

January 30, 2020

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

Re: December 2019 Lottery Results

Dear Governor Northam:

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

December sales totaled \$193.6 million, down \$11.8 million (-5.8%) compared to the same month last year. December profits of \$47.9 million were \$6.0 million (-11.2%) lower than last December.

For the fiscal year to date, Lottery sales totaled \$1,042.9 million, a decline of \$119.5 million (-10.3%) compared to last year. Profits for the year so far totaled \$289.2 million, or \$32.2 million (-10.0%) 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 \$4.5 million (-0.4%) less than forecast and profits are \$1.1 million (+0.0%) ahead of forecast.

We continue to monitor legislation with potential impacts on Lottery sales and profits, as well as legislation that would expand our gaming oversight responsibilities. We appreciate the leadership demonstrated by the Administration and the General Assembly in addressing the continuing challenge posed by unregulated, untaxed electronic gaming devices, 6,200 of which are now located in Lottery-licensed retail locations. As we have previously reported, we estimate the continued proliferation of these devices will result in a \$140 million reduction in Lottery sales and a nearly \$40 million reduction in Lottery profits in the current fiscal year, as reflected in the revised forecast included in your budget amendments. We remain eager to work with the Administration and the General Assembly to address the challenges and opportunities related to gaming and the overall economic benefits to the Commonwealth.

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

Sincerely yours,

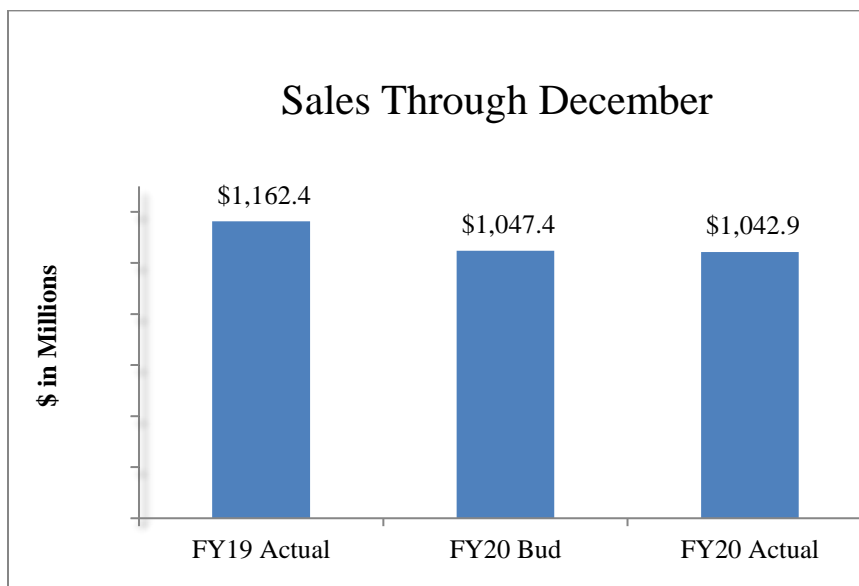
Kevin Hall

- 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 December 31, 2019

Sales

Lottery sales for the fiscal year totaled \$1,042.9 million through December. This represents a decline of \$119.5 million (-10.3%) compared to the prior year. Scratcher sales of \$571.2 million were \$37.1 million (-6.1%) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$328.4 million, down \$13.3 million (-3.9%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$103.4 million, a decline of \$85.3 million (-45.2%) compared to last year because of lower jackpots this year. Sales of Print n' Play and e-games totaled \$39.9 million, \$16.1 million (+68.0%) 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

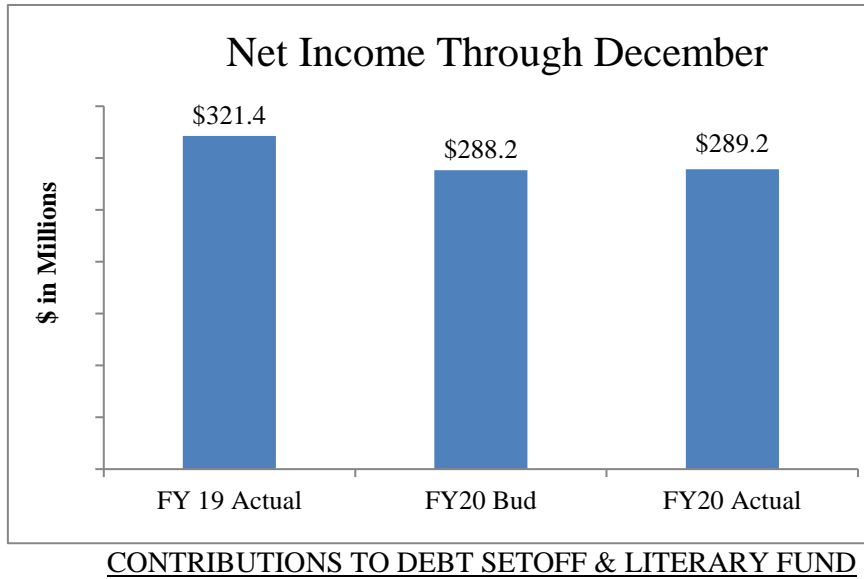
The overall prize expense rate (prizes as a percent of sales) for the year to date was 60.9%, lower than last year's rate of 62.1%. The scratcher prize rate of 70.3% was the same as last year's rate. The daily games prize rate of 46.5% was significantly lower than last year's rate of 53.7%, and well 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 \$6.8 million less than last year, for a total \$58.6 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 5.9% of sales, higher than last year's rate of 4.7%.

Net Income

The weakness in sales was offset slightly by a lower prize expense rate, leading to profits of \$289.2 million, a decline of \$32.2 million (-10.0%) compared to last year.



Through the end of December, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,003,449. Also, unclaimed prizes totaling \$7,421,860 were transferred to the Literary Fund through December this year.

MEETINGS

The Lottery Board will hold its next regular business meeting in Richmond on April 22, 2020.