

Florida Lottery



Long-Range Program Plan FY 2008-09 through 2012-13

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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

As the Florida Lottery enters its 20th year of operation it recognizes the need to re-energize its efforts and strive to meet the challenges resulting from the slowing growth typical of mature lotteries – and all regular businesses for that matter. Historically, the Florida Lottery has focused on the goal of maximizing transfers to the Educational Enhancement Trust Fund (EETF) to support improvements to public education. With the objective of transferring at least \$1 billion annually to the EETF, the Florida Lottery's contributions have grown from \$694 million in fiscal year 1988-89, the Lottery's first full year of operation, to \$1.26 billion in fiscal year 2006-07.

Over the next several years, the Lottery will vigorously pursue strategies to:

- 📖 Maximize education revenue;
- 📖 Operate like the entrepreneurial enterprise envisioned by the Legislature in 1987; and,
- 📖 Provide its customers with more choices and enhanced options in an increasingly competitive environment.

In order to continue to achieve its goals, the Florida Lottery realizes it must transcend the industry-wide conventional wisdom that mature lotteries must simply accept their fate of slower growth and lower sales. The Lottery's mission of increasing education funding is one that all Floridians – especially teachers, parents, and students – can embrace. By implementing the items outlined in this long-range plan, the Lottery believes it can achieve \$5 billion in annual sales within the next three fiscal years, which would translate to approximately \$1.5 billion per year to education – up from \$1.26 billion today.

As previously stated, the Lottery's primary objective is to transfer at least \$1 billion annually to the Educational Enhancement Trust Fund. To assist the Lottery in projecting the outcome of its future performance with regard to annual transfers to the EETF, and forecasting the operating requirements necessary to achieve its goals and objectives, a Performance Projection Table has been included to reflect the Lottery's annual performance targets.



Performance Projection Table:
 (Outcome: Annual Transfers to the EETF)

Baseline FY 1997-98	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
\$801.685 M	\$1.3 Billion	\$1.4 Billion	\$1.5 Billion	\$1.5 Billion	\$1.5 Billion

Governor Charlie Crist has identified several issues that are of priority to his administration:

1. Safety First
2. Strengthening Florida’s Families
3. Keeping Florida’s Economy Vibrant
4. Success for Every Student
5. Keeping Floridians Healthy
6. Protecting Florida’s Natural Resources
7. Better Government through Technology

The Lottery’s goal supports a number of these priorities, primarily “Success for Every Student.” The Florida Lottery firmly believes that education is the key to success for Florida students. From the first day of pre-kindergarten to the last day of college, students’ futures begin to take shape as they work to make their dreams come true; and the Florida Lottery is proud to help make these dreams a reality.

Every Lottery ticket sold contributes to improved opportunities for success for Florida students. As of June 30, 2007, Florida Lottery ticket sales had generated more than \$17 billion to education. Although Lottery contributions constitute only about five-percent of the state’s total education budget, the Florida Lottery continues to make a difference in every facet of Florida’s public education system. Lottery funds contribute to K-12 programs; bonds for school construction and maintenance; state universities and community colleges, including workforce education programs; the Bright Futures Scholarship Program; and other state student financial aid.

Additionally, Florida Lottery employees show their commitment to Florida students by mentoring through programs such as the Florida Mentoring Partnership. In 2006-07, twenty-seven Lottery employees assisted public school students as mentors or tutors, providing extra support needed to help these students have a successful school year.



Being a \$4 billion-per-year business, the Lottery helps stimulate Florida's economy in a number of ways. During fiscal year 2006-07, the Lottery contracted with approximately 13,000 retailers located throughout the state who earned more than \$234 million in commissions and incentives by selling tickets and redeeming prizes. Retailers use these commissions in a number of ways, including paying current personnel salaries, hiring additional personnel, improving retailer facilities, and advertising. In other words, these dollars are often used to grow business, attract customers and help Florida's economy. Florida Lottery customers often make multiple trips to retail locations. Nothing makes a retailer happier because the more often a customer shops at a location, the more they will buy on impulse. Multiple visits lead to multiple sales, leading to more jobs being filled, services being contracted and the economy of Florida remaining vibrant.

