

October 27, 2017

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

Re: September 2017 Lottery Results

Dear Governor McAuliffe:

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

September sales totaled \$162.3 million, up \$1.6 million (+1.0%) compared to the same month last year. Net income for the month totaled \$49.4 million, an increase of \$8.2 million (+19.8%) compared to last September. Lottery sales and profits vary significantly when comparing short-term results.

As part of the statewide revenue forecast process, the Lottery is updating our forecast of sales and profits for fiscal year 2018, and for the 2018-2020 biennium. The Lottery Board will meet and review the forecast on November 1, 2017, and forward their recommendations to you. The revised estimate, including the \$11.8 million residual transfer of profits made after the Auditor of Public Accounts' certification of FY2017 results, will be included in the Governor's introduced budget amendments in December.

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

Very truly yours,

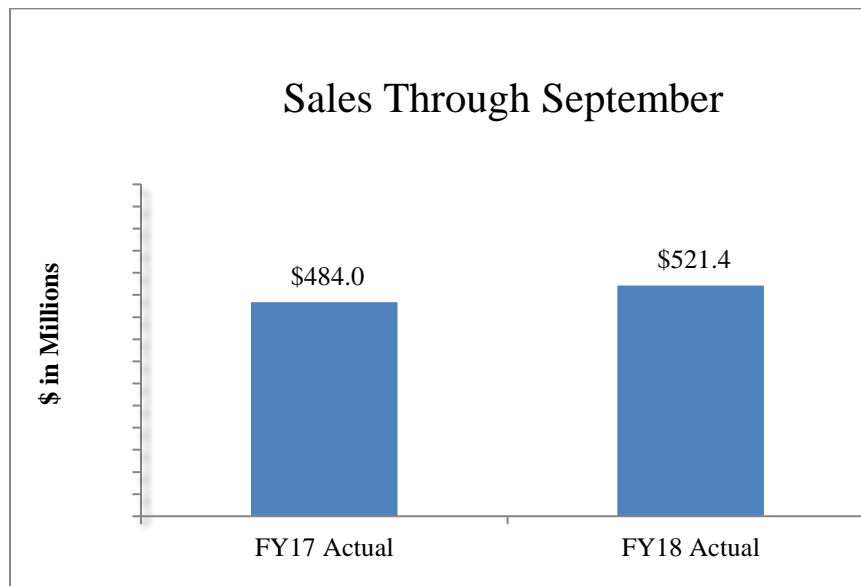
Paula I. Otto

- 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 September 30, 2017

Sales

Lottery sales for the fiscal year totaled \$521.4 million in the first quarter. This represents an increase of \$37.5 million (+7.7%) compared to the first quarter of the prior year. Scratcher sales of \$272.9 million were \$10.7 million (+4.1%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$155.7 million, up \$11.1 million (+7.7%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash 4 Life and Bank a Million) totaled \$81.8 million, an increase of \$13.8 million (+20.3%) compared to last year because of unusually high advertised jackpots during the period. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$11.1 million, \$1.9 million (+20.2%) higher than last year.



Expenses

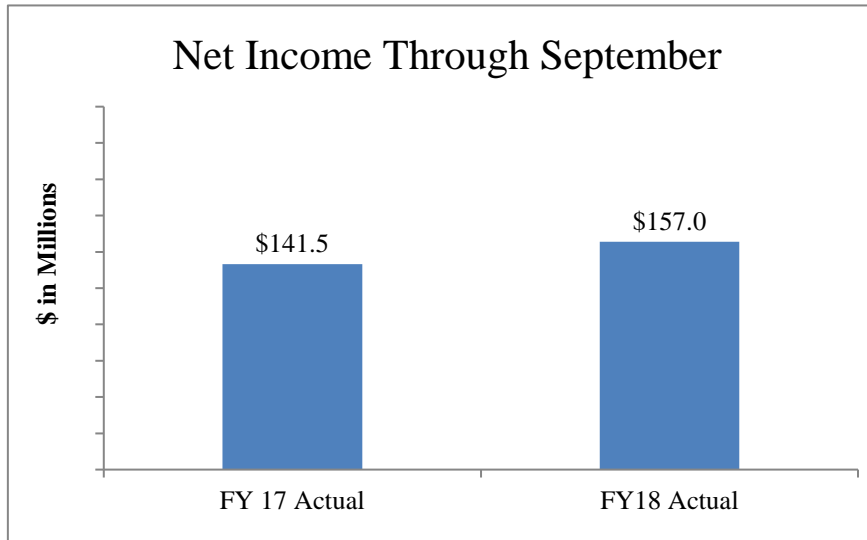
The overall prize expense rate (prizes as a percent of sales) for the first quarter was 59.2%, lower than last year's rate of 60.4%. The scratcher prize rate of 69.7% was higher than last year's rate of 69.5%. The overall daily games prize rate of 43.9% was lower than last year's rate of 47.9%, and significantly lower than the average 50% payout rate expected. The jackpot games prize expense rate of 52.2% was higher than last year's rate of 51.2%. 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.

Retailers earned \$3.2 million more than last year, for a total \$30.1 million in earnings. Overall, retailers earned 5.8% of Lottery sales in commissions and incentives in the first quarter, higher than the usual 5.6% due to the timing of some incentive programs.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$2.1 million higher than the same period last year but remain low at 4.9% of sales.

Net Income

Due to higher sales in the first quarter, profits totaled \$157.0 million, an increase of \$15.5 million (+11.0%) compared to the same period last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2018 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$491,798. Also, unclaimed prizes totaling \$4,162,151 were transferred to the Literary Fund so far this year.

MEETINGS

The Lottery Board will hold its next regular business meeting in Richmond on November 1, 2017. As part of this meeting, in executive session, the Board will review and consider the forecast of sales and profits for the current fiscal year and the upcoming biennium. The timing and scope of this review is in accordance with the Board's statutory authority, the state revenue forecast schedule, and the Governor's budget development schedule.