



Long-Range Program Plan

**Fiscal Year 2006/2007 through
Fiscal Year 2010/2011**

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Secretary**



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Florida Lottery Mission Statement

To operate the state lottery as authorized by Section 15, Article X of the State Constitution so as to maximize revenues in a manner consonant with the dignity of the state and the welfare of its citizens.

Maximize Education Revenues



GOAL, OBJECTIVE, OUTCOME and PROJECTION TABLE

Goal: Maximize transfers to the Educational Enhancement Trust Fund to support improvements to public education.

Objective: Transfer at least \$1 billion annually to the Educational Enhancement Trust Fund.

Outcome: Annual transfers to Educational Enhancement Trust Fund.

Baseline FY 1997-98	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
\$801.685 M	\$1.000 Billion	\$1.000 Billion	\$1.000 Billion	\$1.000 Billion	\$1.000 Billion

Note: Although the projection table reflects a consistent transfer of \$1 billion each year for the next five years, factors such as population growth could result in an increase in transfers.



LINKAGE TO GOVERNOR'S PRIORITIES

- Improve education

Maximize transfers to the Educational Enhancement Trust Fund to support improvements to public education.

- Strengthen families

- Promote economic diversity

Maximize transfers to the Educational Enhancement Trust Fund to support improvements to public education.

- Reduce violent crime and illegal drug use

- Create a smaller, more effective, more efficient government

Maximize transfers to the Educational Enhancement Trust Fund to support improvements to public education.

- Enhance Florida's environment and quality of life



TRENDS AND CONDITIONS STATEMENT

Agency Responsibilities

The Florida Lottery was created to be a self-supporting, revenue-producing department of state government, whose purpose is to generate significant additional monies to support improvements to Florida's public education system. In authorizing the Florida Lottery to function as much as possible in the manner of an entrepreneurial business enterprise, the Florida Legislature recognized that the operation of a lottery is a unique activity for state government, and that the structures and procedures appropriate to the performance of other governmental functions are not necessarily appropriate to the successful operation of a state lottery.

The Florida Lottery was created to enable the people of the state to benefit from the significant additional moneys for education, and to play the best lottery games available. To accomplish this, the Lottery makes procurements that integrate functions such as the selection of games and method of selecting winning tickets, lottery game design, supply of goods and services, and advertising. The Lottery enters into contracts with retailers to provide adequate and convenient availability of tickets to the public for each of its games. In selecting retailers who will best serve the public interest and promote the sale of lottery tickets, the Lottery considers factors such as financial responsibility, integrity, reputation, accessibility of the place of business or activity to the public, security of the premises, the sufficiency of existing retailers to serve the public convenience and the projected volume of the sales for the lottery game involved.

The Lottery provides sales and marketing support to a statewide network of more than 12,000 retailers through nine district offices. These offices are located in Pensacola, Tallahassee, Jacksonville, Gainesville, Orlando, Tampa, West Palm Beach, Ft. Myers and Miami (Figure 1).



Figure 1. Lottery Sales



The Florida Lottery is responsible for informing the public about the significance of lottery funding to the state's overall system of public education. Staff in the Lottery's Communications Office serves as liaison to the Department of Education and local school districts, and is responsible for promoting public awareness of the Lottery's role in improving Florida's public education system.

The Florida Lottery is accountable to the Florida Legislature and the people of the state of Florida through a system of audits and reports and through compliance with financial disclosure, open meetings and public records laws.



Agency Priorities

Consistent with Section 24.104, *Florida Statutes*, all activities of the Florida Lottery are ultimately designed to accomplish the following goal:

Maximize the amount of money deposited in the Educational Enhancement Trust Fund in a manner consonant with the dignity of the state and the welfare of its citizens.

Consistent with this goal, the Florida Lottery has established the following priorities:

- Maintain minimum annual transfers to the Educational Enhancement Trust Fund of \$1 billion;
- Maintain operations that are among the most efficient in the domestic lottery industry;
- Increase public awareness of the Lottery's role in improving public education;
- Achieve recognition as a leader among domestic lotteries for promoting excellent customer service and responsible play; and
- Build a model work environment and workforce that is based upon integrity, trust, respect, cooperation and service.

Maintain Minimum Annual Transfers To The Educational Enhancement Trust Fund Of \$1 Billion

Fiscal year 2004-05 was another in a series of record years for the Florida Lottery, with total revenues of approximately \$3.5 billion (unaudited) and transfers to the Educational Enhancement Trust Fund of approximately \$1.1 billion (unaudited). Fiscal year 2004-05 marked the third consecutive year that transfers to the Educational Enhancement Trust Fund have exceeded \$1 billion.

Table 1 represents a comparative statement of income and expenses from fiscal years 1998-99 through 2004-05. As shown, total revenues have increased from \$2.1 billion to \$3.49 billion (65%) during this period. The Lottery's contributions to public education have



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increased from \$807 million to more than \$1.1 billion (37%) during this period. These increases are even more impressive in light of the fact that the Lottery's operating costs, expressed as a percentage of revenue, have decreased consistently each year from 4.04% to 2.04%. Operating costs include those costs that are controlled by the Lottery, and do not include those costs that are tied directly to sales, such as payments to On-line and Scratch-Off ticket vendors and retailer commissions.

** Data for fiscal year 2004-2005 is unaudited*

Table 1.
Comparative Statement of Income and Expenses: FY 98-99 Through FY 04-05 (Millions)

	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05 *
Total Revenues	\$2,113.0	\$2,266.5	\$2,297.9	\$2,346.8	\$2,883.5	\$3,086.4	\$3,487.5
Total EEIF Transfers	\$807.2	\$908.3	\$907.1	\$926.5	\$1,035.2	\$1,051.7	\$1,103.6
Total Operating Costs	\$85.4	\$79.3	\$76.8	\$72.9	\$70.2	\$70.5	\$71.0

Eclipsing the \$1 billion threshold is the culmination of a two-fold strategy of increasing sales and reducing operating costs that began in fiscal year 1999-00. This strategy was the result of a top-down management review of Florida Lottery operations in an effort to identify ways to enhance productivity while continuing to cut administrative costs.

