

September 4, 2014

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

Re: July 2014 Lottery Results

Dear Governor McAuliffe:

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

July sales totaled \$144.0 million, up \$5.0 million (+3.6%) compared to the same month last year. Net income for the first month totaled \$45.0 million, a decrease of \$2.6 million (-5.5%) compared to last year. Sales in all product categories continue to be strong into the new fiscal year; however, higher prize expense rates caused profits to decline when compared to July 2013.

As always, the Lottery will participate in the statewide revenue forecasting process this fall, to determine whether an adjustment to the current \$532.7 million revenue estimate is warranted. The Auditor of Public Accounts completed their review of the Lottery's fiscal year 2014 financial activities, and certified a residual transfer of \$28.1 million to the Lottery Proceeds Fund on August 15, 2014. This residual transfer will be added to any updated revenue estimate during the statewide revenue forecasting process this fall. The Lottery Proceeds Fund estimate for fiscal year 2015 was increased late in the budget process, an action that we believe was taken in anticipation of a sizeable residual transfer because profits were ahead of forecast last year.

Randy Wright joined the Lottery team as Deputy Director effective August 1, 2014. Randy will be working to advance the Lottery's efforts in areas including transparency, as well as coordinating our ongoing efforts to make Lottery products available in locations including ABC stores, DMV offices, and rest stops.

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

Very truly yours,

Paula I. Otto

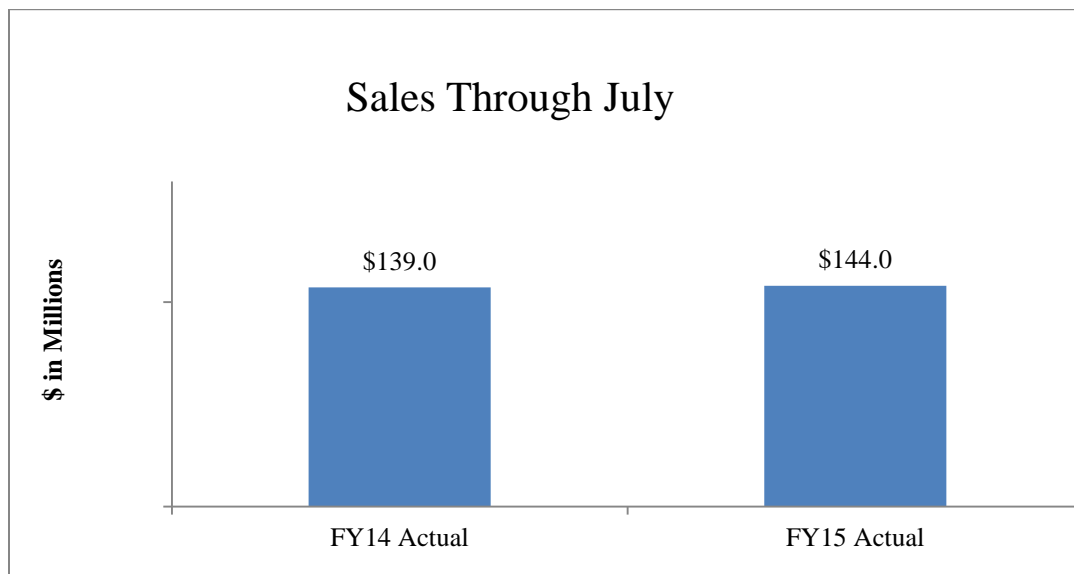
- c: The Honorable Walter A. Stosch, Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- The Honorable Paul Reagan, Chief of Staff, Office of the Governor
- The Honorable Richard 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
September 4, 2014

Sales

Lottery sales for the fiscal year totaled \$144.0 million in July. This represents an increase of \$5.0 million (+3.6%) compared to the prior year.

Scratcher sales of \$81.0 million were \$8.0 million (+11.0%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) were higher, up \$512,000 (+1.1%) from last year. Sales in the jackpot games category (Mega Millions, Powerball, Win for Life, and Decades of Dollars) decreased \$3.6 million (-19.2%) compared to last year. Sales of Fast Play games, a category that represents less than 1% of total sales, were \$101,400 (6.1%) higher than last year.



Expenses

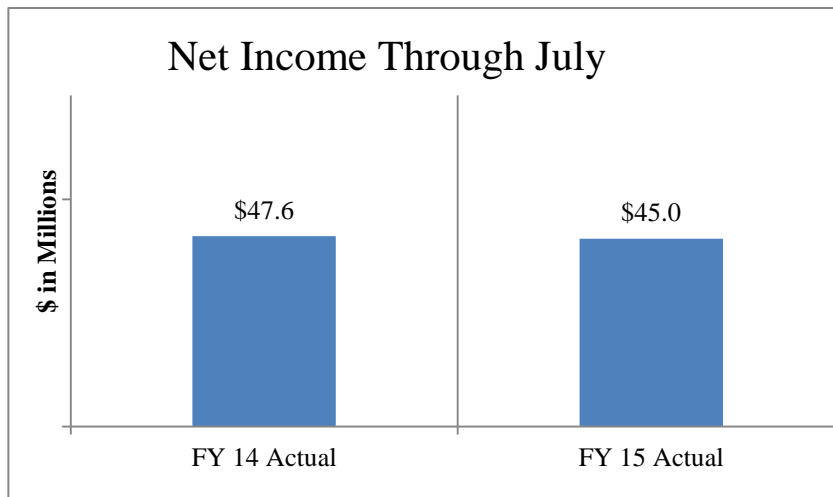
The overall prize expense rate (prizes as a percent of sales) in July was 58.7%, higher than last year's rate of 55.4%. The scratcher prize rate of 67.2% was higher than last year's rate of 66.6%. The daily games prize rate of 45.7% was higher than last year's unusually low rate of 41.5%. The jackpot games prize expense rate, 52.1%, was higher than last year's unusually low rate of 44.9%. 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 \$555,100 more than last year, for a total \$8.2 million in earnings. Overall, retailers earned 5.7% of Lottery sales in commissions and incentives in July.

Administrative operating costs, including online gaming, ticket printing and distribution expenses, were \$606,000 lower than the same period last year and remain low at 4.4% of sales for the month.

Net Income

July 2014 profits totaled \$45.0 million, a decrease of \$2.6 million (5.4%) compared to last year.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2015 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$168,083. Also, unclaimed prizes totaling \$1,720,295 were transferred to the Literary Fund for the first month of fiscal year 2015.

MEETINGS

The next meeting of the Board will be October 29, 2014.