell, Incoming Chairwoman, Senate Finance Committee
The Honorable S. Chris Jones, Chairman, House Appropriations Committee
The Honorable Luke E. Torian, Incoming Chairman, House Appropriations Committee
The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
The Honorable Vivian E. Watts, Incoming 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 Committee
Robert P. Vaughn, Staff Director, House Appropriations Committee
Anne E. Oman, Incoming 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 November 30, 2019

Sales

Lottery sales for the fiscal year totaled \$849.4 million through November. This represents a decline of \$107.7 million (-11.3%) compared to the prior year. Scratcher sales of \$462.6 million were \$32.7 million (-6.6%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$270.2 million, down \$4.7 million (-1.7%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$83.8 million, a decline of \$83.4 million (-49.9%) compared to last year because of lower jackpots this year. Sales of Print n' Play and e-games totaled \$32.7 million, \$13.2 million (+67.3%) higher than last year, supported by the introduction of a e-games and the new Print n' Play game style featuring a rolling jackpot prize.



Expenses

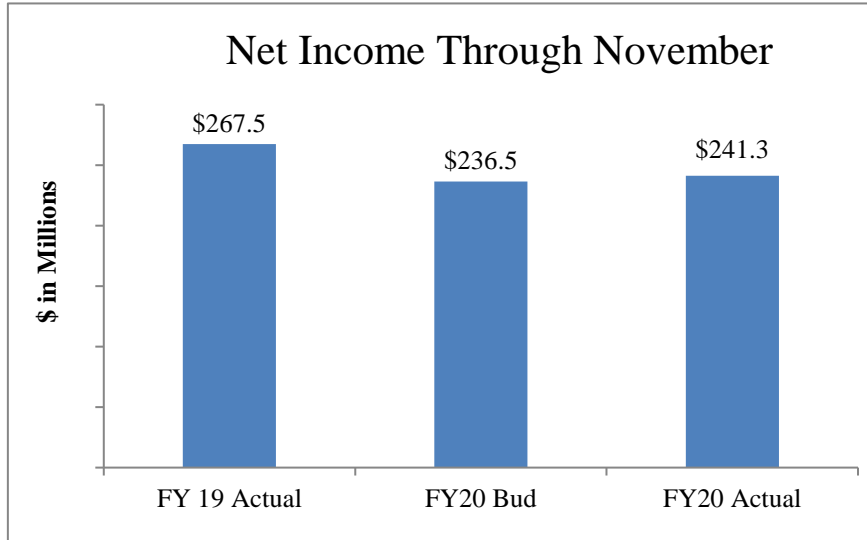
The overall prize expense rate (prizes as a percent of sales) for the year to date was 60.2%, significantly lower than last year's rate of 61.8%. The scratcher prize rate of 70.2% was slightly higher than last year's rate of 70.1%. The daily games prize rate of 44.6% was significantly lower than last year's rate of 53.8%, 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 \$5.9 million less than last year, for a total \$47.4 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 6.0% 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 \$241.3 million, a decline of \$26.2 million (-9.8%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

Through the end of November, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$822,016. Also, unclaimed prizes totaling \$6,637,467 were transferred to the Literary Fund through November this year. The Executive Director's cover letter references additional payments and transfers made in December 2019 to summarize these contributions at the midpoint of the FY20 budget cycle.

MEETINGS

The Lottery Board will hold its next regular business meeting in Richmond on January 8, 2020.