The Florida Lottery has enhanced its productivity (increased sales and revenues) primarily through the following:

- The FLORIDA LOTTO, FANTASY 5 and MEGA MONEY On-line games have been revamped to offer players greater prize amounts and more opportunities to win; and
- The Scratch-off ticket game development process has been revamped, with emphasis on increased prize payouts, product life cycle, increasing the number of active games, cooperative agreements with the private sector, and higher price points (\$5, \$10 and \$20 games).

The Florida Lottery has reduced its administrative costs primarily through the following:



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- The Lottery has cut its work force from 722 full-time equivalent positions to 440 full-time equivalent positions, a reduction of almost 40%;
- The Lottery exercised its option to extend the contract with its Scratch-Off ticket provider through 2008, at a reduced cost to the state;
- The Lottery successfully negotiated an agreement to resolve the ongoing dispute over the On-line gaming system contract, resulting in savings to the state in terms of lost revenues and legal fees;
- The Lottery has implemented a new gaming system that is technologically superior to the previous gaming system; that includes 1,500 more full-service terminals than the previous system; at a cost that is roughly one-third less than what the State paid the previous on-line vendor;
- The Lottery has reduced the amount of leased space over the years by consolidating and closing redemption centers and district offices.

Table 2 provides a breakdown of sales, by product segment, from fiscal years 1998-99 to 2004-05. As shown, Scratch-Off ticket sales have increased dramatically (211%) during this period while On-line ticket sales have increased by only 8.2%. This dramatic increase in Scratch-Off sales is the result of efforts by the Florida Lottery to increase the prize payout of its Scratch-Off games and to offer higher price point Scratch-off games (e.g., more \$10 and \$20 tickets). As shown in Table 3, Scratch-off ticket sales eclipsed On-line ticket sales for the first time in fiscal year 2004-05.

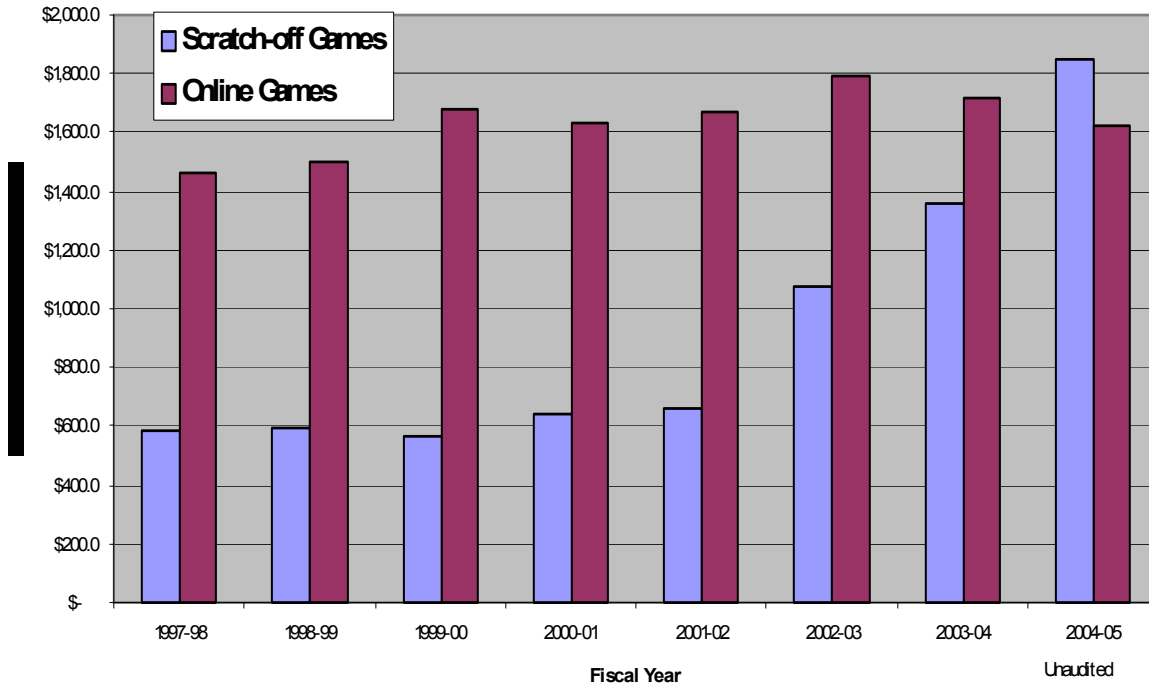
Table 2. Net Lottery Sales by Product Segment (millions)

	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04	FY 04-05	TOTAL CHANGE
Scratch-off Ticket Sales	\$593.7	\$568.4	\$639.2	\$662.6	\$1,073.9	\$1,358.1	\$1,844.6	
% Change		(4.3)	12.5	3.7	62.1	26.5	35.8	211.0%
On-Line Ticket Sales	\$1,503.0	\$1,680.2	\$1,635.5	\$1,667.8	\$1,794.1	\$1,712.9	\$1,626.1	
% Change		11.8	(2.7)	2.0	7.6	(4.5)	(5.1)	8.20%



Table 3

Trends in Sales Growth—Online Games Versus Scratch-off Games



Coming off a record year in terms of net sales and transfers, sales and profits are at all-time highs and operating costs are near the all-time low. The challenge facing the Florida Lottery in the coming years is to continually look for ways to maintain annual transfers to the Educational Enhancement Trust Fund of \$1 billion or greater. The Lottery believes the best way to increase total transfers to the Educational Enhancement Trust Fund over the long-term is to increase On-line ticket sales and strategically increase market penetration.

Maintain Operations That Are Among The Most Efficient In The Domestic Lottery Industry

Under performance-based program budgeting, the Florida Legislature has established performance standards for the Florida Lottery. One such standard limits the Lottery's administrative expenses to a specified percentage of total revenue. Lottery revenue not

