

July 11, 2012

The Honorable Robert F. McDonnell
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, Virginia 23219

Re: May 2012 Lottery Results

Dear Governor McDonnell:

I am pleased to provide our report of monthly activities and financial update for the month of May 2012, as required in §58.1-4006 of the *Code of Virginia*.

Chapter 2, 2012 Special Session 1, includes a revised estimate of \$473.1 million available to the Lottery Proceeds Fund for FY 12. The results outlined in this update reflect comparisons to a revised profits and transfer estimate of \$461.4 million as endorsed by the State Lottery Board in March 2012, \$11.7 million less than the estimate in the budget approved and signed on May 25, 2012. The final update for Fiscal Year 2012 will compare results to the new estimate in the Act.

May sales totaled \$138.0 million, up \$15.1 million (+12.3%) compared to the same month last year. Year to date sales totaled \$1,488.7 million, an increase of \$122.4 million (+9.0%) compared to last year and \$87.3 million (+6.2%) ahead of the revised forecast. Net income for the fiscal year through May totaled \$449.7 million, an increase of \$42.9 million (+10.6%) compared to last year, and \$28.1 million (+6.7%) ahead of forecast. Scratcher tickets, in particular, continue to experience record sales growth for the year.

With the unprecedented Mega Millions jackpot in March and continued strong sales in all other categories, the Lottery fulfilled the expected \$473.1 million in total transfers to the Lottery Proceeds Fund with the final June transfer as outlined in the Act. Residual profits from FY 12 operations will be transferred to the Lottery Proceeds Fund in August, after the Auditor of Public Accounts completes the statutorily required annual financial audit. These residual profits will be available for appropriation in FY 13 and will be included in the total estimated transfers to the Lottery Proceeds Fund for FY 13.

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

Very truly yours,

Paula I. Otto

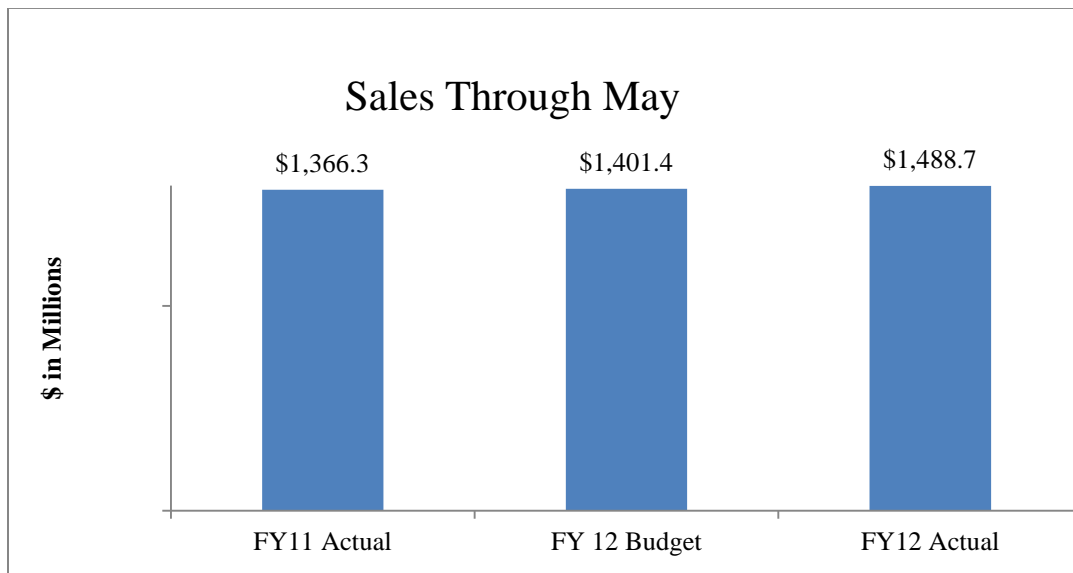
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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
- Albert H. Poole, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
July 11, 2012

Sales

Lottery sales for the fiscal year totaled \$1,488.7 million through May. This represents an increase of \$122.4 million (+9.0%) compared to the prior year, and \$87.3 million (+6.2%) more than forecast.

Scratcher sales of \$774.9 million were \$79.7 million (+11.5%) higher than last year, accounting for most of the overall sales increase. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased slightly, up \$14.4 million (+3.3%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) increased \$25.2 million (+11.6%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$3.1 million (+38.3%) higher than last year because of the timing of product availability in this category, as well as changes implemented to better meet player preferences.



Expenses

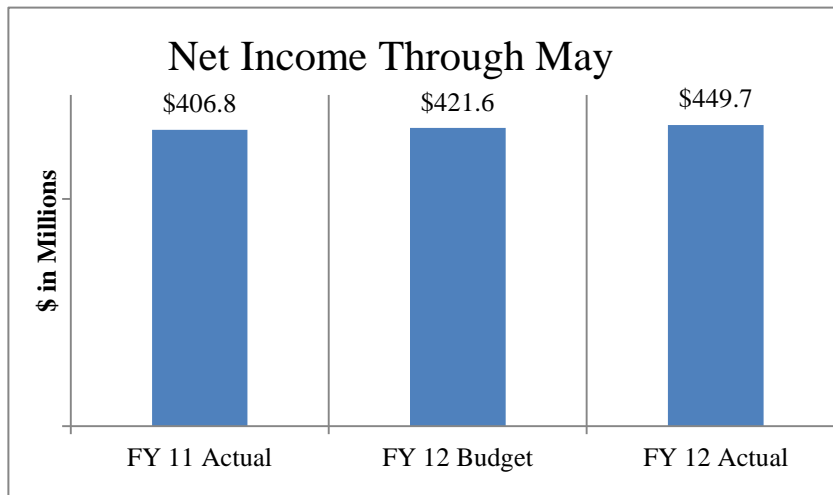
The overall prize expense rate (prizes as a percent of sales) through May was 59.7%, the same as last year's rate of 59.7%. The scratcher prize rate of 68.0% was lower than last year's rate of 68.4%. The daily games prize rate of 50.3% was the same as last year's rate of 50.3%. The jackpot games prize expense rate was 50.7%, lower than last year's rate of 51.3%. It is important to note that significant fluctuations in prize expense rates occur during the short term; however, overall long-term prize rates reflect outcomes more in line with statistical expectations.

With higher sales, retailers earned \$6.9 million more than last year, for a total \$83.7 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives so far this fiscal year.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$940,000 more than the same period last year. Administrative spending stands at 4.6% of sales for the year so far, an exceptionally low rate. We expect fiscal year 2012 administrative costs to be lower than last year's rate of 5.5%, and well less than the 10% allowed by statute.

Net Income

Through May 2012, year to date profits totaled \$449.7 million, an increase of \$42.9 million (+10.6%) compared to last year and \$28.1 million (+6.7%) more than forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2012 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,410,990. Also, unclaimed prizes totaling \$10,499,842 were transferred to the Literary Fund for the first eleven months of fiscal year 2012.

MEETINGS

The Lottery Board held a regular business meeting on May 16, 2012, in Richmond. At that meeting, the Board formally approved the revised revenue estimates for the 2012-2014 biennium. The Board also discussed the increased estimate included in the caboose bill for the 2012 fiscal year. The next meeting of the Board will be August 8, 2012.