In addition, the Lottery disbursed approximately \$2.5 billion in prizes to winners of lottery prizes in fiscal year 2006-07. Winners can collect prizes under \$600 at any Lottery retail location. Retailers not only receive a bonus commission for cashing these prizes, but they also put cash in the hands of customers who are in their stores. What better a place to spend some or all of the prize payout than in the store where they already shop – this is yet another way that the Lottery helps increase retail sales and keeps the economy vibrant.

In recent years, retailers have faced a dilemma. Stores with gas pumps have had to meet the demand of their customers for convenience -- specifically by offering pay-at-the-pump technology. While convenient, the pay-at-the-pump feature often gives the customer one more reason NOT to shop inside the store, seriously affecting retailers' business and forcing them to find ways to bring customers inside, often lowering margins on items just to compete. Surveys have shown that Lottery products are among the few items that will bring a customer into a store even if they pay at the pump. Considering the millions of visitors who come to Florida annually, having Lottery products available is very important to the retailer not only because customers will come into the store for a ticket, but also because they will often make additional purchases that normally would not have been made.

The Lottery also supports Florida's economy by doing in excess of \$29 million worth of business with Florida-based vendors, of which more than \$20 million was done with certified minority business enterprises.

Like most businesses today, the Florida Lottery relies heavily on technology to optimize existing services and enable new services, new growth, and new success for the customers, partners and employees of the Lottery. These initiatives align directly with the Governor's priority of "Better Government through



Technology.” The Lottery is constantly striving to simplify access to information, add value, reduce costs and enable change to improve services faster and more efficiently, while maintaining the integrity and security of the Lottery by keeping data and services secure.

The Lottery’s Web site is its most efficient and cost-effective tool for marketing to the public, increasing sales of all products and engaging visitors with useful information and resources. In the near future, the Lottery will be incorporating new marketing and sales initiatives, such as Webcasting of Lottery drawings or vignettes of players, and showcasing commercials for new games and news clips of winners. Interactive features could be added to the Lottery Website such as trying a game online (imagine scratching a card online with a virtual quarter.) The Lottery also anticipates developing a retailer area on the Web site where retailers could log in and generate their own sales reports, update their information and request other services.

The Florida Lottery has joined other law enforcement agencies and media outlets in partnering with the Florida Department of Law Enforcement’s (FDLE) Missing Children’s Information Clearinghouse (MCIC) by participating in Amber Alert activations. When the FDLE approves a request to initiate an Amber Alert, multiple notifications take place in an effort to make not only other law enforcement agencies aware of the missing child (or children), but also to broadcast vital information to the public at large that greatly increases the chances that the child may be recovered unharmed. The Florida Lottery, Division of Security, is a state law enforcement agency that is staffed 24 hours a day, seven days a week. When the Lottery receives an Amber Alert notification from FDLE, the information is forwarded via terminal messaging to Lottery retailers in the requested areas providing key information regarding the missing child, the suspect and the suspect’s vehicle if known, and sometimes a photograph. Retailer employees and members of the public who are in the store are then able to view this information. The Lottery Web site is also updated to indicate that an Amber Alert is in progress and provides a link to the FDLE MCIC Web page. Previous missing children cases have shown that the Amber Alert notifications have played a role in successful resolution and recovery of the missing child.



Trends and Conditions Statement

The operation of a lottery by the State was authorized by a constitutional amendment approved by Florida voters in November 1986 by a margin of nearly two to one. The Florida Lottery was established as a state agency in 1987 with the enactment of the Florida Public Education Lottery Act, as amended (the “Act”), the purpose of which is to implement Section 15, Article X of the Florida Constitution. Net proceeds of lottery games are intended to support improvements in public education and not to be used as a substitute for existing resources for public education.

The Florida Lottery was created to be a self-supporting, revenue-producing department of state government. 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 of 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.

Since 1988, the Lottery has offered a variety of both On-line and Scratch-Off games and promotions. The Lottery has generated nearly \$48 billion in revenues, more than \$25 billion in prizes and more than \$17 billion in transfers to the Educational Enhancement Trust Fund. The Florida Lottery is a ticket to the future for Florida’s students. With the patronage of lottery players, the dedication of retailers and employees, a state-of-the-art gaming system, and the insight of Florida’s Governor and Legislature, the future looks bright for the Florida Lottery, its players and beneficiaries.