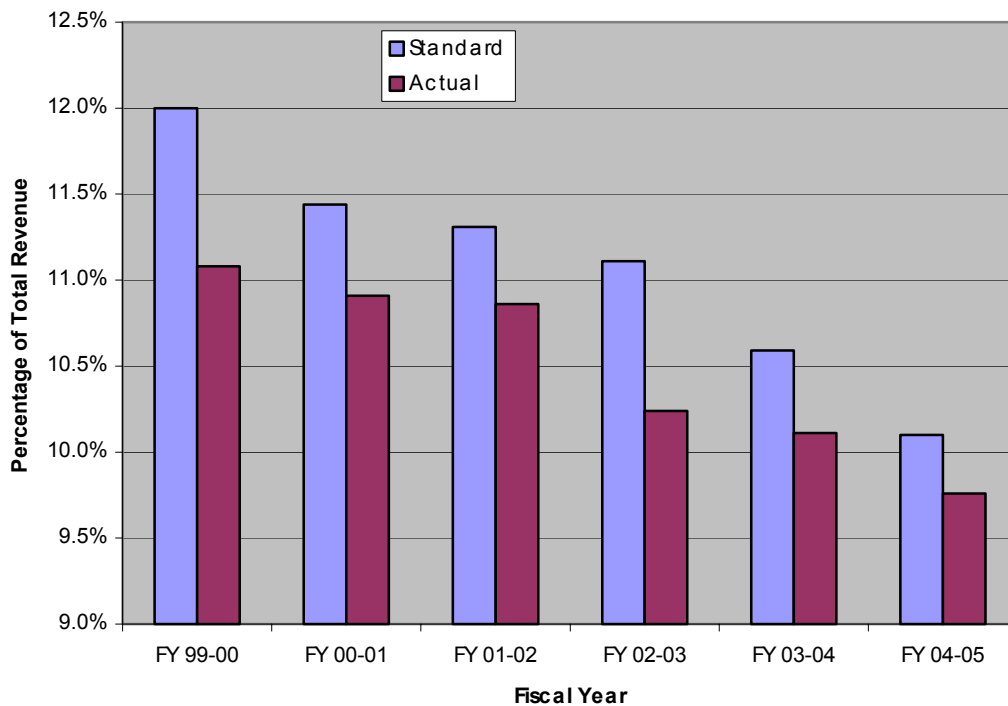


returned to players in the form of prizes and revenue not transferred to the Educational Enhancement Trust fund is used to pay the Lottery's administrative expenses. These expenses include the day-to-day costs to operate the Lottery, advertising expenses, payments to vendors, and commissions paid to Lottery retailers.

As shown in Table 4, for each year since this measure was established, the Lottery's administrative expenses have been below the standard.

Table 4.

Comparison of Administrative Expenses to Legislative Standard



This standard may not be the most reliable or accurate indicator of the Lottery's operational efficiency. The Lottery was created to maximize revenue for education, an integral part of which depends on increased sales. Since On-line and Scratch-Off ticket vendors are compensated in the form of a percentage of sales, any increase in sales will necessarily increase payments to the vendors. The same is true for commissions to



retailers --- as ticket sales increase, so do commissions paid to Lottery retailers. As a result, any increase in sales will necessarily increase the Lottery's administrative expenses, as this term is currently defined.

For these reasons, it may be more appropriate to exclude payments to gaming vendors and retailer commissions when calculating the Lottery's "true" operating costs. As shown in Table 5, when payments to gaming vendors and retailer commissions are excluded, the Lottery's operating costs (expressed as a percentage of total revenue) have decreased each year since fiscal year 1998-99.

Table 5.

Operating Expenses As Percentage of Total Revenue

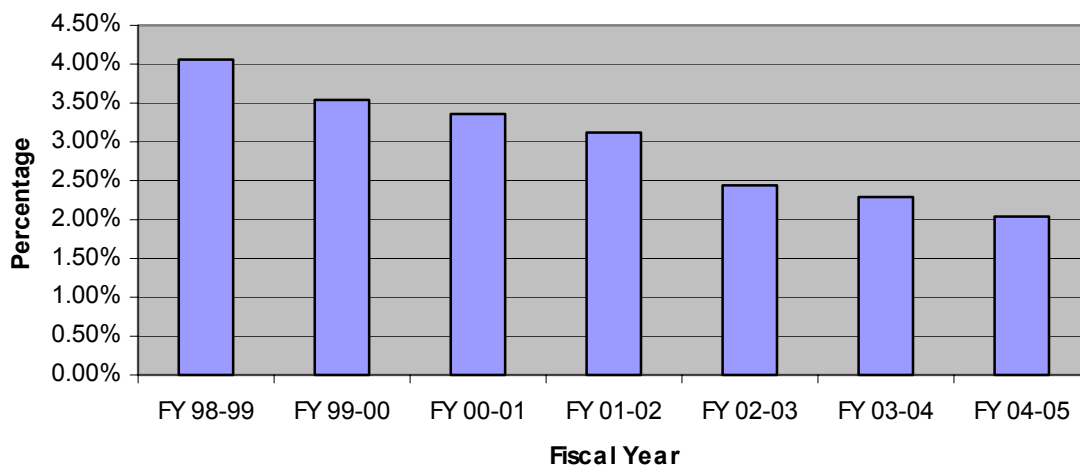


Table 6 represents per capita contributions to the Educational Enhancement Trust Fund from fiscal years 1998-99 to 2004-05. As shown, the Florida Lottery's contributions have increased while the number of employees has decreased. With 276 (38%) fewer employees, the Florida Lottery generated approximately \$281 million more in transfers to the Educational Enhancement Trust Fund than it did six years ago. The amount of net profit generated per full-time employee has more than doubled during this period.



Table 6.

Per Capita Productivity

Fiscal Year	EETF Contributions (millions)	Full - Time Equivalent Positions (FTEs)	EETF Contribution Per FTE (millions)
FY 98-99	\$807.2	722	\$1.12
FY 99-00	\$908.4	715	\$1.27
FY 00-01	\$907.2	525	\$1.73
FY 01-02	\$926.5	513	\$1.81
FY 02-03	\$1,035.0	502	\$2.06
FY 03-04	\$1,051.7	446	\$2.36
FY 04-05	\$1,104.0	446	\$2.48

Under the leadership of Governor Bush and Secretaries David Griffin and Rebecca Mattingly, the Florida Lottery has become the top-performing U.S. lottery. In a February 2002 Justification Review, the Legislature's Office of Program Policy Analysis and Government Accountability (OPPAGA) concluded that based upon four key performance measures (total transfers to the state, transfers to the state as a percentage of lottery revenue, per capita transfers, and total expenses as a percentage of total transfers), "the Florida Lottery ranks first in the nation." This top ranking was affirmed by OPPAGA in a December 2004 update.

