

February 27, 2013

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

**Re: January 2013 Lottery Results**

Dear Governor McDonnell:

I am pleased to provide our report of monthly activities and financial update for the month of January 2013, as required in §58.1-4006 of the *Code of Virginia*.

January sales totaled \$133.6 million, down \$7.3 million (-5.2%) compared to the same month last year. Lottery sales for the fiscal year through January totaled \$945.5 million, up \$49.9 million (+5.6%) compared to last year. Net income for the seven months totaled \$284.1 million, an increase of \$18.0 million (+6.8%) compared to last year. Scratcher, Pick 3, Pick 4, Cash 5 and Powerball sales were strong through the first seven months of the fiscal year.

The Lottery continues to monitor and evaluate sales and profits, striving for efficiencies and strong profits in support of K-12 public education. While year to date results are strong, January sales were lower than expected due to low jackpots. Sales of the annual Millionaire Raffle were also less than forecast.

During its January 9th meeting, the Lottery Board reviewed sales and profits and recommended a \$7 million increase in expected transfers to the Lottery Proceeds Fund for fiscal year 2013. This increase would make \$487.3 million available to the Lottery Proceeds Fund, for distribution by the Department of Education. No adjustments were recommended for fiscal year 2014 expected profits. This adjustment was accepted by the Governor and is reflected in both the House and Senate budgets. We continue to remind readers that lottery sales and profits have seasonal fluctuations, variances from jackpot size, and swings resulting from player luck of the draw. To the extent possible, our forecasts account for these factors. Comparisons to forecast included in this letter refer to the increased (\$487.3 million) estimate for total transfers.

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

Very truly yours,

Paula I. Otto

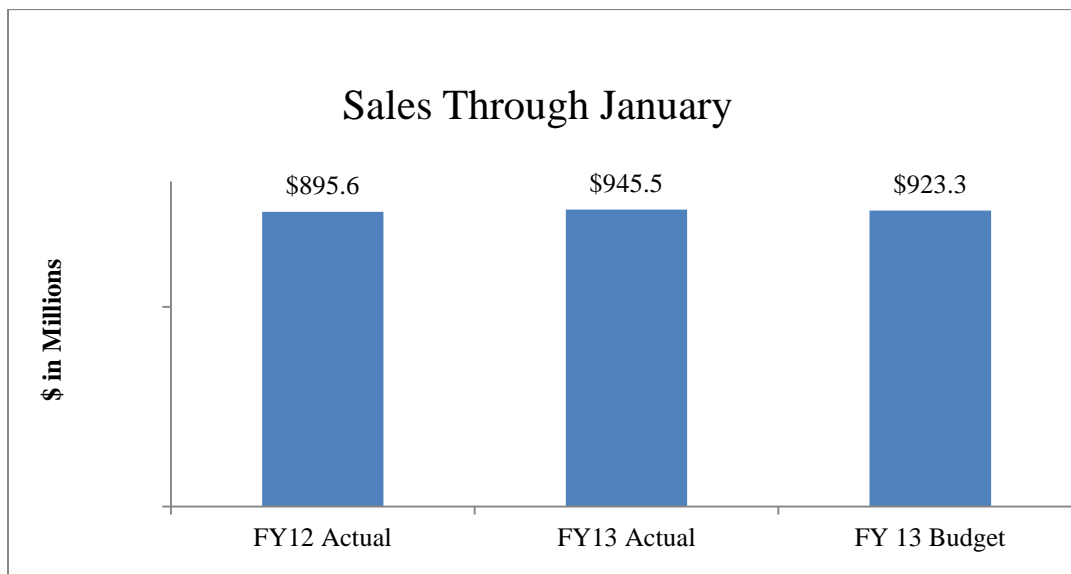
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
- The Honorable Harry R. Purkey, Chairman, House Finance Committee
- The Honorable Martin Kent, Chief of Staff, Office of the Governor
- The Honorable Richard 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**  
**February 27, 2013**

Sales

Lottery sales for the fiscal year totaled \$945.5 million through January. This represents an increase of \$49.9 million (+5.6%) compared to the prior year and \$22.2 million (+2.4%) more than forecast.

Scratcher sales of \$492.8 million were \$21.8 million (+4.6%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) increased \$8.4 million (+3.0%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) increased \$18.3 million (+14.1%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$1.0 million (+15.6%) higher than last year. The annual New Year's Raffle was not a sellout this year, generating \$6.9 million in sales, which was \$1.3 (-15.3%) million less than forecast.



Expenses

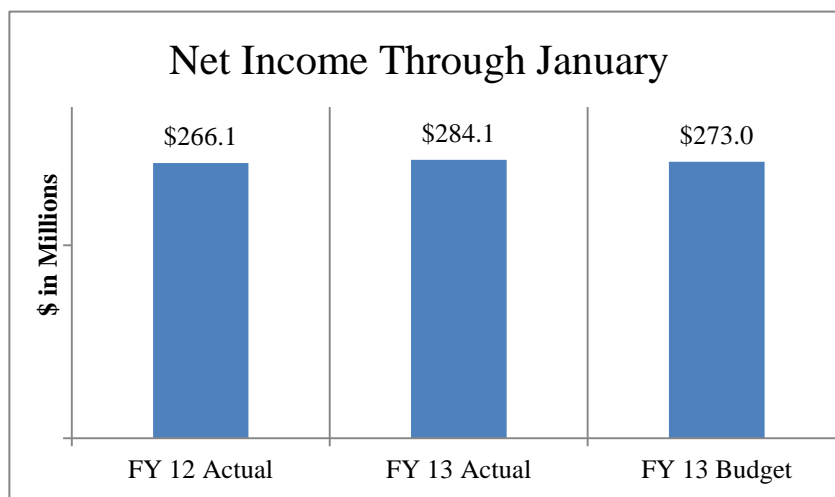
The overall prize expense rate (prizes as a percent of sales) through January was 59.2%, lower than last year's rate of 60.0% and slightly lower than the forecast rate of 59.5%. The scratcher prize rate of 67.7% was lower than last year's rate of 67.8%. The daily games prize rate of 48.9% was lower than last year's rate of 52.4%. The jackpot games prize expense rate was 50.9%, higher than last year's rate of 48.9%. 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 \$2.7 million more than last year, for a total \$53.3 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 \$6.4 million more than the same period last year, primarily due to timing issues, rebranding efforts and technology investments. Administrative spending stands at 5.2% of sales for the year so far, well below the 10% allowed by statute.

### Net Income

Through January 2013, year to date profits totaled \$284.1 million, an increase of \$18.0 million (+6.8 %) compared to last year and \$11.1 million (+4.1%) more than anticipated in the revised forecast.



### CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2013 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$856,507. Also, unclaimed prizes totaling \$5,914,287 were transferred to the Literary Fund for the first seven months of fiscal year 2013.

### MEETINGS

The next Board meeting is scheduled for April 17, 2013, in Richmond.