Because every Lottery ticket sold contributes to endless opportunities for success for Florida students, it is easy for the Florida Lottery to select its priorities, including maximizing education revenue, operating like an entrepreneurial business enterprise and offering more and better choices to its customers, for the coming years. Following is a list of accomplishments that reiterate the Lottery’s commitment to its priorities.

Accomplishments ⇒

- 📖 In fiscal year 2006-07 the Lottery exceeded \$4 billion in total ticket sales.
- 📖 Fiscal year 2006-07 was the fifth consecutive year the Lottery transferred in excess of \$1 billion to the Educational Enhancement Trust Fund.



- 📖 Since fiscal year 1999-2000, Scratch-Off ticket sales have quadrupled, growing from \$568 million to more than \$2.283 billion.
- 📖 Achieved highest On-line sales to date during fiscal year 2006-07.
- 📖 Ranked among the top three in the domestic lottery industry for total sales.
- 📖 Ranked among top 11 in the domestic lottery industry for weekly per capita sales.
- 📖 Strongest LOTTO game in the nation.
- 📖 Strongest \$20 Scratch-Off ticket sales in the nation.

The Florida Lottery headquarters is located in Tallahassee, with nine district offices located throughout the state that provide sales and marketing support to a network of approximately 13,000 retailers. The district offices are located in Pensacola, Tallahassee, Jacksonville, Gainesville, Orlando, Tampa, West Palm Beach, Fort Myers and Miami. (Figure 1)

Figure 1. Lottery Sales





Fiscal year 2006-07 was another record year for the Florida Lottery, with total revenues exceeding \$4 billion for the first time ever. Transfers to the Educational Enhancement Trust Fund for fiscal year 2006-07 were approximately \$1.26 billion (unaudited), up 3.2% from the previous year. This marks the fifth consecutive year that transfers to the Educational Enhancement Trust Fund have exceeded \$1 billion.

Table 1 represents a comparative statement of income and expenses for the last five fiscal years (2002-03 through 2006-07). As shown, total revenues have increased from \$2.88 billion to \$4.14 billion (44%) during this period. The Lottery’s contributions to public education have increased from \$1.03 billion to more than \$1.26 billion (22%) during this same 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 over time from 2.43% in fiscal year 2002-03 to 1.77% in fiscal year 2006-07. In this document, operating costs include only those costs that are administratively tied to the operations of the Lottery, and do not include those costs that correlate to sales volume, such as payments to On-line and Scratch-Off ticket vendors, retailer commissions, or prizes.

Table 1.

Comparative Statement of Income and Expenses (Millions)

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07*
Total Revenues	\$2,883.5	\$3,086.4	\$3,487.5	\$3,946.7	\$4,142.6
Total EETF Transfers	\$1,035.2	\$1,051.7	\$1,103.6	\$1,224.6	\$1,263.3
Total Operating Costs	\$70.2	\$70.5	\$71.0	\$71.8	\$73.3
Operating Costs as a Percent of Total Revenue	2.43%	2.28%	2.04%	1.82%	1.77%

**Data for fiscal year 2006-07 is unaudited.*

Over the past five years (fiscal years 2002-03 through 2006-07), overall revenue growth has averaged 12% per year. Table 2 provides an illustration of sales, by product, for the five recent fiscal years. As shown, Scratch-Off ticket sales have continued to increase dramatically (113%) over the period, while On-line ticket sales have increased only 2.5%. Clearly, the Lottery has been able to “ride the coattails” of its Scratch-Off ticket boom, focusing efforts on cultivating and ensuring it’s continuance. The simple facts of the matter are that we have “picked



all of the low hanging fruit” on the Scratch-Off ticket side of the business, and any future enhancements can be expected to increase sales at a relatively slower rate. For example, in the fiscal year just ended (2006-07), Scratch-Off sales grew at 8.7% -- a slower growth rate for the second consecutive year, while On-line sales grew by only 0.5%.

Table 2.