Increase Public Awareness Of The Lottery's Role In Improving Public Education

Section 24.1215, *Florida Statutes*, requires the Florida Lottery to inform the public about the significance of lottery funding to the state's overall system of public education. The Lottery's Communications staff serves as liaison to the Department of Education and local school districts and is responsible for promoting the public's awareness of the Lottery's role in improving Florida's public education system.



Considerable advertising and promotional resources have been devoted to this effort in an attempt to increase public acceptance of, and generate a positive public attitude toward the Florida Lottery's role in public education. During fiscal year 2004-05, the Florida Lottery spent approximately \$5.4 million to keep the public informed of its role in public education. A recurring multi-media (television, radio and print) education campaign informs Floridians of the Lottery's support of the Bright Futures Scholarship Program and school/classroom construction. In addition, outdoor billboards and newspapers/magazines highlight the more than \$15 billion contributed to public education since inception. Detailed information on Lottery monies appropriated for education is available for public inspection on the Lottery's Web site (www.flalottery.com/lottery/edu/edu.html) and at special events and promotions sponsored by the Lottery (roughly one-third of which have an education focus or theme).

The extent to which the public is aware of the Florida Lottery's contribution to public education is also one of the Legislature's performance standards, and is tracked each month in a survey of 500 Florida households. As a result of increased television, print media, and speaking engagements, the Lottery has been able to create a greater awareness and understanding of the significance of Lottery funding to the state's overall system of public education.

Survey results for fiscal year 2004-05 indicate that the percentage of respondents who are aware that Lottery funds support improvements in public education (66%) exceed the legislative standard of 65%. Further, the percentage of respondents who are aware that Lottery funds support improvements in public education increased steadily during the last quarter of the fiscal year and reached 72% in June. This is the highest level since the Lottery's market research firm Ipsos-Reid began tracking this item in December 2001.

Achieve Recognition As A Leader Among Domestic Lotteries For Promoting Excellent Customer Service and Responsible Play

Much of the Florida Lottery's success over the past five years stems from its efforts to create a culture and organizational structure that is based around the needs of its



customers. During this time, the Lottery has completely reengineered its core business processes --- those processes that are critical to its success and that connect the Lottery to its customers --- to ensure that it meets the needs of its customers.

The Lottery has increased its commitment to responsible gaming practices and programs to minimize any possible adverse social impacts of Lottery operations in Florida. The Lottery funds through the Florida Council on Compulsive Gambling a \$1.3 million comprehensive program to raise awareness regarding problem and compulsive gambling and to educate the general public about problem and compulsive gambling (including a 24-hour Helpline).

Just as the Lottery asks its players to play responsibly, the Lottery recognizes an obligation to market its products responsibly. To that end, the Lottery now includes the following consumer information on its products:

- The odds of winning;
- Reminder of the prohibition against the sale of Lottery tickets to minors;
- The "Please Play Responsibly" tag line;
- Reminder that some scratch-off ticket prizes (including the top prizes) may be sold out at the time of ticket purchase; and
- On the back of each scratch-off ticket is a phone number (1-800-627-5980) and a website (www.flalottery.com) that players may contact to see top prizes remaining for each scratch-off game.

The Lottery also discontinues advertising for a scratch-off game when all of the top prizes have been claimed.

The Lottery has worked closely with retailers, local law enforcement agencies and community organizations to warn the public of scams involving lottery tickets and to provide information to the public regarding missing and abducted children. The Lottery has established the practice that in no instance shall the actual LOTTO jackpot be less than the estimated jackpot amount posted on billboards and the Lottery's website. The



Lottery has not renewed retailer contracts with retail establishments that exist ostensibly to help people who are experiencing short-term financial emergencies and need money to meet immediate needs.

Build A Model Work Environment And Workforce That Is Based Upon Integrity, Trust, Respect, Cooperation and Service

The Florida Lottery's reputation is built on honesty and integrity. Maintaining integrity within the department is vital to continuing success in the operations of the Florida Lottery and the sales of its products. A key factor in maintaining integrity is ensuring that all employees, retailers and vendors associated with the Lottery meet the high standards of integrity, reputation and financial responsibility required to maintain public confidence. The Lottery conducts employee, vendor and certain retailer background investigations to ensure compliance with statutory guidelines. In addition, the Lottery conducts criminal investigations and internal investigations related to incidents that affect its security and integrity.

Integrity is also achieved by making a wide range of information on Florida Lottery activities available to the public through a variety of media. With increased public awareness comes increased public confidence that the Lottery is run honestly; that the security and integrity of the games are sound; that its proceeds are used to improve public education; and that policy decisions are made in an ethical and values-driven manner. Increased public confidence helps to generate and maintain high levels of sales and revenues for education.

Integrity also results from the submission of monthly and annual reports to the Governor, the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives disclosing the total lottery revenues, prize disbursements and other expenses of the Lottery. In addition, the Joint Legislative Auditing Committee contracts with a certified public accountant for an annual financial audit of the Lottery. The audit report must evaluate internal accounting controls and include recommendations to



enhance the earning capability of the Lottery and to improve the efficiency of its operations.

Every two years, the Lottery engages an independent firm experienced in security procedures, including, but not limited to, computer security and systems security, to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Lottery. The overall results of this study and evaluation are presented to the Governor, the President of the Senate, and the Speaker of the House of Representatives. The portion of the security report containing specific recommendations is, by law, considered to be confidential and is presented only to the Secretary, the Governor, and the Auditor General.

Without the proper supervision and administration of the Florida Lottery games, there would be no sales of tickets and therefore, no generation of revenue for education improvements. It is vital that the Lottery maintain the integrity of its games and security of its operations. In order to maximize Lottery revenues, players must have confidence in the products they purchase and that the games are run fairly. It is critical that the Lottery be able to pay the prizes for winning tickets timely and accurately. The anticipated prize and receiving payment for that prize attract people to play the Lottery. If players cannot receive payment for their prizes or cannot receive their prizes within a reasonable period of time, they will become discouraged from playing.



LOOKING AHEAD

The Florida Lottery finished fiscal year 2004-05 having achieved new records for sales and transfers to the Educational Enhancement Trust Fund. The Florida Lottery has enjoyed seven consecutive years of record sales and four consecutive years of record transfers to the Educational Enhancement Trust Fund.

