

January 27, 2017

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

Re: December 2016 Lottery Results

Dear Governor McAuliffe:

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

December sales totaled \$176.6 million, down \$4.5 million (-2.5%) compared to the same month last year. Net income for the month totaled \$44.2 million, a decrease of \$4.9 million (-10.1%) compared to last December. Comparisons to the prior year will continue to be increasingly negative from this month going forward, because of the record Powerball jackpot run to over \$1.5 billion that significantly increased sales and profits in December 2015 and January 2016, resulting in unusually high profit earnings for FY16.

The New Year's Millionaire Raffle sold out and three winning numbers were drawn on January 1, 2017. To date, only one winner has come forward to claim one of the three one million dollar prizes.

The Lottery Board held a meeting in Richmond on January 25, 2017, and reviewed sales and profits and discussed Lottery initiatives including the newly modernized subscription system, the status of sales and retailer initiatives, and pertinent General Assembly actions so far. Sales and profits for fiscal year 2017 continue to track well against the current forecast.

The Lottery is fully settled into its new Headquarters location at 600 East Main Street in the Main Street Centre. The move was completed by December 31, 2016, as scheduled. I extend my thanks and congratulations to Mr. Christopher Beschler, Director of General Services, Mr. Joseph Damico, Deputy Director of General Services, and their entire team who worked diligently with my Lottery team to complete this successful transition with no loss of service to our valued players and retail partners.

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

Very truly yours,

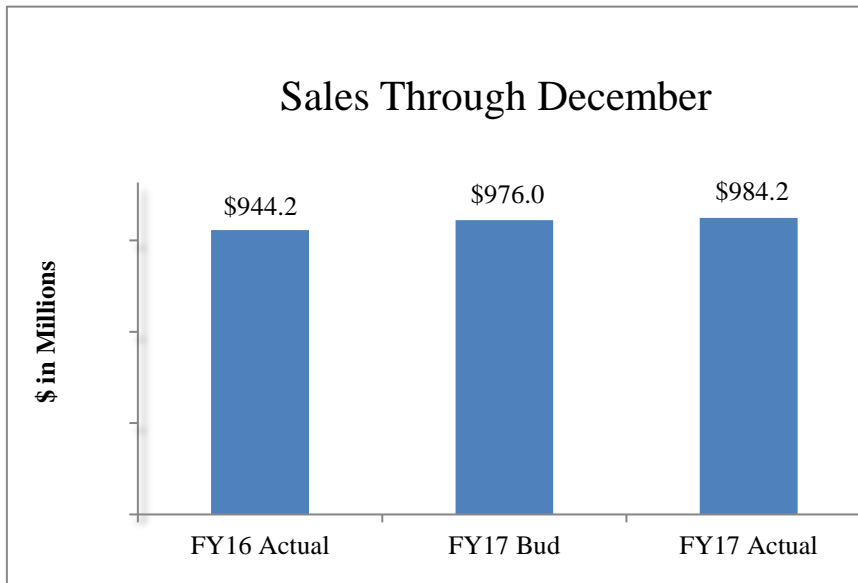
Paula I. Otto

- 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 December 31, 2016

Sales

Lottery sales for the fiscal year totaled \$984.1 million through December. This represents an increase of \$39.9 million (+4.2%) compared to the prior year. Scratcher sales of \$555.8 million were \$16.9 million (+3.1 %) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$292.0 million, up \$3.0 million (+1.1%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$117.6 million, an increase of \$14.2 million (+13.7%) compared to last year. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$18.7 million, \$5.8 million (+45.0%) higher than last year.



Expenses

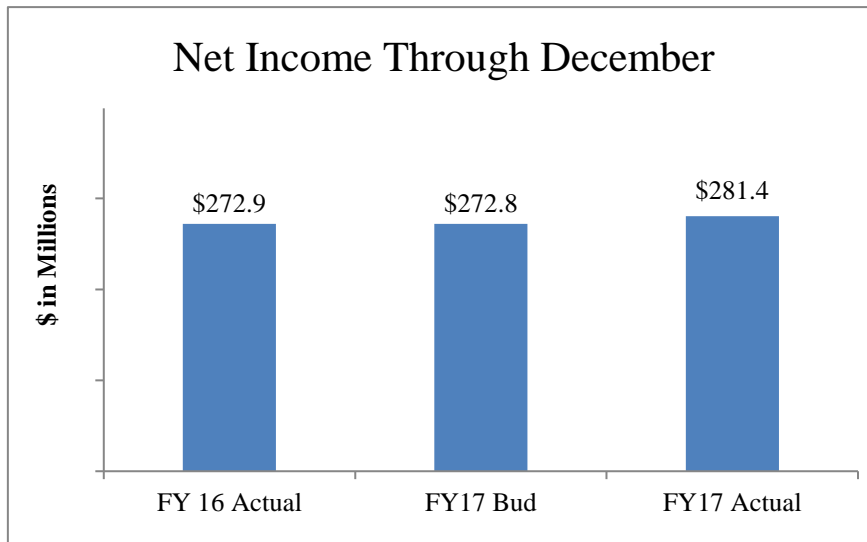
The overall prize expense rate (prizes as a percent of sales) through December was 60.8%, slightly higher than last year's rate of 60.4%. The scratcher prize rate of 69.9% was slightly higher than last year's rate of 69.1%, expected with players' continued selection of higher price point ticket offerings with higher payout rates. The daily games prize rate through December was 47.3%, less than statistically expected and lower than last year's rate of 47.7%. The jackpot games prize expense rate of 50.4% was the same as last year's rate. 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 \$2.1 million more than last year, for a total \$55.1 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives through December.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$1.4 million higher than the same period last year. These costs remain at a low 5.1% of sales, the same as last year's rate.

Net Income

Through December 2016, profits totaled \$281.4 million, an increase of \$8.6 million (+3.1%) compared to the same period last year. However, as noted in the cover letter, comparisons to the prior year will continue to be increasingly negative from this month going forward, because of the record Powerball jackpot run to over \$1.5 billion that significantly increased sales and profits in December 2015 and January 2016.



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 \$982,231. Also, unclaimed prizes totaling \$4,843,032 were transferred to the Literary Fund so far this fiscal year.

MEETINGS

The Virginia Lottery Board held a regular business meeting in Richmond on January 25, 2017. The Board elected new officers for the year, with Mr. Fred Helm serving as Chairman and Mr. Robert Howard serving as Vice Chairman. The Board also congratulated Mr. Ferhan Hamid on his reappointment to the Board for a five-year term. The next meeting of the Lottery Board will be on April 5, 2017, in Richmond.