



THE McCord Report

A look at Pennsylvania's economic vital signs

Pennsylvania Lottery Privatization Proposal Costs

In 2012, the Corbett administration proposed to privatize management of the Pennsylvania Lottery. Earlier this year, the Office of Attorney General rejected a contract with Camelot Global Services, the only company to submit a bid for the work, citing constitutional violations and the administration's lack of legal authority.

To date, the Corbett administration has extended the term to negotiate a contract with Camelot at least 8 times according to reports, and it has spent more than \$3.4 million on consultants and law firms that are advising the administration on this process and responding to law suits against it.

That sum, \$3.4 million, could have provided the following services - or a partial combination of these services under the five categories - to senior citizens.

 219 Residents with long term living services	or	 6,380 Property Tax and Rent Rebates	or	 151,975 Prescriptions	or	 428,571 Meals	or	 714,285 Free or reduced-fare transit/ shared rides
---	----	--	----	--	----	--	----	---

Program Benefits

See how and to what extent Lottery's proceeds were used to benefit programs for seniors in Pennsylvania during FY 11-12.

Program / Service	Total Contributed	Benefits
52 Area Agencies on Aging & Senior Centers	\$286 Million	8.6 Million Meals
PACE/PACENET/ PACE Plus Medicare	\$225 Million	11.4 Million Prescriptions
Free Transit/Reduced-Fare Shared Rides	\$168 Million	40 Million Rides
Property Tax and Rent Rebates	\$284 Million	604,000 Residents
Long-Term Living Services	\$178 Million	13,000 Residents

The Pennsylvania Lottery is a tremendous and incredibly efficient asset for our seniors. The proceeds from the lottery are used to provide older Pennsylvanians with property tax and rent rebates, low-cost prescription medications, hot meals, transportation services, and support for the state's Area Agencies on Aging and other senior centers. Protecting the Lottery Fund to ensure these services is one of my most important jobs as your State Treasurer.

This special edition of *The McCord Report* examines the lottery's financial performance as an update to an earlier edition in June 2012, and it addresses the public funds (more than \$3.4 million to date) that have been diverted away from seniors to pay for consultants and lawyers as part of Governor Corbett's repeated attempts to privatize the Lottery.

As always, we welcome your feedback and suggestions for future issues. Please do email us at McCordReport@patreasury.gov.

Sincerely,

Rob McCord
Rob McCord
Pennsylvania State Treasurer



Performance Comparison of the Nation's Top 10 Lotteries

In June 2012, Treasury studied a number of factors to assess the performance and efficiency of the 10 largest state lotteries by total sales. Based upon most recent data available, including figures from the PA Lottery's fiscal year 2012-13, Pennsylvania operates the 7th largest lottery in the nation. Compared to the previous fiscal year, Pennsylvania's total sales increased by nearly half a billion dollars, and its administrative costs as a percentage of sales decreased 13%. The following table compares the most current information available for the top 10 states and notes which of these states also offer Keno (five of the top 10, three of which have total sales greater than Pennsylvania).

Top 10 States										
	New York	Massachusetts	Florida	California	Texas	Georgia	Pennsylvania	New Jersey	Ohio	Illinois
Total Sales	\$8,934,288,000	\$4,741,417,000	\$4,450,000,000	\$4,371,491,746	\$4,190,815,913	\$3,834,675,000	\$3,699,665,694	\$2,758,899,785	\$2,738,975,000	\$2,264,685,131
Average Spending per Person	\$583.79	\$904.19	\$290.49	\$151.80	\$219.70	\$516.10	\$369.25	\$403.67	\$308.53	\$230.83
Keno Sales	\$580,000,000	\$790,459,000	Not Offered	\$131,056,826	Not Offered	\$174,300,000	Not Offered	Not Offered	\$209,800,000	Not Offered
Average Spending per Person minus Keno	\$545.89	\$753.45	\$290.49	\$147.25	\$219.70	\$492.65	\$369.25	\$403.67	\$284.90	\$230.83
Administrative Costs	\$90,076,000	\$91,142,000	\$137,000,000	\$216,992,664	\$185,502,106	\$144,631,000	\$78,182,295	\$74,226,649	\$107,864,977	\$71,877,304
Administrative Cost as a Percentage of Sales										
Current	4.37%	1.92%	3.08%	4.96%	4.43%	3.77%	2.11%	2.69%	3.94%	3.17%
From June 2012 McCord Report	4.00%	1.86%	3.22%	4.96%	4.85%	4.15%	2.38%	2.52%	3.45%	10.20%

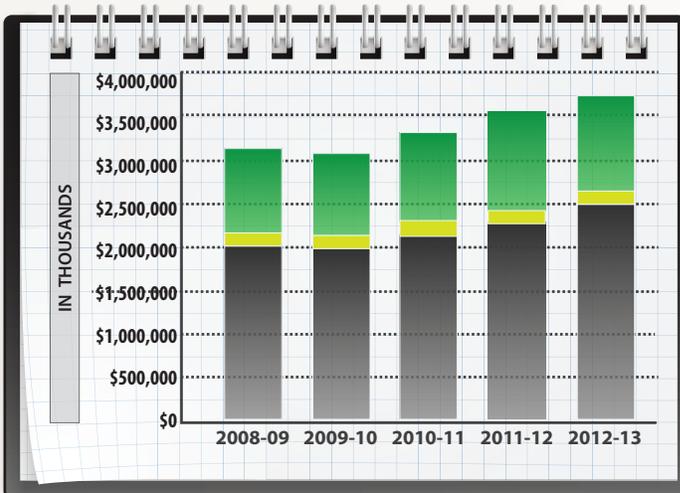
* As of June 30, 2011 * As of June 30, 2012 * As of August 31, 2012 * As of March 31, 2013 * As of June 30, 2013

Note: Administrative costs reported as the percentage of all expenses, excluding commissions and prizes, to ticket sales.

Five Year Financial Performance History

Total Sales

Lottery sales in Pennsylvania have increased by an average of 4.7% per year since fiscal year 2008-09. Over that period, sales have increased by more than \$611 million, or nearly 20% overall.



Net Revenue

As sales have increased, so too have net revenues by an average of more than 4% per year. Between fiscal years 2008-09 and 2012-13, annual net revenue from Pennsylvania Lottery sales increased nearly \$157 million or by 17.2%.

Cost of Sales

Under Pennsylvania law, the lottery must contribute at least 27 cents of each dollar earned to programs and must pay at least 40 cents in prize money. Sales returned to players in the form of prize money, as well as commissions paid to retailers and contracted state vendors represent the cost of sales, which amounted to \$2.5 billion last fiscal year. Over the previous five years, total cost of sales has increased 23%, driven predominantly by a \$446.5 million increase in prize liabilities when comparing FY 12-13 to FY 08-09.

Administrative Costs

Since 2008-09, the cost to run the Pennsylvania Lottery declined every year except one. Even with that single year included, the average annual decrease in administrative costs over the five-year period was 1.52%, so that last year, these expenses were \$5.3 million (or 6%) less than in FY 08-09.

Lottery Fund Receipts

The proceeds of lottery sales are deposited into the Lottery Fund – a dedicated pool that pays for lottery prizes and programs that support older Pennsylvanians. In fiscal year 2012-13, the fund increased by more than \$1.7 billion after a record-setting year for sales. For comparison, receipts in FY 12-13 were \$368 million greater than in FY 08-09. Over the past five years, receipts to the fund increased an average of 6.1% annually.