As part of the Florida Lottery's statutory mandate to maximize revenues, it continually evaluates its business relative to current market conditions. Entering fiscal year 2006-07, the strengths, weaknesses, opportunities and threats facing the Lottery may be summarized as follows:

Strengths

- Achieved its highest sales and transfers ever during fiscal year 2004-05.
- Transferred more than \$1 billion to the Educational Enhancement Trust Fund for the third consecutive year in fiscal year 2004-05.
- Scratch-Off ticket sales have more than doubled since fiscal year 1998-99.
- Ranked among top five in domestic industry for total sales.
- Ranked among top five in domestic industry for traditional game sales.
- Ranked among top fifteen in domestic industry for weekly per capita sales.
- Field sales representatives-to-retailer ratio is lower than most lottery organizations of comparable size and characteristics.

Weaknesses

- Relatively low market penetration --- the retailer-to-population ratio ranks 30 out of 40 domestic lotteries.
- Advertising budget is underfunded based upon advertising dollars per adult and advertising expenditures as a percentage of sales.



- Relatively flat On-line ticket sales --- there has been little to no year-to-year growth in this product segment.
- Declining net margins as the percentage of Scratch-Off sales to total sales continues to increase.

Opportunities

- Passage of HB 841 will grant the Lottery the same flexibility to set the prize payout percentage for its On-line games as it has for scratch-off games, thereby increasing on-line sales and transfers to the Educational Enhancement Trust Fund.
- New On-line gaming system contract has increased the capacity for full-service On-line terminals, providing an opportunity for the Florida Lottery to expand its retailer base and improve its market penetration.
- New On-line gaming system contract should also allow the Florida Lottery to reduce product development lead time for new On-line games and On-line promotions.
- New On-line gaming system contract may present new opportunities to strategically outsource or streamline some in-house functions and applications resulting in greater efficiency and productivity.
- An increase in advertising expenditures would allow the Florida Lottery to achieve a more competitive level of product (and benefits) awareness within the relevant market for lottery products and comparable substitute goods.
- The new business development unit should allow the Florida Lottery to maintain a competitive advantage in the areas of distribution channel management, product development, product positioning, merchandising, identifying new market opportunities, creating new strategic alliances and increasing sales.

Threats

- Insufficient flexibility to fully implement essential business development functions and strategic initiatives. Such inflexibility might be considered to contradict the expression of legislative intent set forth in Section 24.102(2)(b), *Florida Statutes*, effectively limiting the ability of the Florida Lottery to operate "in the manner of an entrepreneurial business enterprise."
- Growing competition with other gambling opportunities in and around Florida (e.g., Native American gambling, slot machines, etc.).



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- Unsatisfactory illustration of the complete impact and ramifications of certain cost reductions on the Florida Lottery's revenue-generating functions and capabilities to budget approvers.
- No ability to capitalize or reinvest any portion of "operating profit" into business development, despite a 40% reduction in force over the past six years and future demands to maintain or increase transfers to the Educational Enhancement Trust Fund.
- Increasingly common practice of vendor patenting of games is inhibiting new game development by lotteries.
- Retail industry is moving to unified accounting systems and self-service check-outs. This trend could threaten lottery access to major retail chains.
- Large multi-state Lotto Jackpots are changing player expectations about the jackpot amounts that warrant attention.



**LONG-RANGE (FIVE-YEAR) PROGRAM PLAN FOR ADDRESSING
FLORIDA LOTTERY PRIORITIES**

Based on an ongoing evaluation, the Florida Lottery has identified the following strategies that will be considered for implementation. Consistent with the Lottery's mission, the *Fiscal Year 2006-07 through 2010-11 Long-Range Program Plan* and *Legislative Budget Request for Fiscal Year 2006-07* reflects the Lottery's continuing efforts to maximize revenues and to generate significant additional monies to support improvements to Florida's public education system, all within the framework of an annual budget that is substantially similar to the budget for fiscal year 2005-06.

Maintain Minimum Annual Transfers To The Educational Enhancement Trust Fund Of \$1 Billion

The Florida Lottery's long-range plan to maintain annual transfers to the Educational Enhancement Trust Fund of \$1 billion or more will emphasize the following strategies:

- Increasing the prize payout percentage for on-line games;
- Increasing market penetration by increasing the number of lottery retailers;
- Expanding the reach and appeal of its products beyond conventional business-to-consumer markets and into a virtually untapped business-to-business market;
- Building strategic alliances with third-party corporate partners; and
- Exploring new on-line game concepts and pricing strategies that follow conservative and traditional on-line game play styles.

The passage of HB 841 during the 2005 legislative session now gives the Lottery the same flexibility to vary the prize payout for its on-line games as it does for its scratch-off games. Increasing the prize payouts is expected to generate substantial increases in on-line sales and transfers and, over a period of time, allow both scratch-off and on-line games to



operate at or near the levels necessary to maximize revenues for education, as required by law.

The size of Florida's lottery retailer network has not kept pace with its population growth. The current ratio of lottery retailers to population is 1 to 1,521. This is well below the average for all U.S. lotteries (1 to 1,418) and well below the average for the top 10 lotteries (1 to 1,195). The Florida Lottery will increase market penetration by increasing the number of retailers. Over the longer term, the Lottery hopes to add at least 3,000 new full-service retailers (net) statewide, bringing the retailer-to-population ratio down to approximately 1:1,200. Consistent with shifts that have occurred in the retail industry, the primary focus of this effort will be to recruit new corporate or "chain" store retailers. If successful, the Lottery will be able to achieve and sustain a competitive level of market penetration, particularly in light of projections for continued state population growth.

Within the domestic lottery industry, there has been a noticeable lack of focus on business development. The Florida Lottery hopes to become an industry leader through the creation of a cross-functional business development work unit for the purposes of product development, improving market penetration and expanding sales into new or emerging markets. At the forefront of this effort will be a responsibility for developing innovative marketing strategies to position the Lottery's products as gifts and promotional items. Such strategies will expand the reach and appeal of its products beyond conventional business-to-consumer markets and into a virtually untapped business-to-business market. Scratch-off products will be used to support this strategy during the short term.

Florida's excellent business climate allows the Lottery to leverage its operations through co-promotions with its corporate partners. The Lottery considers this strategy to be one of its biggest ongoing opportunities. Building strategic alliances with third-party corporate partners will also:

- Leverage the Lottery's brand equity, market presence and broad customer base to create new opportunities for cooperative advertising, merchandising and sales promotions;



- Utilize cooperative advertising, merchandising and promotions to “stretch” the Lottery’s limited advertising budget and other financial resources;
- Help to generate new promotional strategies that will ultimately add value for the Lottery and its retailers; and
- Use cooperative ventures to contain prize expenses by augmenting prize structures with merchandise prizes.