Net Sales by Product (Millions)					
	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07*
Scratch-off	\$1,073.9	\$1,358.1	\$1,844.6	\$2,100.1	\$2,283.6
LOTTO	\$925.5	\$785.4	\$689.8	\$835.0	\$735.6
Fantasy 5	\$260.0	\$259.7	\$252.5	\$306.7	\$326.2
Cash 3	\$330.0	\$349.2	\$345.6	\$343.2	\$348.7
Play 4	\$182.7	\$192.6	\$207.0	\$215.5	\$225.3
Mega Money	\$95.9	\$125.9	\$131.2	\$128.5	\$130.1
Raffle					\$72.6
Total On-line	\$1,794.1	\$1,712.8	\$1,626.1	\$1,828.9	\$1,838.5

* Data for fiscal year 2006-07 is unaudited

Table 3 represents per employee contributions to the Educational Enhancement Trust Fund from fiscal years 2002-03 through 2006-07. As shown, the Florida Lottery’s contributions have increased while the number of employees has decreased.

Table 3.

Per Capita Productivity			
Fiscal Year	EETF Contributions (millions)	Full -Time Equivalent Positions (FTEs)	EETF Contribution Per FTE (millions)
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
FY 05-06	\$1,224.6	440	\$2.78
FY 06-07	\$1,263.3	440	\$2.87



As the Lottery approaches its 20th anniversary, a comprehensive and aggressive strategy is necessary to out-perform the projections of the Revenue Estimating Conference (REC) with regard to sales and EETF revenue. For fiscal year 2007-08, the REC has forecasted Scratch-Off ticket sales growth of 5%, while On-line sales are actually projected to remain flat. Given Florida's ever-increasing population and demand for education funding (the class-size constitutional amendment and Bright Futures scholarships are but two examples), policy makers may face, for the first time, the very real possibility of not having enough Lottery-generated funds to underwrite desired education programs without an impact to general revenue funds. This scenario is obviously not acceptable, and all of our efforts at the Lottery must be directed toward improving the current sales trend.

Though attainable, this strategy will not be easy. It should be noted at the onset, however, that nothing outlined within this strategy can be construed as an expansion of lottery gaming. In other words, the Lottery will not be required to request legislative changes (except where specifically noted below) beyond the normal budget process. Also, all of the game ideas outlined are considered "traditional" lottery games. The effort to expand the retailer base is aimed simply at bringing Florida into line with other states of its size. As a matter of policy, however, should the Governor and Legislature direct the Lottery to undertake additional initiatives beyond current authority, our efforts will be directed to implement those initiatives in a responsive and responsible manner. It will require a willingness on the part of policy makers to make decisions that heretofore have not been confronted. The Lottery has been fortunate in that, until now, minimal risk was necessary to achieve sizable benefits.

Looking Forward

As the Florida Lottery looks forward to fiscal year 2008-09 and beyond, it is important to examine and evaluate both the external and the internal environment in which the Lottery operates. In doing this, the Lottery has identified the following strengths, weaknesses, as well as opportunities and threats.

Strengths ⇨

- 📖 Flexible prize payout authority for both Scratch-Off and On-line games.
- 📖 New gaming system allows for product and promotion enhancements.
- 📖 On-line gaming contract allows for growth to 20,000 terminals.



- 📖 Newly acquired patent authority allows the Lottery to apply for and hold patents on unique games or play-styles and could be an additional source of revenue.
- 📖 The Lottery is postured to enter into a new contract for provision of its Scratch-Off ticket products.

Weaknesses ⇒

- 📖 Showing signs of slowing growth typical of mature lotteries, experiencing a slower growth rate for the second consecutive year compared to the previous five years.
- 📖 Low market penetration – the Lottery’s retailer-to-population ratio ranks 21 out of 42 domestic lotteries.
- 📖 Current advertising budget limits the ability to maximize marketing frequencies to residents and visitors to Florida over the age of 18.
- 📖 Sales of the Lottery’s flagship game, Florida LOTTO, were down \$100 million (12%) in fiscal year 2006-07 as compared to the prior fiscal year.
- 📖 Heavy reliance on the unpredictable jackpot rollovers of its flagship game, Florida LOTTO, to drive game sales.
- 📖 Inability to replace aging infrastructure to support basic lottery operations without receiving specific legislative authority.



