

September 27, 2016

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

Re: August 2016 Lottery Results

Dear Governor McAuliffe:

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

August sales totaled \$153.8 million, up \$0.5 million (+0.3%) compared to the same month last year. Net income for the month totaled \$42.2 million, a decrease of \$5.6 million (-11.8%) compared to last August. In spite of slightly higher sales, profits were lower for August because of higher prize expenses, due to our players' good luck. Prize rates this year are closer to expected levels, but were exceptionally low last year for the same period. Sales and profits have trended, in total, near the expected levels so far this year. The Lottery introduced its newest product, a \$30 scratcher ticket, in early September.

The Lottery continues to review and update its forecast of sales and profits expected for fiscal years 2017 and 2018, in conjunction with the statewide accelerated reforecast process. Interim information has been provided, to include the cash transfers expected during fiscal year 2017, after consultation with the Lottery Board last month. I will provide an additional update for the November update, after consultation with the Board in late October.

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

Very truly yours,

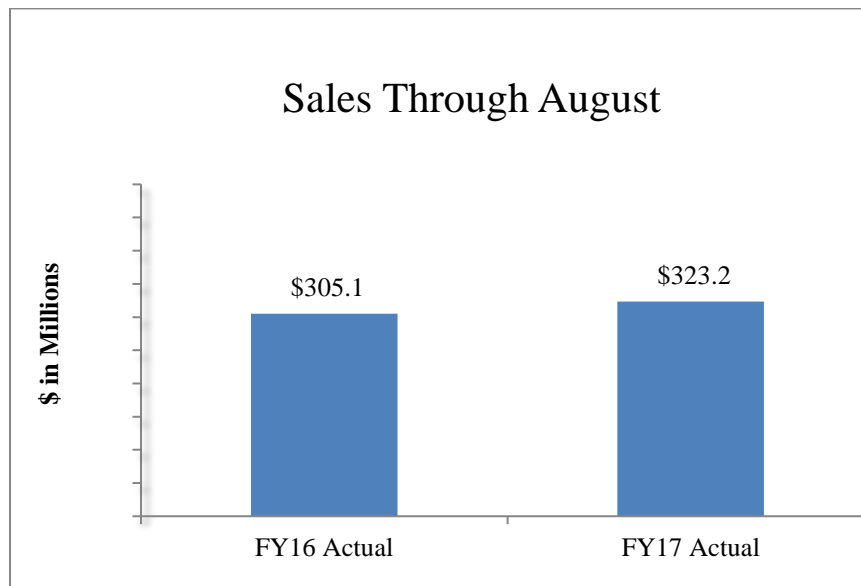
Paula I. Otto

- 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 August 31, 2016

Sales

Lottery sales for the fiscal year totaled \$323.2 million through August. This represents an increase of \$18.2 million (+6.0%) compared to the prior year. Scratcher sales of \$167.0 million were \$7.0 million (-4.0 %) lower than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$98.0 million, up \$2.7 million (+2.8%) from last year. With 5 separate drawings this year for jackpots exceeding \$400 million, sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$52.0 million, an increase of \$20.3 million (+64.2%) compared to last year. Sales of Print n' Play games a category that represents about 2% of total sales, totaled \$6.2 million, \$2.1 million (+51.7%) higher than last year.



Expenses

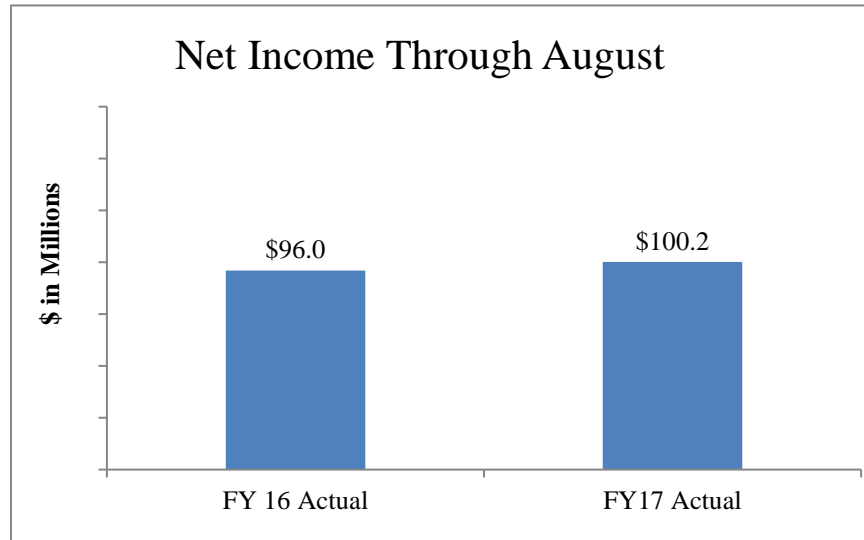
The overall prize expense rate (prizes as a percent of sales) through August was 58.9%, higher than last year's rate of 58.3%. The scratcher prize rate of 68.2% was lower than last year's rate of 68.5%. The August daily games prize rate of 45.8% was higher than last year's exceptionally low rate of 42.4%. The jackpot games prize expense rate of 52.7% is higher than last year's rate of 48.5%. 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 \$0.7 million more than last year, for a total \$18.0 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives through August.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$0.5 million higher than the same period last year but remain low at 4.5% of sales, lower than last year's 4.6% rate.

Net Income

Through August 2016, profits totaled \$100.2 million, an increase of \$4.2 million (+4.4%) compared to the same period last year.



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 \$305,648. Also, unclaimed prizes totaling \$1,572,445 were transferred to the Literary Fund so far this fiscal year.

MEETINGS

The Lottery Board will hold its next regular business meeting in Richmond on October 26, 2016.