The Lottery will continue to explore new on-line game concepts that follow conservative and traditional on-line game play styles. Product development staff is working to identify value-added product extensions and play styles that fit within the Lottery's current product mix.

Five years ago, \$1 and \$2 scratch-off tickets accounted for nearly all scratch-off sales. Today, \$1 and \$2 scratch-off tickets represent only one-third of total scratch-off sales, and roughly two-thirds of all scratch-off sales come from price points above \$2. That has not been the case in the on-line product segment. On-line tickets first went on sale in the domestic market some 30 years ago and were priced at 50 cents and \$1. With very few exceptions, on-line tickets are still offered in most states at those same price points. Pricing strategy will be a very important factor for all lotteries and vendors in the process of developing new and fresh on-line game content.

Maintain Operations That Are Among The Most Efficient In The Domestic Lottery Industry

The Florida Lottery will continue to be forced to offset the loss of human capital by creatively pursuing, developing and nurturing strategic alliances with its retailers and vendors. Efforts to improve operating efficiency will involve reassessing the value of each function and activity to identify those that are redundant or add little value, and reassessing the workload and value of each position to identify those that might be eliminated or put to more productive use.

In support of smaller, more efficient government, a number of business intelligence enhancements are planned to improve reporting of sales information and tracking of sales (by owner and location), and to better support retailer/corporate incentive



programs. The deployment of Web Intelligence (WEBi) and the continued enhancement of this robust business intelligence tool will allow Lottery staff to access real-time sales data in standardized reports and offer the ability for sales staff to generate customized reports. These new capabilities will enable up-to-the-minute analysis of sales by sales district, product type, chain store accounts and retailer type. The Florida Lottery also hopes to use this business intelligence tool to develop a secure extranet application for use by our retailers. It is also hoped WEBi will function as a tool that will allow the Lottery to deploy a CRM (Customer Relationship Management) strategy tailored to each market segment. Once fully utilized, WEBi will yield improvements in channel and product management that will help to maximize retailer performance and sales and will provide for the ability to take advantage of upgrades and enhancements of the new Lottery gaming system.

Existing databases will be consolidated to allow the storage of all known data required for the processing of Florida Lottery systems, incorporate new data requirements, and enable the use of the latest innovations in software development technology in order to better interface with the Lottery gaming system. The Lottery's intranet system will be upgraded to provide employees with internet access to information and business intelligence tools.

In support of the new On-line gaming system, several critical Florida Lottery application systems will be re-engineered to provide additional functionality, including the lost and stolen ticket system. The gaming vendor liaison process will also be re-engineered to allow more successful planning of all necessary changes or enhancements to current and future designs, and improved tracking and issue resolution.

Outsourcing Lottery field support operations may afford an opportunity to reduce the Lottery's administrative costs without affecting the Lottery's ability to respond to the needs of its retailers. A preliminary business case has been prepared and reviewed by the Center for Efficient Government. This business case suggests that an open and competitive bidding process is likely to identify a private vendor that can provide field



support that matches or exceeds the services currently provided by the Lottery (both in scope and in quality) at a cost savings to the State.

The Lottery continues its efforts to consolidate its lease of office space where economical and sublet excess office and warehouse space to suitable tenants. The Lottery and its new gaming system vendor (GTECH) have reached agreement on the sublease of approximately 6,000 square feet of additional warehouse space in the headquarters building. This sublease will run concurrent with GTECH's gaming system contract, which will run at least through the end of January 2010. This sublease will generate additional savings of more than \$60,000 annually. The Lottery's appropriation for expenses has been reduced by \$60,000 for fiscal year 2005-06 to reflect this savings. The Lottery will continue to work closely with the Department of Management Services and the Staubach Company to find a suitable tenant for remaining excess leased space.

The Lottery will continue to look for operating efficiencies; however, at this time it believes that if additional budget cuts are made, by necessity, it must come from the Lottery's revenue-generating functions --- advertising, retailer incentives, product development, and/or contracts for On-line and Scratch-Off tickets. Any further cuts to the part of the Lottery that makes money (revenue-generating functions) will disrupt and jeopardize critical and essential business operations. Although it is impossible to calculate the exact impact these cuts would have, the Florida Lottery believes with a high degree of certainty that budget reductions in fiscal year 2006-07 would result in a downturn in its revenue and a corresponding reduction in transfers to the Educational Enhancement Trust Fund.

Increase Public Awareness Of The Lottery's Role In Improving Public Education

The Florida Lottery will attempt to increase public acceptance of and generate positive feelings about the Florida Lottery's role in public education. The Lottery plans to actively recruit "Teen Trendsetters" and other local "ambassadors" to promote the Lottery's contributions to public education. An education-oriented message will be part of events



sponsored by the Lottery. Periodic (monthly) recaps of significant Lottery contributions to and support of education will be developed and sent to key state and local officials.

Achieve Recognition As A Leader Among Domestic Lotteries For Promoting Excellent Customer Service And Responsible Play

The Florida Lottery is looking at available technology that would support the commitment to excellent customer service. One such technology would allow players to determine for themselves whether they had a winning ticket. Other technology under consideration would allow the district prize validation and redemption process to be completely automated. An internet-based system is envisioned that integrates the different components of the validation and redemption process in a way that ensures repeatable, precise, controlled and secure prize redemption. Once entered, a prize redemption transaction would pass through its entire lifecycle without any manual intervention, thereby providing the Lottery with another opportunity to maintain its standard of operating efficiency, with a customer-centered focus.

To better serve its customers (players and retailers), the Florida Lottery plans to update/upgrade a number of existing systems. The Lottery's Web site and player hotline will be updated to provide players and retailers better access to more up-to-date information. The retailer hotline call center system and database will be upgraded to better track retailer reporting and service levels. A new prize disbursement system will be implemented to increase efficiency in the prize payment process and consolidate all types of prize payments into one system.

The Florida Lottery has been and will continue to be a leader in promoting responsible play by its customers. The Lottery will continue to include the "Please Play Responsibly" tag line on its products and in its advertising. Contingent upon continued appropriation by the Florida Legislature, the Lottery will continue to fund a 24-hour helpline and prevention, outreach and education activities for compulsive gamblers.



