

June 22, 2017

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

Re: May 2017 Lottery Results

Dear Governor McAuliffe:

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

May sales totaled \$171.0 million, up \$5.6 million (+3.4%) compared to the same month last year. Net income for the month totaled \$46.4 million, a decrease of \$0.9 million (-1.9%) compared to last May. For the year-to-date comparisons, both sales (-1.5%) and profits (-4.9%) are less than last year, as expected. As noted in our previous reports, prior year comparisons of sales and profits will be negative 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 May 2017 totaled \$520.5 million, ahead of the \$502.9 million forecast for the fiscal year through May. On June 20, 2017, as required by the 2017 Appropriation Act, the Lottery initiated the final profit transfer to the Lottery Proceeds Fund for the fiscal year. This final transfer of May profits and estimated June profits brings the total transfers to \$599,982,144, as anticipated in the budget. Residual profits from fiscal year 2017 will be transferred to the Lottery Proceeds Fund on or about August 15, 2017, after the Lottery audit is completed by the Auditor of Public Accounts.

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

Very truly yours,

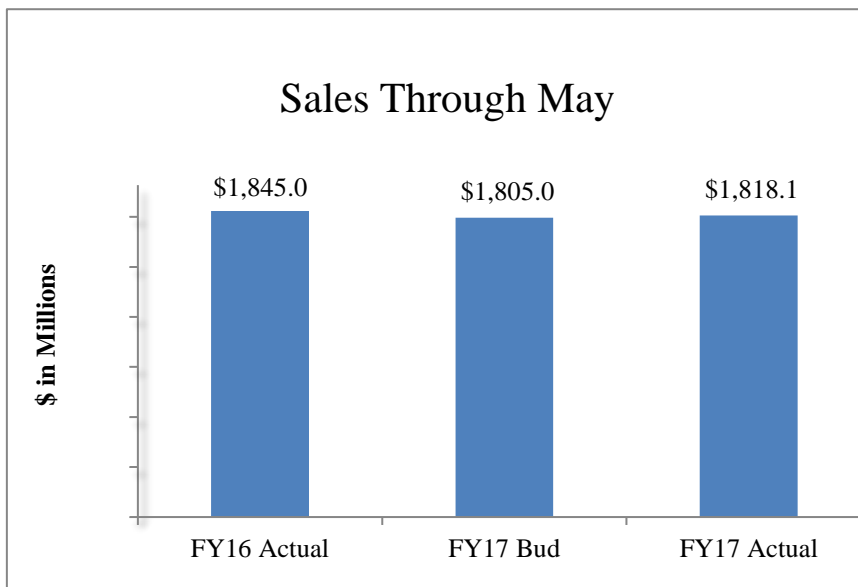
Paula I. Otto

- 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 May 31, 2017

Sales

Lottery sales for the fiscal year totaled \$1.82 billion through May. This represents a decrease of \$26.9 million (-1.5%) compared to the prior year, but \$13.0 million (+0.7%) ahead of forecast. Scratcher sales of \$1.02 billion were \$10.7 million (+1.1%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$548.2 million, up \$12.5 million (+2.3%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$204.7 million, down \$60.4 million (-22.8%) compared to last year. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$36.3 million, \$10.2 million (+39.2%) higher than last year. The annual New Year's Millionaire Raffle was a sellout again this year, with \$6.6 million in sales.



Expenses

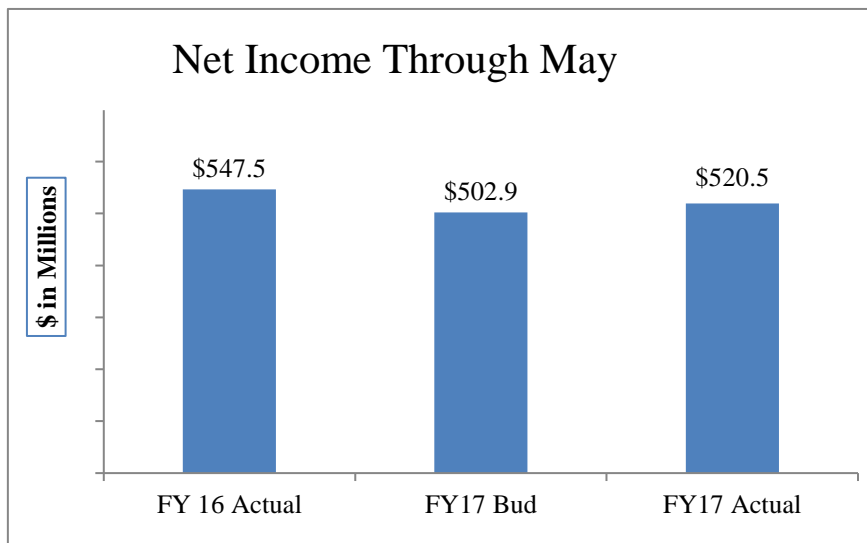
The overall prize expense rate (prizes as a percent of sales) through May was 60.9%, higher than last year's rate of 59.9%. The scratcher prize rate of 69.8% was higher than last year's rate of 69.1%, expected with players' continued selection of higher price point ticket offerings with higher payout rates. The daily games prize rate through May was 47.8%, lower than statistically expected but higher than last year's rate of 47.1%. The jackpot games prize expense rate of 50.3% was slightly higher than last year's rate of 50.2%. 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 previously noted), retailers earned \$1.8 million less than last year, for a total \$101.9 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives through May, the same rate as last year.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$0.2 million higher than the same period last year. These costs remain at a low 5.0% of sales.

Net Income

Through May 2017, profits totaled \$520.5 million, a decrease of \$27.0 million (-4.9%) compared to the same period last year. Comparisons to the prior year are negative, as expected, 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 May, 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 \$2,030,087. Also, unclaimed prizes totaling \$11,165,143 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.