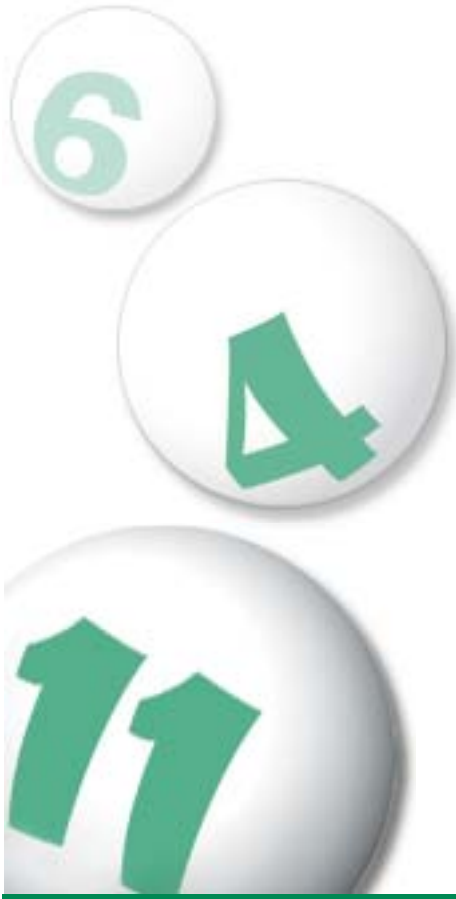


The Virginia Lottery



Briefing: House Appropriations General Government Subcommittee

February 1, 2011

**Paula I. Otto
Executive Director**

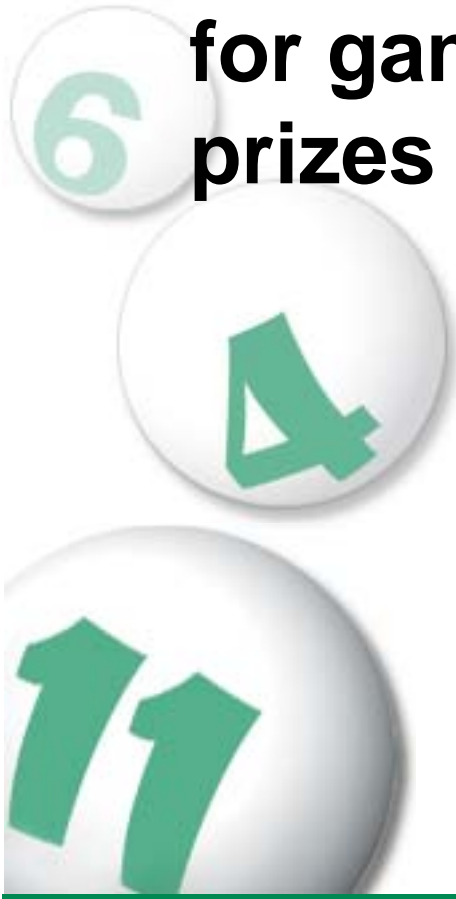
Budget Amendment 478 #1h

“external performance audit of the Lottery Departments operations and contracts”

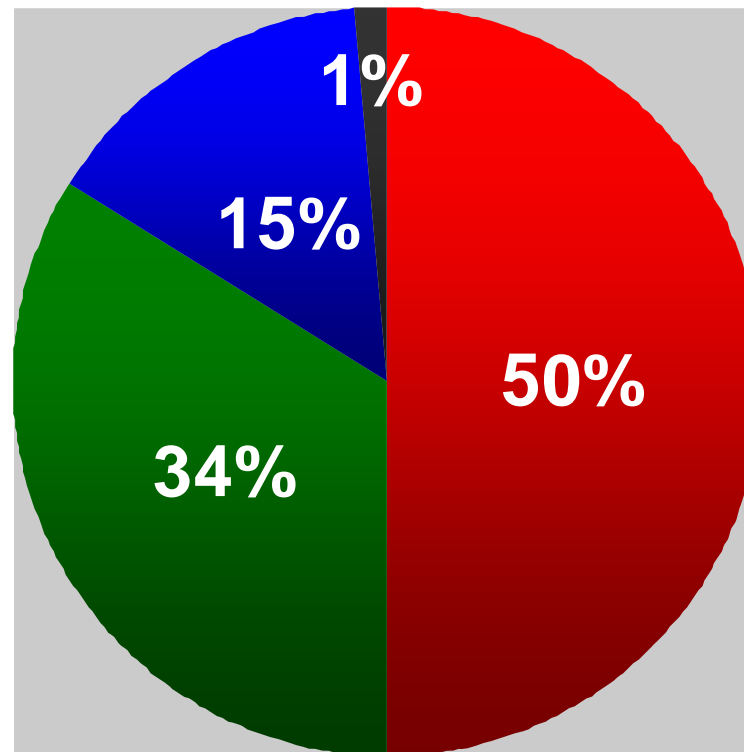
- **APA required by statute to do annual audit**
- **5-7 audits performed by Lottery’s Internal Audit Department each year**
- **Audit Department reports to Director and to five-member Lottery Board (appointed by Governor)**

Budget Amendment 478 #1h

“prohibited from entering new contracts for games that award non-monetary prizes until audit is completed”



Lottery Product Mix



■ Scratch ■ Daily Games ■ Jackpot Games ■ Other

Scratch Strategies

- Competition from NC Lottery significantly affected sales in this Category.
- Need to meet consumer demands for appealing games and play styles, as well as attract new players, by including proven successful licensed properties like Harley Davidson, Monopoly, etc.
- All lottery states use licensed properties.



