

November 28, 2017

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

Re: October 2017 Lottery Results

Dear Governor McAuliffe:

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

October sales totaled \$166.4 million, up \$9.9 million (+6.3%) compared to the same month last year. Net income for the month totaled \$47.2 million, a decline of \$2.7 million (-5.3%) compared to last October. Lower profits from higher sales were the result of higher, yet normal, prize expenses during the month; last year, prize expenses were exceptionally low in Pick 4 during October. For the year to date, both sales and profits are up about 7%.

As part of the statewide revenue forecast process, the Lottery has updated the forecast of sales and profits for Fiscal Year 2018, and for the 2018-2020 biennium. The Lottery Board met to review the forecast on November 1, 2017, and forwarded 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,

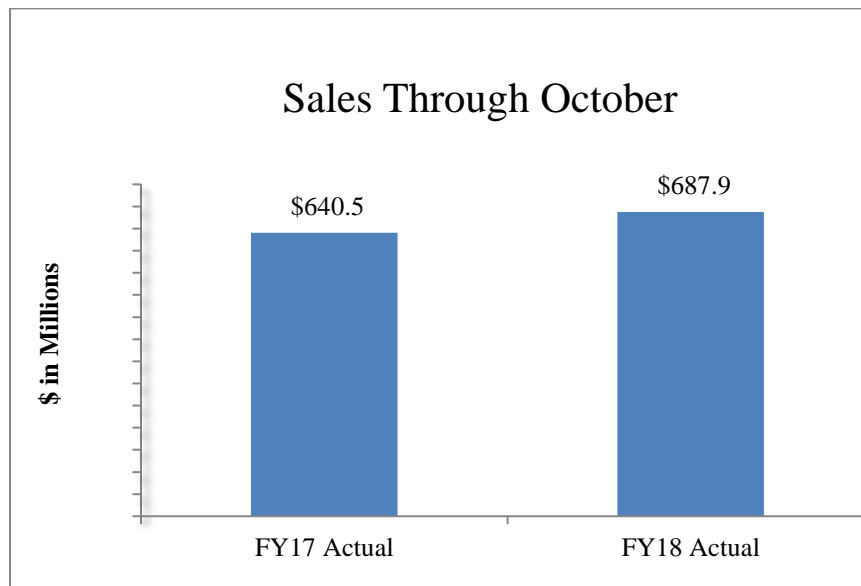
Paula I. Otto

- 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 October 31, 2017

Sales

Lottery sales for the fiscal year totaled \$687.9 million through October. This represents an increase of \$47.4 million (+7.4%) compared to the prior year. Scratcher sales of \$371.0 million were \$17.7 million (+5.0%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$205.3 million, up \$13.0 million (+6.8%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash 4 Life and Bank a Million) totaled \$96.7 million, an increase of \$14.2 million (+17.2%) compared to last year because of higher advertised jackpots during the period. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$14.9 million, \$2.5 million (+20.3%) higher than last year.



Expenses

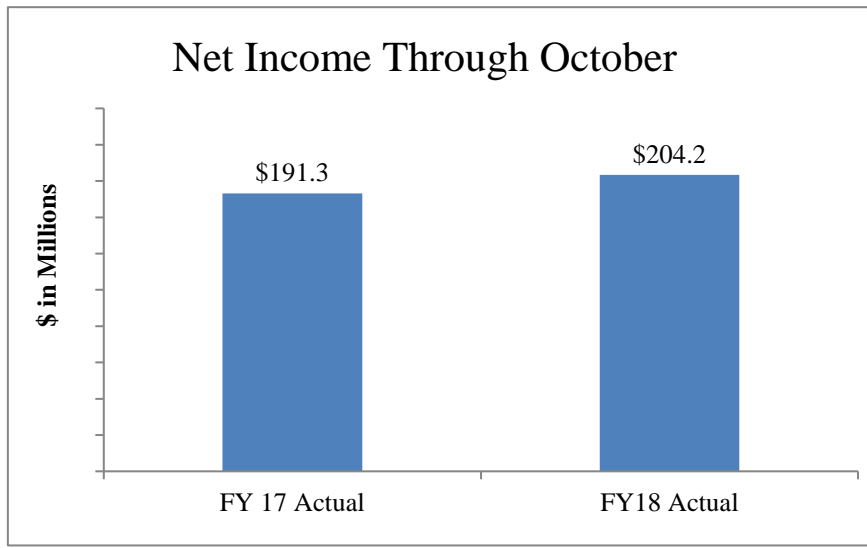
The overall prize expense rate (prizes as a percent of sales) for the year through October was 59.5%, slightly lower than last year's rate of 59.6%. The scratcher prize rate of 69.6% was higher than last year's rate of 69.5%. The overall daily games prize rate of 44.2% was lower than last year's rate of 45.0%, and significantly lower than the average 50% payout rate expected. The jackpot games prize expense rate of 52.3% was 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.

Retailers earned \$3.4 million more than last year, for a total \$39.4 million in earnings. Overall, retailers earned 5.7% of Lottery sales in commissions and incentives in the first quarter, slightly 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 \$3.0 million higher than the same period last year – expected with higher sales – but remain low at 5.1% of sales.

Net Income

Due to higher sales, profits totaled \$204.2 million through October, an increase of \$12.9 million (+6.7%) 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 \$626,272. Also, unclaimed prizes totaling \$4,964,295 were transferred to the Literary Fund so far this year.

MEETINGS

The Lottery Board will hold its next regular business meeting in Richmond on January 10, 2018.