

March 25, 2016

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

Re: February 2016 Lottery Results

Dear Governor McAuliffe:

I am pleased to provide our report of monthly activities and financial update for the month of February 2016, as required in §58.1-4006 of the *Code of Virginia*.

February sales totaled \$168.1 million, up \$11.3 million (+7.2%) compared to the same month last year. For the fiscal year to date, total sales through February were \$86.0 million (+6.9%) stronger than anticipated. Net income for the month totaled \$47.8 million, an increase of \$0.9 million (+1.9%) compared to last February. For the fiscal year to date, total profits of \$400.2 million were earned through the sale of Lottery products.

As part of the mid-Session review, the Lottery Board recommended a \$20.3 million increase to the forecast for fiscal year 2016 Lottery profits. This increased estimate of \$559,251,467 reflects the stronger profits expected from fiscal year 2016 sales, in large part due to the unexpected sales from the record-setting jackpot roll in January. This figure is included in the conference budget documents (HB29/SB29). Information included in this letter includes comparison information to the current official forecast (\$538,955,547) included in your introduced budget, not the amended forecast. Updated comparisons will be reflected in next month's letter, based on the outcome of the reconvened session on April 20.

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

Very truly yours,

Paula I. Otto

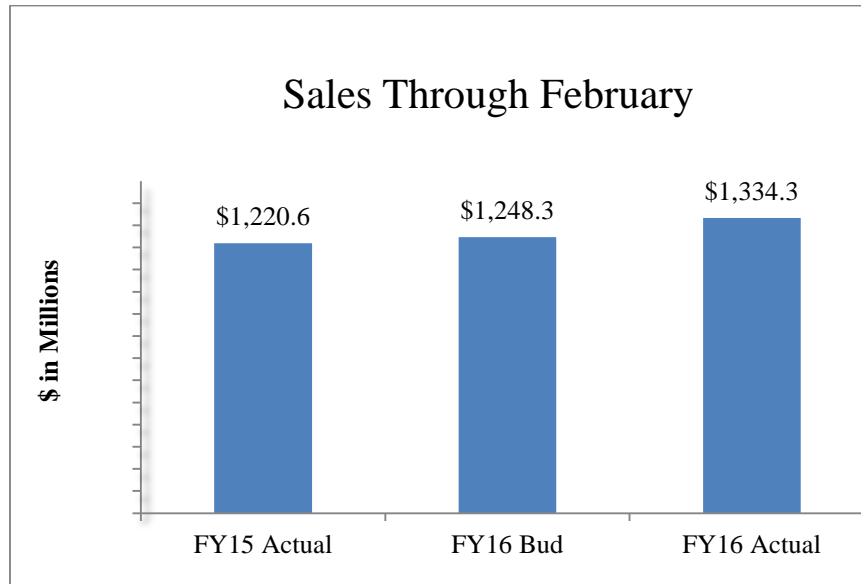
- c: The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee
- The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- 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
- Robert M. Howard, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
As of February 29, 2016

Sales

Lottery sales for the fiscal year totaled \$1.33 billion through February. This represents an increase of \$113.7 million (+9.3%) compared to the prior year and \$86.0 million (+6.9%) ahead of the original forecast introduced in December 2015 with the Governor’s budget amendments.

Scratcher sales of \$717.9 million were \$51.7 million (+7.8 %) higher than last year and \$7.2 million (+1.0%) higher than forecast. Sales of daily games (Pick 3, Pick 4, and Cash 5) were higher, up \$9.1 million (+2.4%) from last year and \$2.9 million (+0.8%) ahead of forecast. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) increased \$51.1 million (+32.3%) compared to last year and were \$75.1 million (+56.0%) ahead of forecast. Sales of Fast Play games and the annual New Year Millionaire Raffle, a category that represents about 2% of total sales, were \$1.9 million (+8.5%) higher than last year and \$0.8 million (+3.5%) ahead of forecast.



Expenses

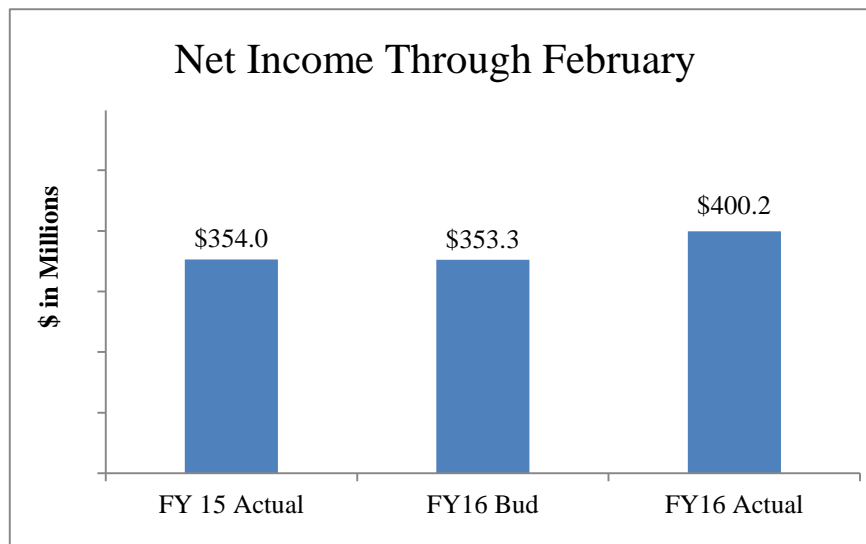
The overall prize expense rate (prizes as a percent of sales) through February was 59.6%, lower than both last year’s rate of 60.7% and the forecasted rate of 60.5%. The scratcher prize rate of 69.0% equaled last year’s rate of 69.0% and slightly lower than a forecasted rate of 69.2%. In spite of several isolated high prize payouts that have occurred, the year-to-date daily games prize rate of 47.7% was lower than last year’s rate of 50.6%, and the forecast of 48.1%. The jackpot games prize expense rate, 49.3%, is lower than both last year’s rate of 50.1% and the forecast of 50.1%. 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 higher sales, retailers earned \$5.7 million more than last year, for a total \$74.8 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives through February, a rate slightly lower than last year.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$7.5 million higher than the same period last year but remain low at 4.8% of sales, comparable to last year's rate of 4.7% of sales.

Net Income

Through February 2016, profits totaled \$400.2 million, an increase of \$46.2 million (+13.1%) compared to the same period last year and \$46.9 million (+13.3%) ahead of the original forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2016 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,399,793. Also, unclaimed prizes totaling \$3,946,421 were transferred to the Literary Fund so far this fiscal year.

MEETINGS

The newest member of the Virginia Lottery Board, Mr. Scott Price, was appointed by Governor McAuliffe for a five-year term. He replaces former Lottery member Albert Poole, whose term expired in January. The next meeting of the Lottery Board will be on June 22, 2016, in Richmond.