Build A Model Work Environment And Workforce That Is Based Upon Integrity, Trust, Respect, Cooperation And Service

Life-long learning is the hallmark of almost every successful company that has achieved a competitive advantage in an ever-changing trade environment. As the Florida Lottery continues to be challenged to "do more with less," ongoing staff development will become a strategic imperative. Training and development efforts will focus on business fundamentals, time management and organizational skills, leadership and customer service.

LIST OF POTENTIAL POLICY CHANGES AFFECTING THE AGENCY BUDGET REQUEST OR GOVERNOR'S RECOMMENDED BUDGET

No policy changes that will affect the agency budget request or Governor's Recommended Budget are anticipated. The Florida Lottery will continue its efforts to maximize revenues in a manner consonant with the dignity of the state and the welfare of its citizens.



LIST OF CHANGES THAT WOULD REQUIRE LEGISLATIVE ACTION

Repeal s. 24.113, Florida Statutes

Subsection 24.113 establishes the Legislature's intent that the Lottery encourage participation by minority businesses, and requires that at least 15% of Lottery retailers shall be minority businesses. Of this 15% or more, no more than 35% shall be owned by the same type of minority person. In its 2004 annual financial audit of the Lottery, the Office of the Auditor General reported that Florida Lottery retailers comprising one minority type (Asian American) totaled 67% of the total number of minority retailers. This is in conflict with Section 24.113, which requires that no more than 35 percent of such retailers shall be owned by the same type of minority person, as defined by Section 288.703.

There is no evidence of a systemic pattern of past and continuing racial discrimination against minority business enterprises by the Lottery, nor is there any evidence of disparity in the availability and use of minority business enterprises as Lottery retailers. The percentage of Lottery minority retailers far exceeds the 15% criterion established in s. 24.113. As of January 7, 2005, roughly 37% (4307) of the Lottery's 11,783 retailers were minority businesses.

The retailer selection criteria established in s. 24.112 have allowed the Lottery to increase opportunity and diversity in retailer contracting without using policies that discriminate or that pit one racial or ethnic group against another. This practice should be allowed to continue without regard for arbitrary and artificial goals or set-asides. The success of the Lottery's efforts to increase minority participation as Lottery retailers should be measured by comparing the number of Lottery contracts with minority retailers, and not to some arbitrary and artificial goal.

The Lottery recommends the repeal of the following portions of s. 24.113(1): the requirement that 15% of Lottery retailers be a minority business enterprise with no more than 35% of such retailers owned by the same type of minority person; and the provision encouraging the agency to meet minority goals set forth in Chapter 287, a provision that was recently ruled unconstitutional.

Legislative Budget Commission (LBC) Limited Exemption

The General Appropriations Act includes separate and specific line item appropriations for Lottery payments to its on-line and instant ticket vendors. The amount of authority budgeted is based upon the vendors' rates of compensation and projected ticket sales (as determined by the Revenue Estimating Conference). Under current law (s. 216.181(11), F.S.), changes in the amounts appropriated from state trust funds in excess of



those in the approved operating budget that are in excess of \$1 million are subject to approval by the Legislative Budget Commission.

The Florida Lottery has enjoyed seven consecutive years of record sales and four consecutive years of record transfers to the Educational Enhancement Trust Fund. As such, having to go before the LBC to request additional budget authority to pay on-line and instant ticket vendors has become the rule rather than the exception. Such amendments are non-controversial, and viewed as a good thing because it means the Lottery is generating more money for education than projected. Problems arise, however, when the LBC cancels scheduled meetings late in the fiscal year. Cancellation of a scheduled LBC meeting in June of 2003 created a situation where the Lottery lacked sufficient authority to timely pay its instant ticket vendor for services received.

The Lottery recommends an exemption to this provision for payments to its on-line and instant ticket vendors. Budget amendments for payments to on-line and instant ticket vendors would be approved within the 14-day consultation period, a process that would ensure timely payments to the vendors.

Public Records Exemption

Under current law (s. 119(11)), a public record is defined to include "all documents, papers, letters, maps, books, tapes, photographs, films, sound recordings, data processing software, or other material, regardless of the physical form, characteristics, or means of transmission, made or received pursuant to law or ordinance or in connection with the transaction of official business by any agency."

E-mail is rapidly becoming a primary means for businesses to communicate with their customers. E-mail permits the quick and efficient construction of player databases, and provides lotteries with an efficient and cost-effective way to communicate with its players. E-mail provides lotteries a means to quickly and effectively communicate new product offerings, alert players of jackpot amounts and notify players of winning numbers, among other marketing messages.

Under current law, these databases are considered to be public records. As such, the Lottery cannot ensure the privacy and security of any personal information submitted by its players. This effectively prohibits the Lottery from a valuable direct marketing tool to communicate with its players.

Amending s. 24.105(12) to exempt personal information submitted by Lottery players for use in the Lottery's marketing efforts from the provisions of s. 119.07(1) and s. 24(a), Art. I of the State Constitution would correct this situation.

Stricter bid protest standard of review

Under current law (s. 24.109(2)), the provisions of s. 120.57(3) apply to the Lottery's contracting process. In a competitive-procurement protest, other than a rejection of all bids, the administrative law judge is required to conduct a de novo proceeding to determine whether the Lottery's proposed action is contrary to its governing statutes,



rules or policies, or the bid or proposal specifications. The standard of proof for such proceedings is whether the proposed agency action was clearly erroneous, contrary to competition, arbitrary, or capricious. In any bid-protest proceeding contesting an intended agency action to reject all bids, the standard of review by an administrative law judge is whether the Lottery's intended action is illegal, arbitrary, dishonest, or fraudulent.

In a February 2002 Justification review, the Office of Program Policy Analysis and Government Accountability (OPPAGA) recognized that the Lottery operates in an environment in which some vendors use the bid protest to win state contracts. Bid protest costs are significant and hinder the Lottery's ability to operate efficiently and generate additional revenue. OPPAGA recommended the legislature consider adopting a stricter standard of review as a means to reduce Lottery procurement costs. This recommendation was affirmed by OPPAGA in a December 2004 update.

