

March 17, 2014

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

Re: January 2014 Lottery Results

Dear Governor McAuliffe:

I am pleased to provide our report of monthly activities and financial update for the month of January 2014, as required in §58.1-4006 of the *Code of Virginia*.

January sales totaled \$141.6 million, up \$8.0 million (+6.0%) compared to the same month last year. Lottery sales for the fiscal year through January totaled \$1,033.8 million, up \$88.3 million (+9.3%) compared to last year and \$21.9 million more than forecast (+2.2%). Net income for the first seven months totaled \$320.2 million, an increase of \$36.0 million (+12.7%) compared to last year and \$30.9 million (+10.7%) more than forecast. Sales in Scratch, Pick 3, Pick 4 and Fast Play continue to experience strong sales this fiscal year.

In February, the State Lottery Board offered a revised revenue estimate for fiscal year 2014, increasing the estimate available to the Lottery Proceeds Fund by \$15.5 million to a total of \$532.7 million. This estimate reflects the post-audit transfer of residual FY2013 profits, plus the anticipated profits from stronger current fiscal year lottery sales. Comparisons to forecast included in this letter reflect the original (lower) revenue estimate included in the introduced budget.

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

Very truly yours,

Paula I. Otto

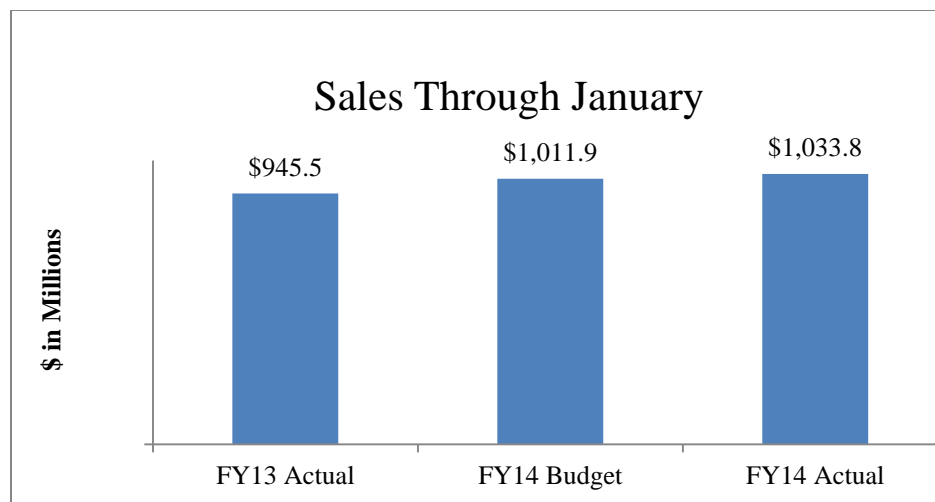
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- The Honorable Paul Reagan, Chief of Staff, Office of the Governor
- The Honorable Richard 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
- Cynthia D. Lawrence, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
March 17, 2014

Sales

Lottery sales for the fiscal year totaled \$1,033.8 million through January. This represents an increase of \$88.3 million (+9.3%) compared to the prior year and \$21.9 more (+2.2%) than forecast.

Scratcher sales of \$547.3 million were \$54.4 million higher (+11.0%) than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were higher, up \$19.5 million (+6.7%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) were \$11.1 million higher (+7.5%) compared to last year. Sales of Fast Play games, a category that represents about 1% of total sales, were \$3.5 million higher (+47.0%) than last year.



Expenses

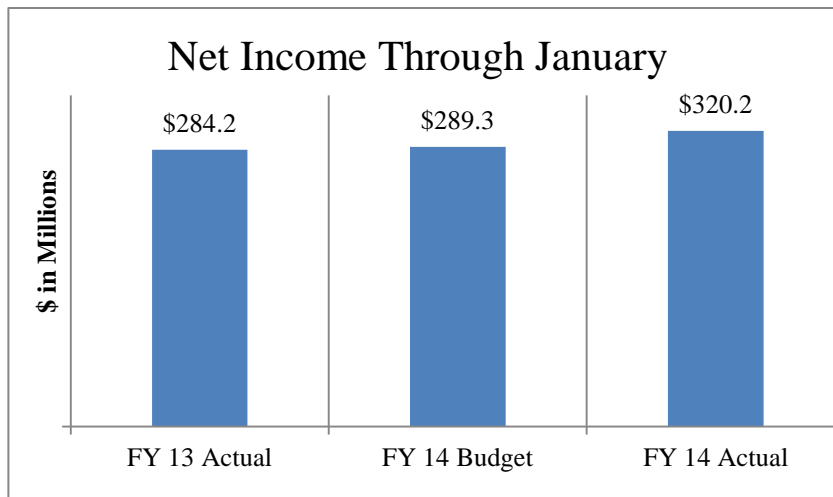
The overall prize expense rate (prizes as a percent of sales) through January was 58.6%, lower than last year's rate of 59.2% and lower than the forecast rate of 60.6%. The scratcher prize rate of 68.8% was higher than last year's rate of 67.7%. The daily games prize rate of 45.4% was lower than last year's rate of 48.9%. The jackpot games prize expense rate was 49.3%, lower than last year's rate of 50.9%. 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 \$4.2 million more than last year, for a total \$57.4 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 system, ticket printing and distribution expenses, were \$2.1 million more than the same period last year. Administrative spending stands at 4.9% of sales for the year so far.

Net Income

Through January 2014, year to date profits totaled \$320.2 million, an increase of \$36.0 million (+12.7%) compared to last year and \$30.9 million (+10.7%) more than forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2014 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$885,232. Also, unclaimed prizes totaling \$6,668,088 were transferred to the Literary Fund for the first seven months of fiscal year 2014.

MEETINGS

The next meeting of the Board will be April 23, 2014, in Richmond.