Opportunities ⇨

- 📖 Continue to exercise flexibility in setting prize payout percentages for On-line games thereby increasing On-line sales and transfers to the Educational Enhancement Trust Fund.
- 📖 Continue to increase the retailer base and improve market penetration.
- 📖 Offer new or enhanced game options for both On-line and Scratch-Off games.
- 📖 The Lottery has the ability to maintain a competitive advantage in the areas of distribution channel management, product development, product positioning, identifying new market opportunities, expanded retailer network, particularly underrepresented minorities, creating new strategic alliances and increasing sales.
- 📖 Pursue reintroduction of Instant Ticket Vending Machines (ITVMs) into the marketplace to achieve the efficient return on investment possible.

Threats ⇨

- 📖 Insufficient advertising funding.
- 📖 Competition with expanded gambling entities in and around Florida, such as Native American gambling, slot machines, etc.
- 📖 Policy constraints conflict with the legislative intent set forth in subsection 24.102(2)(b), Florida Statutes, limiting the ability of the Florida Lottery to operate “in the manner of an entrepreneurial business enterprise.”
- 📖 Annual authorization to update aging infrastructure including vehicles, technology and physical security needs.
- 📖 Inability to reinvest achieved efficiencies to enhance future growth.
- 📖 Retail industry is moving to unified accounting systems and self-service check-outs, trends the Lottery is not currently capable of supporting which could threaten access to major retail chains.

In order to continue excelling at what it does best, generating funds for the Educational Enhancement Trust Fund, the Lottery will be requesting additional funding for fiscal year 2008-09 to replace aging equipment required to support the daily operations of the Lottery. These requests will include the replacement of and upgrades to technology equipment that provides the underlying communications infrastructure for all Lottery equipment and applications, equipment necessary to maintain the physical security of Lottery operations, as



well as replacement of the Lottery's aging fleet of vehicles used on a daily basis by the sales force responsible for supporting the 13,000 retailers located statewide.

In addition, the Lottery will be requesting an increase to its advertising budget to compete with a growing number of consumer products for a shrinking discretionary dollar. The Lottery's advertising budget has actually been reduced over the last several years. In fiscal year 2000-01, the Lottery's advertising budget totaled \$36.2 million; today the budget is \$34.9 million. Even more significantly, the budget as a percentage of sales has dropped from 1.6% to .8%. In addition, the current budget does not allow for increases that have occurred within the market-place. Comparable dollars five years ago that bought 11,650 Gross Rating Points (GRPs) would only buy 7,331 GRPs today. The lack of increases to the advertising budget has limited the Lottery's ability to strengthen its position in the marketplace and expand its player base in order to maximize sales and funding for education.

As stated previously, over the next several years, the Lottery will embark on a strategy to renew its promise to:

- Maximize education revenue;
- Operate like the entrepreneurial enterprise envisioned by the Legislature in 1987; and,
- Provide its customers with more choices and enhanced options in an increasingly competitive environment.

The new goal of the Lottery will be a simple one: To transcend the industry-wide conventional wisdom that mature lotteries must simply accept their fate of slower growth and lower sales. Our mission of increasing funding is one that all Floridians – especially teachers, parents and students – can embrace. By implementing the items outlined in this plan, the Lottery believes it can hit \$5 billion in annual sales within three fiscal years. That should translate to about \$1.5 billion per year to education – up from \$1.2 billion today.

RETAILER NETWORK EXPANSION

The Florida Lottery has made significant progress in closing the gap that has long existed in the retailer-to-population ratio, when compared to other state lotteries. Most analysis suggests that the average ratio within the USA is one retailer for every 1,200 people. Florida's ratio is approximately 1-to-1,300. This indicates that Florida's ideal number of retailers should be 14,000, instead of the roughly 13,000 that currently exist. One thousand additional retailers would constitute a 7% increase in the overall number of retailers. Given past sales



performance standards, 1,000 additional retailers would translate into approximately \$40-60 million in additional annual sales. And, this takes into account the administrative cost to the Lottery having to lease additional terminals.