Amending s. 24.109(2) to adopt a stricter standard of review applicable to the Lottery in bid protests would correct this situation. The standard of review in such cases would be made the same as current law applicable to agency action rejecting all bids, i.e., whether such action is illegal, arbitrary, dishonest, or fraudulent.

Non-Payment of Collected Lottery Moneys

Under current law (s. 24.114), all money received by each retailer from the operation of the state lottery, less the amount retained as compensation for the sale of the tickets and the amount paid out as prizes, is remitted to the Lottery. The Lottery requires retailers to establish electronic funds transfer accounts for the purpose of receiving moneys from ticket sales, making payments to the Lottery, and receiving payments from the Lottery. On a weekly basis, these electronic funds transfer accounts are "swept" by the Lottery to collect moneys owed the state. With more than 12,000 retailers, it is not uncommon for some retailers to have insufficient funds in these accounts when they are swept by the Lottery.

Due to the frequency and significant dollar amounts of returned bank sweeps for Lottery retailers, the Division of Finance and Budget has turned to the Division of Security for assistance in collection of these moneys and, in some instances, to pursue possible criminal charges with various State Attorneys' Offices. Since November 2001, more than \$780,000 has been collected and recovered in this fashion. To be successful, Lottery Special Agents need to be able to communicate to retailers the seriousness of the situation, to include the potential for criminal investigation and prosecution should the debt not be satisfied. Some state prosecutors have agreed that criminal charges apply under current law, while many others have indicated that it is a civil matter or have suggested that the Lottery amend Chapter 24 of the Florida Statutes to address non-payment of monies collected for the sale of Lottery tickets.

Amending s. 24.114 to make the failure to remit to the state moneys collected from the sale of Lottery tickets a criminal violation would correct this situation. This proposal would be analogous to s. 212.15, which makes it a crime to knowingly fail to remit state sales taxes.



LIST OF ALL TASK FORCES, STUDIES, ETC., IN PROGRESS

The Florida Lottery conducts a comprehensive, on-going marketing research program comprising several different types of studies. These studies have as their purpose gaining a better understanding of consumer behaviors and preferences, the performance of our retailers or the financial impacts of game or program changes. This knowledge, in turn, improves the Lottery's ability to increase sales and transfer more money to the Educational Enhancement Trust Fund.

- Monthly Market Tracking Survey — This is a continuing telephone survey of Floridians aged eighteen and older, conducted both in English and in Spanish. It is aimed at measuring advertising awareness and recall, game awareness and playership, attitudes toward the Florida Lottery (including understanding of its education funding role) and special issues.
- Market Segmentation Study — This study is conducted every 4 to 5 years to gain an in-depth understanding of the market for Florida Lottery products in Florida, identifying customer groups having similar characteristics and needs, and understanding how to use this information to increase ticket sales.
- Quick Response Studies — A variety of special research projects are conducted during the course of each year. Many of these pertain to new product development, for example, focus group testing of proposed Scratch-off games, developing new games or game changes and forecasting net sales gains.
- Geo-Based Information Analysis — The Florida Lottery uses MAPINFO and CLARITAS to analyze sales and markets geographically. An example is pilot



testing the placement of terminals in areas shown as having considerable sales potential.

- Sales and Revenue Forecasting— Forecast studies include: projections of LOTTO sales to determine announced jackpots for each drawing; twice-yearly official forecasts for the State's Revenue Estimating Conference; quarterly forecasts of Scratch-Off Game sales and prize expenses; estimating the sales and revenue impacts of proposed legislative changes to Florida Lottery authorizations, mandates and budget.



LRPP Exhibit I: Agency Workforce Plan



LRPP Exhibit I: Agency Workforce Plan

Note: As of fiscal year 2005-2006 the Lottery has reduced its workforce 39% (282 FTE) and therefore has already exceeded the 25% target.

Fiscal Years	Total FTE Reductions	Description of Reduction Issue	Positions per Issue	Impact of Reduction
FY 2006-2007	100-115	Privatization of Lottery field support operations (**)	100-115	Reduced operating costs/ Reduced size of workforce
FY2007-2008				
Total*	0			

*to equal remainder of target

(**) Per proviso language in the FY2004-2005 General Appropriations Act, the department has completed a business case proposal to privatize its field support operations and reported the results to the Executive Office of the Governor, the President of the Senate, the Speaker of the House, and the Office of Program Policy Analysis and Government Accountability.



LRPP Exhibit II: Performance Measures and Standards



LONG-RANGE PROGRAM PLAN

LRPP Exhibit II - Performance Measures and Standards

Department: Lottery	Department No.: 36
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Program: Lottery Operations	Code:36010000
Service/Budget Entity: Lottery Operations	Code: 36010000

NOTE: Approved primary service outcomes must be listed first.

Approved Performance Measures for FY 2005-06 (Words)	Approved Prior Year Standard FY 2004-05 (Numbers)	Prior Year Actual FY 2004-05 (Numbers)	Approved Standards for FY 2005-06 (Numbers)	Requested FY 2006-07 Standard (Numbers)
Transfers to the state Educational Enhancement Trust Fund	\$1.037 B	\$ 1.104 B	\$1,119.5 M	\$ 1.166 B
Total revenue in dollars	\$ 3.142 B	\$ 3.487 B	\$3,876.9 M	\$ 4.142 B
Operating Expense* as percent of total revenue	10.10%	9.78%	10%	10%
Percent of respondents who are aware of the Lottery's contribution to education	65%	66%	65%	65%
Provide executive direction and support services for all lottery operations as measured by percent of total agency budget	7%	4.8%	6.5%	6.5%

* Includes payments to gaming vendors and retailer commissions.



Appendix Glossary of Terms and Acronyms

Administrative Costs – Appropriations or expenditures utilized in calculating performance measurements. Include vendor and retailer fees, which are directly impacted by sales.

CLARITAS – A compendium of marketing data from leading market research firms.

Operating Cost – Appropriations or expenditures that are not directly tied to sales.

MAPINFO – A comprehensive desktop mapping tool that enables the performance of complex geographic analysis.

CARS – Corporate Account Reporting System

CRM – Customer Relationship Management

EETF – Educational Enhancement Trust Fund

JLAC – Joint Legislative Auditing Committee

OPPAGA – Office of Program Policy and Government Accountability

REC – Revenue Estimating Conference

WEBi – WebIntelligence allows access to data contained in databases or data warehouses using the agency intranet or the World Wide Web.