

April 25, 2017

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

Re: March 2017 Lottery Results

Dear Governor McAuliffe:

I am pleased to provide our report of monthly activities and financial update for the month of March 2017, as required in §58.1-4006 of the *Code of Virginia*.

March sales totaled \$182.6 million, up \$3.2 million (1.8%) compared to the same month last year. Net income for the month totaled \$54.7 million, an increase of \$4.7 million (9.3%) compared to last March. As noted in our previous reports, year-to-date comparisons of sales and profits will continue to be negative going forward because of the record Powerball jackpot run to over \$1.5 billion December 2015 and January 2016, resulting in unusually high profit earnings for FY16.

While comparisons to the prior year appear soft, sales and profits for fiscal year 2017 continue to track well against the current forecast. Profits through March 2017 totaled \$431.8 million, slightly ahead of the \$410.5 million forecast for the fiscal year to date. While profits are ahead of forecast through the first three quarters, it is important to note that over \$14 million in prize expenses are at risk twice daily, along with the more visible luck of the advertised national game jackpots. The sales forecast for April and May includes strong sales estimates, as these are key seasonal sales months, and the Lottery will need to have strong sales in this last quarter to meet the estimates included for the fiscal year. I have high confidence that our profit estimate, and transfers available to the Lottery Proceeds Fund, will be on track to meet the \$546.5 million forecast earnings for FY17 and \$600.0 million total transfers.

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

Very truly yours,

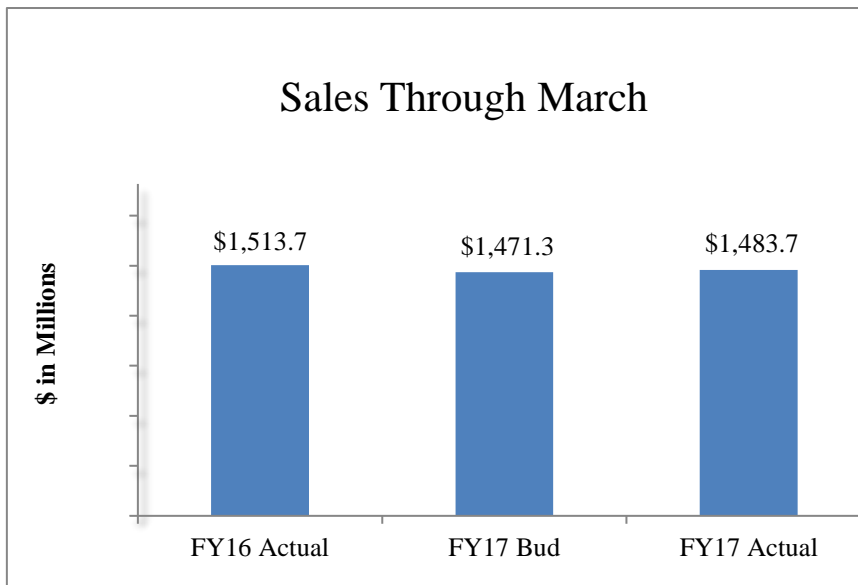
Paula I. Otto

- c: The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee
- The Honorable Emmett W. Hanger, Jr., Co-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
- Fred P. Helm, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
As of March 31, 2017

Sales

Lottery sales for the fiscal year totaled \$1.484 billion through March. This represents a decrease of \$30.0 million (-2.0%) compared to the prior year, but \$12.4 million (+0.8%) ahead of forecast. Scratcher sales of \$835.0 million were \$8.7 million (+1.1%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$441.2 million, up \$5.4 million (+1.2%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$172.0 million, a decrease of \$53.3 million (-23.7%) compared to last year. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$28.9 million, \$9.2 million (+47.1%) higher than last year. The annual New Year's Millionaire Raffle was a sellout again this year, with \$6.6 million in sales.



Expenses

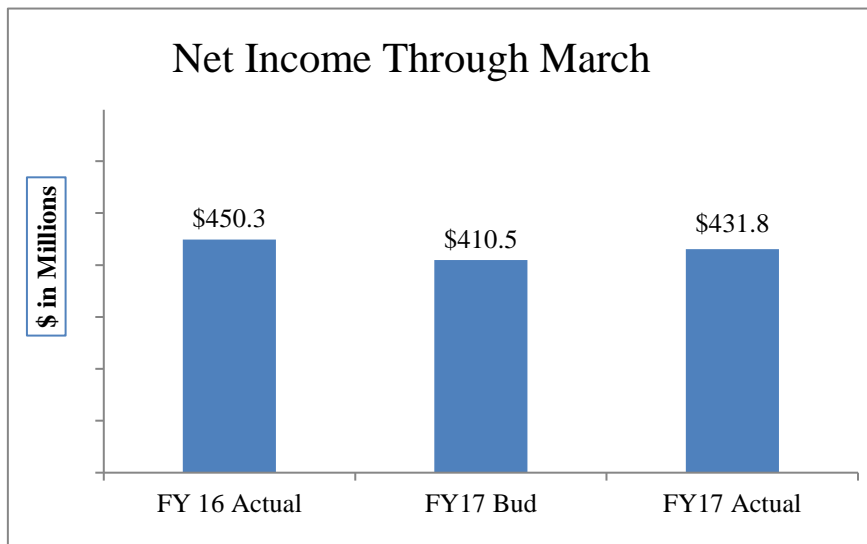
The overall prize expense rate (prizes as a percent of sales) through March was 60.4%, higher than last year's rate of 59.8%. The scratcher prize rate of 69.9% was higher than last year's rate of 69.2%, expected with players' continued selection of higher price point ticket offerings with higher payout rates. The daily games prize rate through March was 46.1%, less than statistically expected and lower than last year's low rate of 47.4%. The jackpot games prize expense rate of 50.0% was slightly higher than last year's rate of 49.4%. 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, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With lower sales (caused by significantly lower sales in the jackpot game category as noted above), retailers earned \$1.7 million less than last year, for a total \$83.1 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives through March, the same rate as last year.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$0.1 million lower than the same period last year. These costs remain at a low 5.0% of sales, slightly higher than last year's 4.9% rate.

Net Income

Through March 2017, profits totaled \$431.8 million, a decrease of \$18.5 million (-4.1%) compared to the same period last year. However, as noted above, comparisons to the prior year will continue to be negative this year going forward, because of the record Powerball jackpot run to over \$1.5 billion that significantly increased sales and profits in December 2015 and January 2016. Profits are ahead of forecast through March, from slightly stronger than expected sales, lower than expected prizes and lower administrative expenses compared to budget.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2017 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,547,480. Also, unclaimed prizes totaling \$10,222,148 were transferred to the Literary Fund so far this fiscal year.

MEETINGS

The next meeting of the Lottery Board will be on July 19, 2017, in Richmond.