The ability to expand the Lottery retailer base is thwarted by excessive legislative oversight, which is in conflict with the legislative intent expressed in subsection 24.102(2)(b), Florida Statutes. In September of 2007, after extensive review by legislative staff, the Lottery received authority to lease an additional 500 retailer terminals from its On-line vendor, which will bring the retailer base to 13,500. On two occasions, the Legislature's Economic and Demographic Research team has held impact conferences to determine the impact an expanded retailer base would have on funding for education. In both cases it was determined that the Lottery's ability to recruit new retailers and increase the retailer network would have a positive impact on sales and increase the transfers to the Educational Enhancement Trust Fund.

Overall Lottery industry experience shows that more terminals and more retailers typically will lead to a net increase in overall sales, not just a shifting of existing sales within an expanded retailer network. This is a proven strategy not only in the lottery industry, but in all other consumer product industries as well. In its February 2007 report (no. 07-09), the Office of Program Policy Analysis and Government Accountability (OPPAGA) recognized that increasing the number of lottery retailers has the potential to increase revenues by making lottery products more readily available to both residents and tourists. The OPPAGA report goes on to state that adding 2,000 new retailers to the Florida Lottery's retailer base has the potential to generate an additional \$32 million annually for the Educational Enhancement Trust Fund. As the state's population grows and new communities are established, the number of lottery retailers should increase to keep pace with population growth.

ITVMs (Instant Ticket Vending Machines)

ITVMs are a distribution method similar to vending machines used to dispense Scratch-Off lottery tickets. In the spring of 2007, the Lottery completed a successful pilot project with 10 ITVM machines placed in 10 different stores. These 10 machines were given premier placement and inventory was diligently kept full. The results were very promising for a future rollout of additional ITVMs. The only financial considerations are: 1) to ensure that the cost of leasing the machines is more than offset by increased revenue derived from the ITVMs; and 2) to minimize same-store cannibalization. Studies and experiences from other states show that as long as the two criteria cited above are strictly adhered to, ITVMs are a proven way to increase net lottery sales.



Currently, 70% of lottery states utilize ITVMs. Although Chapter 24, Florida Statutes, specifically authorizes the Lottery to utilize ITVMs, the Lottery must continue to pursue budgetary authority to deploy ITVMs.

The addition of ITVMs will increase product visibility, enhancing Lottery sales. ITVMs are also a device that is attractive to non-traditional and existing retailers that otherwise would be less inclined to sell lottery tickets in the traditional manner.

The Florida Lottery's goal is to introduce ITVMs into the marketplace with a specific policy to only place them in high-traffic retailers that commit ahead of time to keeping them fully stocked at all times. We believe that Florida can benefit from the addition of approximately 1,000 ITVMs interspersed throughout our 13,000-member retailer network. This initial placement of the desired 1,000 ITVMs will represent a 7% saturation as opposed to the industry standard of 16%. This strategy will result in enhanced customer convenience resulting in increased sales for a maximum return on investment. In addition, these machines will benefit the retailers chosen for the program since they receive commissions from the increased number of tickets sold.

RETAILER COMMISSIONS AND INCENTIVES

The Lottery will explore changes to its current commission structure by conducting surveys and focus groups in the upcoming year. The Lottery has had the same commission and retailer incentive structure since 1988. Retailers are paid a 5% commission on every dollar sold, and a 1% commission when they redeem a lottery prize in their store. Other lottery states have experimented with different and innovative ways of compensating their retailers as a way to incentivize them to "ask for the sale" and improve lottery sales. Obviously, the more a retailer gets paid for selling any product, the more incentive there exists for him/her to sell that product to their customers. Lottery tickets compete in stores with candy, soda, cigarettes, and other consumer products. We will make changes accordingly if sufficient evidence justifies that appropriate changes will lead to greater sales.

INFRASTRUCTURE

In order to continue to operate as a successful business enterprise, the Florida Lottery must ensure it has the tools and support necessary to continue, as well as improve, its core operations. As a twenty-year-old business, the Lottery is currently utilizing equipment that is obsolete and or unsupported. This equipment includes the underlying communications infrastructure for all Lottery equipment



and applications, including access to the gaming system, the prize payment system, sales reporting, management of the public Web site and accounting systems. There is also a need to replace obsolete security equipment and the Lottery's physical security system. The Lottery plans to hire a security consultant to review, assess and make recommendations regarding the replacement of the current statewide physical security system, which contains parts that are 20 years old.

