

June 23, 2015

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

Re: May 2015 Lottery Results

Dear Governor McAuliffe:

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

May sales totaled \$157.4 million, bringing the fiscal year to date total to \$1,693.0 million. Cumulative sales were up \$31.3 million (+1.9%) compared to last year, but \$20.9 million (-1.2%) below the forecast.

Net income for May totaled \$48.2 million, bringing the fiscal year to date total to \$491.8 million. Cumulative net income was \$7.4 million (-1.5%) less than last year, but \$7.1 million (+1.5%) 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.

Sales continue the recent trend of slowing growth and underperformance compared to the forecast; at this point, we do not anticipate profits in excess of the FY15 estimate that would increase the current FY16 estimate of available proceeds. As required by the Appropriations Act, on June 18, 2015, we initiated our final transfer of estimated profits to the Lottery Proceeds Fund for the fiscal year. This final transfer brings the total available in the Fund to the estimate included in the budget: \$557,555,450.

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

Very truly yours,

Paula I. Otto

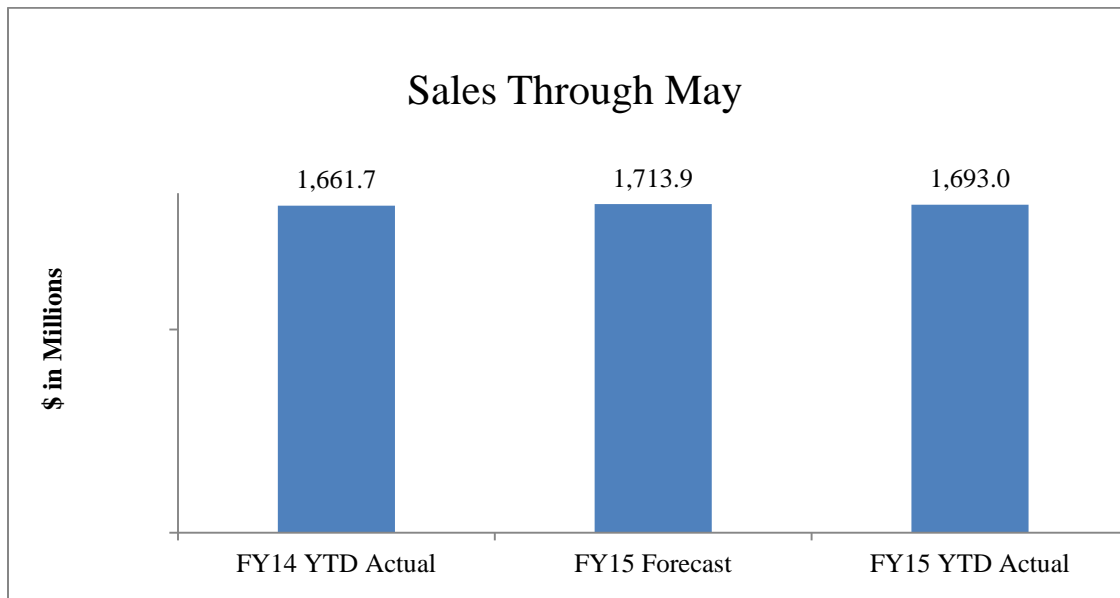
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- The Honorable Paul Reagan, Chief of Staff, Office of the Governor
- The Honorable Richard 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
June 23, 2015

Sales

Lottery sales totaled \$1,693.0 million through May. This represents an increase of \$31.3 million (+1.9%) compared to last year.

Scratcher sales of \$931.8 million were \$29.6 million (+3.3%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were up \$30.6 million (+6.2%) compared to last year. Sales in the jackpot games category (Mega Millions, Powerball, Moneyball, and Cash 4 Life) declined by \$32.7 million (-13.6%) when compared to last year, when the advertised jackpots for Mega Millions and Powerball were significantly higher than this year. Jackpot levels are a primary influencer of sales for those products. Sales of Fast Play games, a category that represents about 1% of total sales, were \$3.9 million (+21.4%) higher than last year.



Expenses

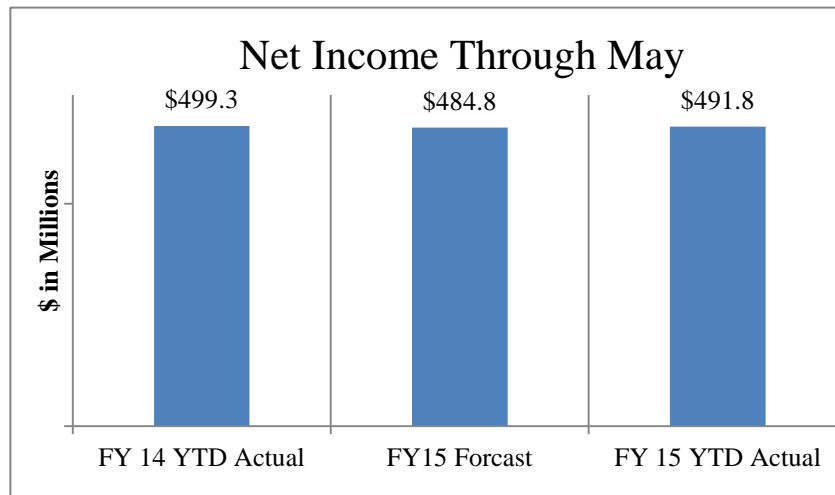
The monthly prize expense rate (prizes as a percent of sales) for May was 59.2%, lower than the 61.5% rate last May. For the current year to date, prizes represented 60.6% of sales, compared to 59.7% last year. It is important to note that significant fluctuations in prize expense rates occur during 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 \$95.4 million or 5.6% of sales so far this year.

Operating costs, including gaming system, ticket printing and distribution expenses, were \$1.9 million higher than the same period last year, stable at a low 4.8% of sales.

Net Income

Profits in May 2015 totaled \$48.2 million and \$491.8 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 May, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$125,094, and unclaimed prizes totaling \$960,788 were transferred to the Literary Fund. Year to date, debt setoff collections total \$1,757,200 and Literary Fund transfers total \$11,714,819.

MEETINGS

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