

October 31, 2016

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

Re: September 2016 Lottery Results

Dear Governor McAuliffe:

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

September sales totaled \$160.7 million, up \$6.3 million (+4.1%) compared to the same month last year. Net income for the month totaled \$41.3 million, a decrease of \$5.9 million (-12.6%) compared to last September. Profits were lower in September primarily because of higher prize expense rates for the month.

The Lottery Board held a meeting in Richmond on October 26, 2016, and reviewed forecasts of sales and profits as part of the statewide revenue forecasting process. Their recommendations were forwarded to your office.

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

Very truly yours,

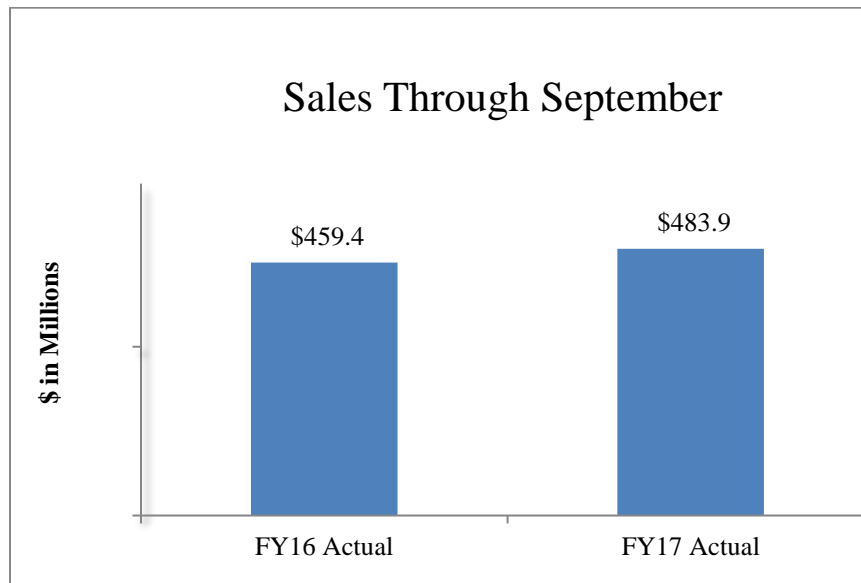
Paula I. Otto

- 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 September 30, 2016

Sales

Lottery sales for the fiscal year totaled \$484.0 million through September. This represents an increase of \$24.6 million (+5.4%) compared to the prior year. Scratcher sales of \$262.2 million were \$1.7 million (0.6 %) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$144.6 million, up \$4.2 million (+3.0%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$68.0 million, an increase of \$15.7 million (+30.0%) compared to last year. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$9.3 million, \$3.1 million (+49.3%) higher than last year.



Expenses

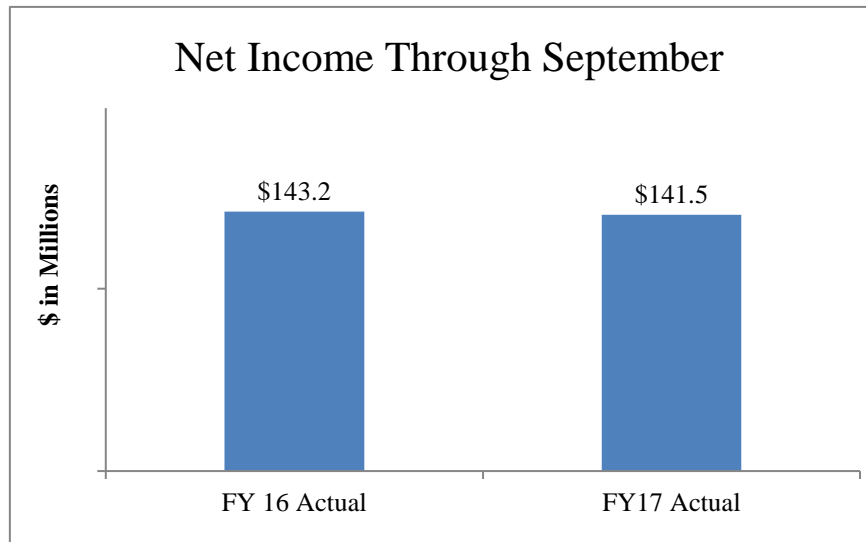
The overall prize expense rate (prizes as a percent of sales) through September was 60.4%, higher than last year's unusually low rate of 58.5%. The scratcher prize rate of 69.5% was higher than last year's rate of 69.0%, expected with players' continued selection of higher price point ticket offerings with higher payout rates. The September daily games prize rate of 47.9%, slightly less than average but significantly higher than last year's rate of 42.4%. The jackpot games prize expense rate of 51.2% was also higher than last year's rate of 48.6%. 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 \$0.9 million more than last year, for a total \$26.9 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives through September.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$1.7 million higher than the same period last year. These costs remain at a low 4.8% of sales, just slightly higher than last year's 4.7% rate.

Net Income

Through September 2016, profits totaled \$141.5 million, a decrease of \$1.7 million (-1.2%) compared to the same period last year. Profits are less than last year, in spite of the sales increases, because of higher prize expenses during the first quarter.



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 \$441,408. Also, unclaimed prizes totaling \$2,372,193 were transferred to the Literary Fund so far this fiscal year.

MEETINGS

The Board held a regularly scheduled business meeting in Richmond on October 26, 2016. The next meeting of the Lottery Board will be on January 25, 2017, in Richmond.