

April 29, 2015

The Honorable Terence R. McAuliffe
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, Virginia 23219

Re: March 2015 Lottery Results

Dear Governor McAuliffe:

I am pleased to provide our report of monthly activities and financial update for the month of March 2015, as required in §58.1-4006 of the *Code of Virginia*.

March sales totaled \$159.3 million, bringing the fiscal year to date total to \$1,380.0 million. Cumulative sales were up \$29.2 million (+2.1%) compared to last year, but \$4.5 million (-0.3%) below the forecast.

Net income for March totaled \$46.6 million, bringing the fiscal year to date total to \$400.6 million. Cumulative net income was \$8.3 million (-2.0%) less than last year, but \$10.1 million (+2.6%) more than forecast. The decline in profits compared to last year is the direct result of higher prize payouts, particularly in the daily games; last year's prize expense rate was unusually low, while the current year's rate is more statistically normal. Profits are stronger than forecast, resulting from the combined slight variance in the overall prize expense rate and lower than expected administrative spending at this point in the year.

The forecast for the remainder of the fiscal year expects continued strength in sales and profits. As previously reported, changes to national game initiatives that were considered when developing the Lottery sales and profit forecast forced changes to our business plans. We continue to work diligently to meet our forecast as included in the current Appropriations Act. April is another critical sales and profit month for the Lottery; with both national game jackpots having multiple grand prize winners and the resulting very low advertised jackpots in April (and the decreased store traffic as a result), weekly sales continue to lag behind forecasted levels. Our annual profit projections, while currently ahead of expectations despite lower than expected sales, continue to track very close to the annual figure included in the budget.

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

Very truly yours,

Paula I. Otto

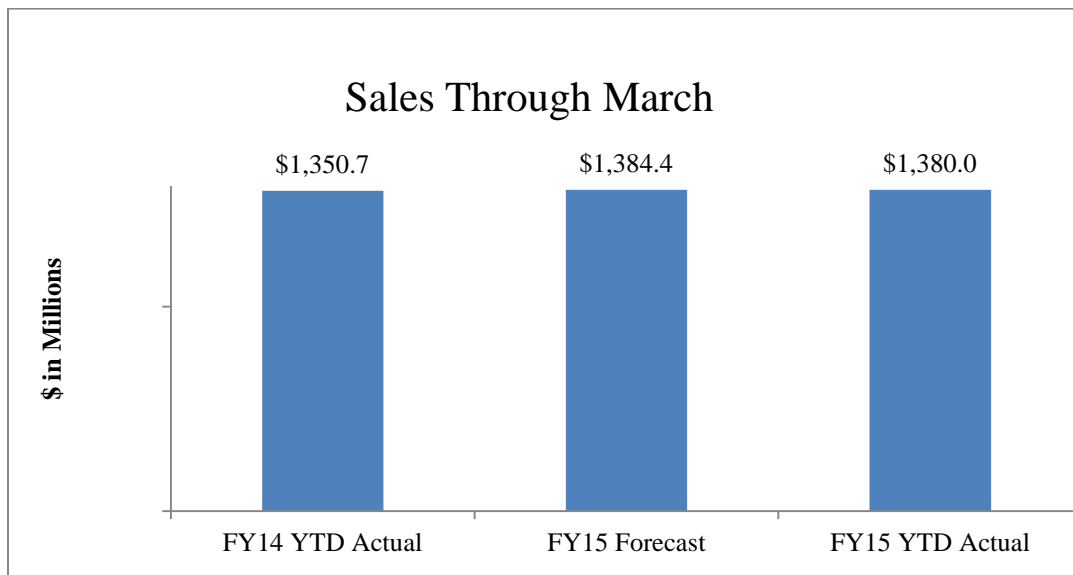
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- The Honorable Paul Reagan, Chief of Staff, Office of the Governor
- The Honorable Richard D. Brown, Secretary of Finance
- Daniel S. Timberlake, Director, Department of Planning & Budget
- David A. Von Moll, State Comptroller
- Elizabeth B. Daley, Staff Director, Senate Finance Committee
- Robert P. Vaughn, Staff Director, House Appropriations Committee
- Frederick P. Helm, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
April 29, 2015

Sales

Lottery sales totaled \$1,380.0 million through March. This represents an increase of \$29.2 million (+2.1%) compared to last year.

Scratcher sales of \$756.9 million were \$32.2 million (+4.4%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were up \$26.6 million (+6.7%) compared to last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, Moneyball, and Decades of Dollars) declined by \$32.8 million (-15.9%) when compared to last year; last year, the advertised jackpots for Mega Millions and Powerball were significantly higher than this year – a primary influencer of sales for those products. During the same period last fiscal year, there were 12 drawings for jackpots of \$300 million or greater; this year there have been only 4. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$3.2 million (+15.2%) higher than last year.



Expenses

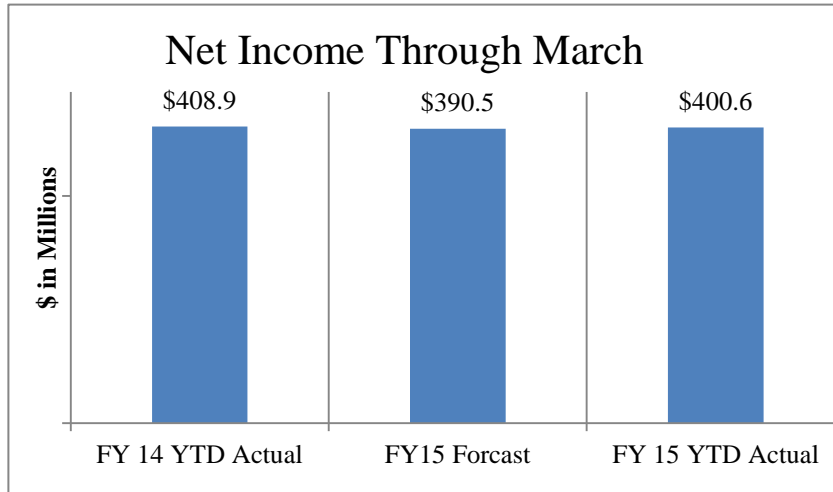
The monthly prize expense rate (prizes as a percent of sales) for March was 59.3%, lower than the 64.8% rate last March. For the current year to date, prizes represented 60.6% of sales, compared to 59.5% last year. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, over the long-term, prize rates reflect outcomes more in line with statistical expectations.

Retailers earned \$78.0 million or 5.6% of sales so far this year.

Operating costs, including online gaming, ticket printing and distribution expenses, were \$1.6 million higher than the same period last year, stable at 4.8% of sales.

Net Income

Profits in March 2015 totaled \$46.6 million and \$400.6 million for the year to date. Cumulative profits declined from last year because of the overall higher prize expense rate and lower sales in the more profitable jackpot-style games.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

During March, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$201,987, and unclaimed prizes totaling \$734,423 were transferred to the Literary Fund. Year to date, debt setoff collections total \$1,491,966 and Literary Fund transfers total \$9,677,944.

MEETINGS

A workgroup to study internet lottery sales, formed pursuant to Senate Bill 705 filed by Senator Barbara Favola during the 2015 Session, conducted its first meeting on April 28. The end result of this effort will be a report of findings and recommendations submitted to the Senate Committee on General Laws and Technology, no later than November 1, 2015.

The next meeting of the Lottery Board is scheduled for July 15 in Richmond.