

February 1, 2016

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

Re: December 2015 Lottery Results

Dear Governor McAuliffe:

I am pleased to provide our report of monthly activities and financial update for the month of December 2015, as required in §58.1-4006 of the *Code of Virginia*.

December sales totaled \$181.2 million, up \$12.5 million (+7%) compared to the same month last year and 9% stronger than expected for December. Net income for the month totaled \$49.2 million, an increase of \$1.9 million (+4%) compared to last year, and \$2.8 million (+6%) more than expected.

Sales of the annual New Year's Millionaire Raffle will be reflected in January's financial results; however, I am pleased to announce that the raffle was another sellout this year.

The Lottery experienced record monthly sales in the month of January due to the world-record \$1.5 billion Powerball jackpot roll. As a result of this unexpected phenomenon, as well as the negative sales and profit impacts from the recent winter weather impacts, we will be reviewing updated estimates of sales and profits with the Lottery Board as part of the re-forecasting process with the Secretary of Finance. As of now, the Lottery estimate stands at \$539 million in expected resources available for the Lottery Proceeds Fund, as included in your introduced budget amendments.

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

Very truly yours,

Paula I. Otto

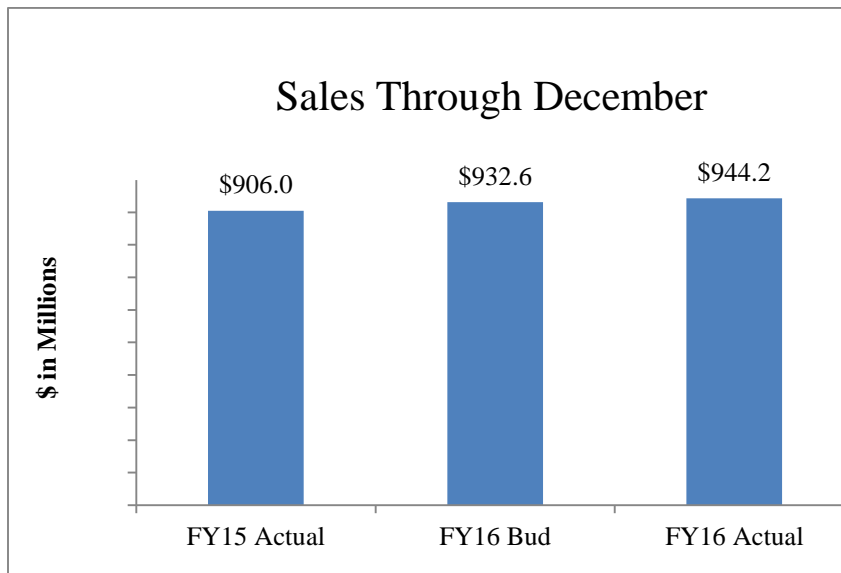
- c: The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee
- The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- 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 December 31, 2015

Sales

Lottery sales for the fiscal year totaled \$944.2 million. This represents an increase of \$38.1 million (+4.2%) compared to the prior year and \$11.6 million (+1.2%) ahead of forecast.

Scratcher sales of \$538.9 million were \$33.3 million (+6.6 %) higher than last year and \$6.5 million (+1.2%) higher than forecast. Sales of daily games (Pick 3, Pick 4, and Cash 5) were higher, up \$6.5 million (+2.3%) from last year and \$3.1 million (+1.1%) ahead of forecast. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) decreased \$3.1 million (-3.0%) compared to last year but were \$1.4 million (+1.4%) ahead of forecast. Sales of Fast Play games, a category that represents about 1% of total sales, were \$1.5 million (+12.8%) higher than last year and \$0.1 million (+4.4%) ahead of forecast.



Expenses

The overall prize expense rate (prizes as a percent of sales) through December was 60.4%, lower than last year's rate of 61.3% and equal to the forecasted rate. The scratcher prize rate of 69.1% was slightly higher than last year's rate of 69.0% but equal to the forecasted rate. In spite of high prize payouts during the month of October, the year-to-date daily games prize rate of 47.7% was significantly lower than last year's rate of 52.0%, and lower than the forecast of 47.8%. The jackpot games prize expense rate, 50.4%, was slightly higher than last year's rate of 49.5% and the forecast of 49.8%. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that

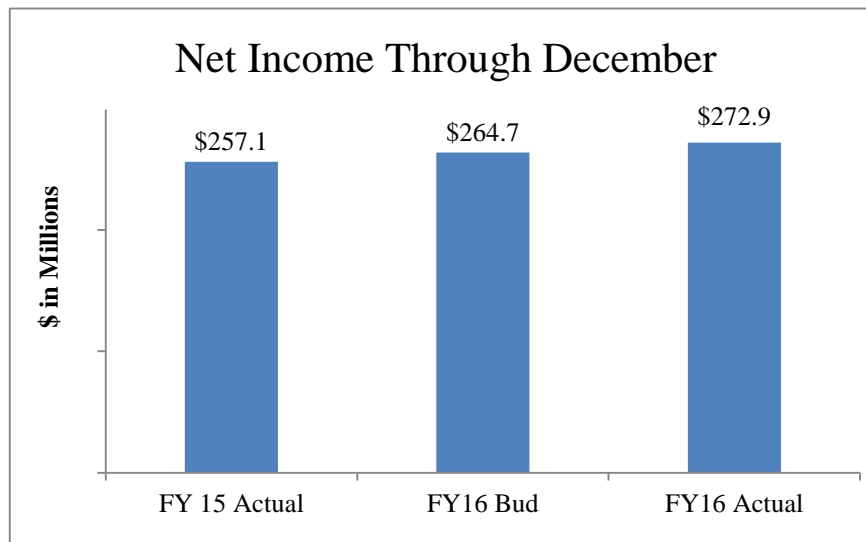
have fixed prizes; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With higher sales, retailers earned \$1.7 million more than last year, for a total \$53.1 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives through December.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$5.6 million higher than the same period last year but remain low at 5.1% of sales.

Net Income

Through December 2015, profits totaled \$272.9 million, an increase of \$15.7 million (+6.1%) compared to the same period last year and \$8.7 million (+3.1%) ahead of 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 \$906,959. Also, unclaimed prizes totaling \$3,201,740 were transferred to the Literary Fund so far this fiscal year.

MEETINGS

The Lottery Board met on January 8, 2016, in Richmond and welcomed its newest member: Mr. Ferhan Hamid. The Board also elected new officers for the 2016 year, electing Mr. Robert W. Howard as Chairman. The next meeting of the Lottery Board will be held on March 9, 2016, in Richmond.