In addition, the Lottery has a fleet of vehicles that are primarily used by Lottery sales representatives to visit Lottery retailers to introduce new products, maximize inventory, increase product visibility, and improve overall public awareness. Many of these vehicles are in need of replacement as a result of age, mileage or excessive operating costs. In order for the Lottery to ensure that its products are effectively and efficiently marketed to the public, it will require the authority to replace non-compliant vehicles and restore the fleet to safe and acceptable standards.

The environment today is significantly different than it was 15 or 20 years ago. Ever-increasing competition and a lower level of interest from the playing public present both challenges and opportunities for the Lottery's future. The bottom line is that the debate over Florida operating a world-class lottery – and it fully striving to achieve its mission – must end. Distractions, like debating and defending the benefit to education of the Lottery's advertising budget or continually having to justify the need for funding to support the Lottery's technological needs, only delay the inevitably tough choices needed to enhance lottery sales. Twenty years ago the people of Florida voted by nearly a two-thirds majority to create the Florida Lottery. Even today, millions of Floridians affirm their vote by voluntarily buying lottery tickets and supporting the Lottery's mission of raising additional revenue to enhance education programs – programs that might very well never have been funded if not for the continued existence of the Lottery. "\$17 Billion to Education" is not just a marketing phrase. It is precisely the amount of funding that would have had to be either cut from valuable education programs, or raised in the form of new taxes.

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

No policy changes that will affect the Lottery's budget request or Governor's recommended budget are anticipated.



LIST OF CHANGES WHICH WOULD REQUIRE LEGISLATIVE ACTION

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.

Lottery Specialty License Plate

The Florida Lottery may seek an amendment to sections 320.08056 and 320.0858 F.S. in order to create a Florida Lottery License Plate. Section 320.08058, F.S., lists the approved specialty license plates and specifies funding requirements.

The Legislature has authorized 109 specialty license plates to date. Sales of specialty license plates generated more than \$26 million in annual use fee revenues in 2004, \$29 million in 2005 and more than \$32 million in 2006.

In 2002 and in 2007, OPPAGA issued reports that recognized that the Lottery operates in an environment in which it should strive to remain competitive and recommended that the Lottery explore options to increase revenue(s) to the EETF.



Currently, specialty license plates are available to any owner or lessee of a motor vehicle who is willing to pay an annual use fee for the privilege. The revenue collected is then distributed to an organization or organizations in support of a particular cause or charity signified in the plate's design and designated in statute. In this case all proceeds derived from the Lottery specialty tag will go to the EETF to support improvements to public education.

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. The purpose of these studies is to gain a better understanding of consumer behaviors and preferences, retailer sales performance and 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 EETF.

Scratch-Off Market Segmentation Study – While previous segmentation studies have focused on the general population and not on one specific product line, this study will provide the Florida Lottery with valuable information about Scratch-Off segments. The results will divide the entire Scratch-Off player base into unique and identifiable segments based on their attitudes, motivations and play characteristics as they pertain to Scratch-Off games. Psychographics (attitudinal), demographic and geographic information will be collected, analyzed and reported for use in product development and marketing.

FLORIDA LOTTO Game Change Advertising Study – In order to test potential new game concepts, the Lottery will conduct focus groups in three cities to ascertain customer acceptance of potential game changes to the FLORIDA LOTTO game.

Media and Consumer Behavior Study - This is a study conducted on a periodic basis to assess lottery segments (identified in the segmentation study below) proclivity to consume certain media and purchase other consumer goods. Understanding customers' behaviors and attitudes allows the Lottery to market more efficiently.

Game Revenue Forecasting and Prize Payout - This is an ongoing analysis of new games, particularly focusing on their possible impact on sales and return on investment. These analyses are conducted several times per year as new products are proposed.

Monthly Market Tracking Survey - This is a continuing telephone survey of Floridians ages 18 and older, conducted both in English and Spanish. It is aimed



at measuring advertising awareness and recall, game awareness and participation, along with attitudes toward the Florida Lottery (including understanding of its education funding role) and special issues.