Licensed Properties

Three ways to pay:

- Licensing fee
- Percentage of sales
- Agreement to purchase merchandise, trips, etc.

Cost of licensing comes from prize fund

Success of Licensed Property Games

- part of portfolio for the past 10 years
- avg. 17% better sales than similar price points

Redskins Mania – 2009-10



- No licensing fee; agreement to purchase prizes, advertising, marketing
- \$20 ticket
- Redskins record in 2009-10 season: 4-12
- Sales of \$28 million; profit of \$2.5 million
- **Redskins Mania outsold average \$20 games by 8%**

Redskins Mania Goals ~ FY10

Increase Scratcher & Mega Millions Sales (Northern Virginia & Statewide)

Statewide Scratchers - Sales increase 16 of 19 weeks

Aug-Dec. 2010

Statewide Mega Millions - 4.2% increase

NOVA – Significant sales increase in all Scratch & Mega Millions

Increase Existing Player Base (Northern Virginia & Statewide)

Statewide – 3.6% increase (through January)

NOVA – 14% increase (through January)

65% of second chance entrants “new registrants”

Muscle Car Money

- \$5 game
- Players can win one of four “muscle cars”
- Cars fulfilled at Virginia dealers
- Muscle Car Money outsold average \$5 games by 24%
- Still on sale, already sold \$1.5 million more than average



Advertising

Restriction – *“no funds shall be expended for the primary purpose of inducing persons to participate in the Lottery.”*

- Attorney General’s Office involved in early years
- Still use check sheet developed by AG Office
- Spending has been flat/declining – approximately \$25 million annually

Advertising

- Advertising & Promotions – Total
 - \$25-\$26 million annually, or approximately 33% of total Operating Spending
- Advertising
 - Includes media and production costs for TV, Radio, Internet, and Outdoor advertising
 - Approximately \$15 million annually
- Other Advertising & Promotion
 - Includes in-store point of sale materials, in-store signage including electronic messaging, community and sports sponsorships, advertising agency fees, and draw show costs
 - Approximately \$11 million annually

Why does the Lottery need to advertise?

- The Lottery is a consumer product
- 2% ad budget, compares to 7% average for other amusement/recreation products
- need to maintain awareness of new games, jackpots
- increase revenues by expanding player base, not just increasing existing players' spending
- advertising must reflect changing consumer habits

Why the Lottery Advertises

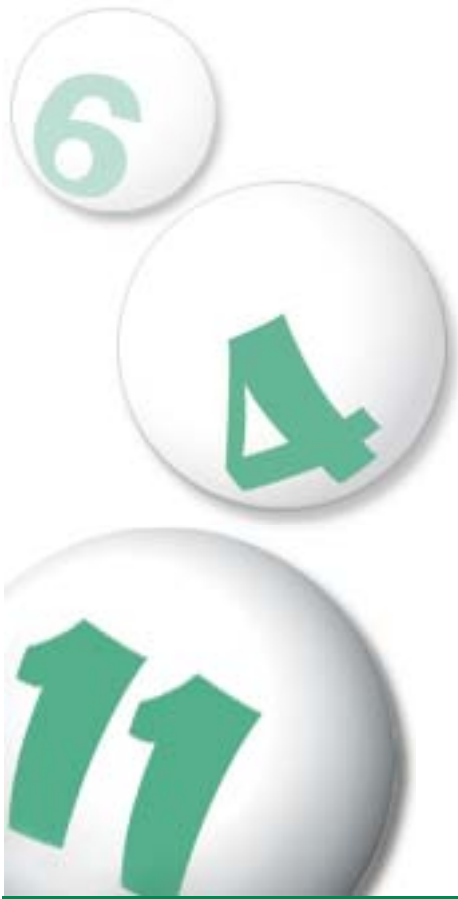
We need to properly support our retail partners



- Nearly 5,000 retailers earn \$80.4 million in commissions
- Lottery brings consumers into their stores
- Lottery supports small businesses and helps create jobs

Spending Reductions

- Continually assessed for efficiencies
- Spending required to support sales and profits
- Advertising (\$3.7 million reduction)
 - Changes in strategy to meet changing consumer preferences
 - Reduce promotional spending for non-cash prize awards
- Personnel Costs (\$1.3 million reduction)
 - Utilize part-time staffing; suspend portions of compensation plan; continued assessment of organizational structure
- Other (\$0.6 million reduction)
 - Extend useful life for fleet, computers



Questions?