

August 28, 2020

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

Re: July 2020 Lottery Results

Dear Governor Northam:

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

July sales totaled \$228.3 million, up \$60.0 million (+35.7%) compared to the same month last year. Profits for the month totaled \$70.1 million, up \$18.2 million (+35.0%) from July 2019. Strong sales and profits were supported by the introduction of online lottery play in Virginia on July 1, the first day iLottery was legally permitted due to actions taken by the 2020 General Assembly. July sales also were strengthened by the limited availability of most other forms of legal gaming in Virginia, including skill machine activity and historical horse racing, due to the ongoing public health emergency.

Earlier this month, the Auditor of Public Accounts certified the fiscal year 2020 Lottery profits: \$595,362,718. The transfer of \$8,781,366 (representing residual profits from fiscal year 2020) was completed and will be applied to the ambitious figure of \$657,959,397 included in the current enacted budget for total transfers to the Lottery Proceeds Fund. As you know, the Lottery Proceeds Fund is designated by law to provide support to Virginia K-12 public school programs. Later this Fall, the Lottery will review updated sales and profit forecasts as part of the normal revenue forecasting process and make recommendations to be included in your introduced budget amendments in December.

During July, the Lottery continued to make significant progress on its statutory responsibility to design regulations for governing legalized sports betting in Virginia. A preliminary draft of sports betting regulations currently is available for review and public comment on Virginia's regulatory Town Hall website, and the Lottery Board is scheduled to meet on September 15 to act on this initial regulatory framework. We expect to be positioned to begin accepting applications for the limited number of mobile sports wagering licenses in mid-October, and the first licenses are expected to be issued in January 2021.

August 28, 2020
Page Two

Finally, the Lottery recently conducted the first of three meetings to review lottery retailer sales agent compensation, as required by language included in the current budget. We appreciate the time and commitment of the participants of this workgroup and look forward to constructive discussions over the next several months. The budget language instructs the Lottery to share information about these discussions with the House Appropriations Committee and the Senate Finance and Appropriations Committee chairs before January 1.

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

Very truly yours,



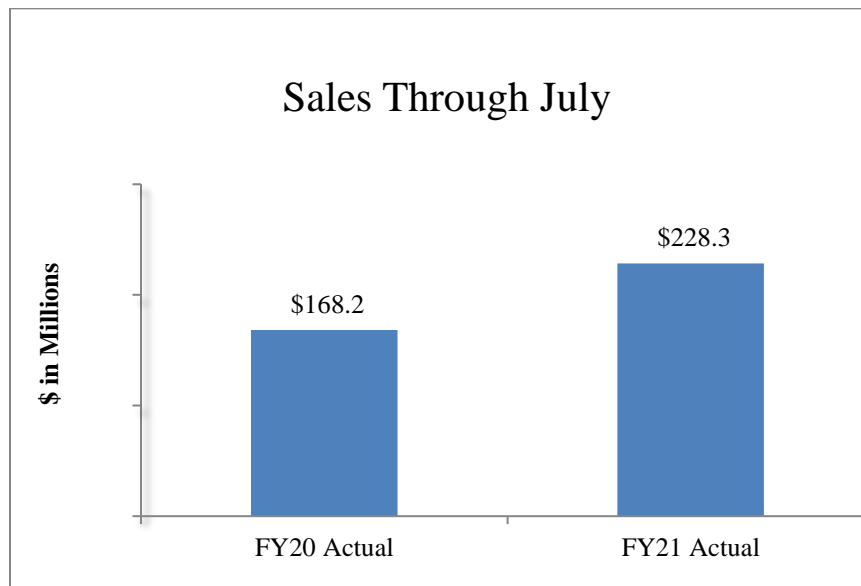
Kevin Hall

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 July 31, 2020

Sales

Lottery sales for the fiscal year totaled \$228.3 million through July. This represents an increase of \$60.0 million (+35.7%) compared to the prior year. Scratcher sales of \$104.1 million were \$12.6 million (+13.7%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$68.7 million, up \$14.2 million (+26.0%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$16.7 million, a decline of \$0.8 million (-4.4%) compared to last year. Sales of Print n' Play totaled \$6.9 million, \$2.4 million (+52.6%) higher than last year. And Instants, a new category of digital instant-win games offered to registered adults online, totaled \$31.9 million in July.



Expenses

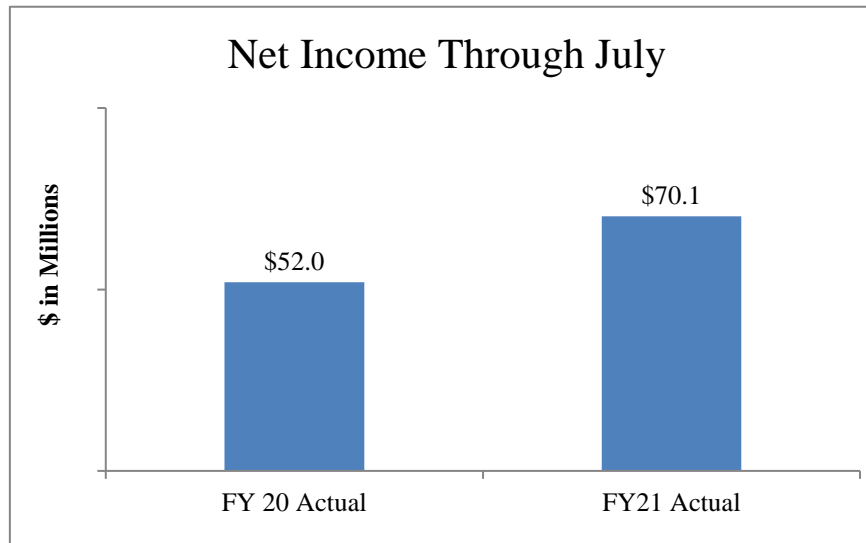
The overall prize expense rate (prizes as a percent of sales) for the year to date was 60.5%, higher than last year's rate of 58.1%. The scratcher prize rate of 67.6% was lower than last year's rate of 68.7%. The daily games prize rate of 37.6% was lower than last year's rate of 41.8%, and well below 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.

Retailers earned \$10.7 million in commissions and incentives this year, up \$1.5 million from last year. Overall, retailers earned 5.5% 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 4.1% of sales, lower than last year's rate of 5.9%. Considerable savings in operating costs were due to the suspension of most Lottery advertising and marketing efforts during the ongoing public health emergency.

Net Income

Profits for the first month of the fiscal year totaled \$70.1 million, an increase of \$18.2 million compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For July, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$233,914. Also, unclaimed prizes totaling \$966,714 were transferred to the Literary Fund so far this year.

MEETINGS

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