Market Segmentation Study - This study is conducted every four to five years to gain an in-depth understanding of the market for Lottery products in Florida, identifying customer groups having similar characteristics and needs, and understanding how to use this information to increase ticket sales and maximize advertising return on investment.

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. Examples include pilot testing the placement of terminals in areas shown as having considerable sales potential, analyzing district office locations in proximity to the customer base and assessing sales routes for efficiency purposes.

Sales and Revenue Forecasting - Forecast studies include: projections of FLORIDA 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.

Internet Polling - Weekly poll questions are placed on the Lottery Web site to gauge public opinion about lottery products, services, and other issues.



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 2007-08 (Words)	Approved Prior Year Standard FY 2006-07 (Numbers)	Prior Year Actual FY 2006-07 (Numbers)	Approved Standards for FY 2007-08 (Numbers)	Requested FY 2008-09 Standard (Numbers)
Transfers to the state Educational Enhancement Trust Fund	\$1.206 B	\$1.263 B	\$1.206 B	\$1.206 B
Total revenue in dollars	\$3.918 B	\$4.143 B	\$3.918 B	\$3.918 B
Operating Expense* as percent of total revenue	9.52%	9.31%	9.52%	9.52%
Percent of respondents who are aware of the Lottery's contribution to education	65%	60%	65%	65%
Provide executive direction and support services for all lottery operations as measured by percent of total agency budget	6.2%	5.88%	6.2%	6.2%

* Includes payments to gaming vendors and retailer commissions.



LRPP Exhibit III: PERFORMANCE MEASURE ASSESSMENT

Department: Florida Lottery
Program: Lottery Operations
Service/Budget Entity: Lottery Operations 36010000

Measure: **Percent of respondents who are aware of the Lottery's contribution to education**

Action:

- Performance Assessment of Outcome Measure
- Performance Assessment of Output Measure
- Adjustment of GAA Performance Standards
- Revision of Measure
- Deletion of Measure

Approved Standard	Actual Performance Results	Difference (Over/Under)	Percentage Difference
65%	60%	-5%	5%

Factors Accounting for the Difference:

Internal Factors (check all that apply):

- Personnel Factors
- Competing Priorities
- Previous Estimate Incorrect
- Staff Capacity
- Level of Training
- Other (Identify)

Explanation:

External Factors (check all that apply):

- Resources Unavailable
- Legal/Legislative Change
- Target Population Change
- This Program/Service Cannot Fix The Problem
- ?Current Laws Are Working Against The Agency Mission
- Technological Problems
- Natural Disaster
- ?Other (Identify)

Explanation: Though the Florida Lottery supported its education message with a multi-media campaign including television, radio, print, outdoor and point-of-sale advertising, education-specific collateral materials, and participation in various education-related events during fiscal year 2006-2007, the percentage of the general population that identified education/scholarships as the recipients of Lottery funds ended at 60%. Awareness of education funding varied from 66% to 56% throughout the year, depending on whether the respondent was aware of recent education-benefits advertising. Overall knowledge of how Lottery revenues are used tends to trend positively with benefit ad awareness. It is possible that external factors outside of the Lottery's control – such as discussion of non-lottery education issues, media attention on other topics affecting the state, election coverage and discussion, etc. – may have contributed to the downturn in education awareness among Floridians.



Management Efforts to Address Differences/Problems (check all that apply):

- | | |
|------------------------------------|--|
| <input type="checkbox"/> Training | <input type="checkbox"/> Technology |
| <input type="checkbox"/> Personnel | <input checked="" type="checkbox"/> Other (Identify) |

Recommendations: The Lottery will continue to convey its education message through television, radio, print, and point-of-sale advertising in both English and Spanish; billboard ads in English; and public relations initiatives including press releases, letters to newspaper editors, collateral development, and participation in various education-related events/initiatives throughout the state. However, in fiscal year 2007-08, the Lottery is enhancing its education awareness campaign through more aggressive media-buy negotiations for bonus advertising; the production of a television ad portraying actual Bright Futures scholars; radio and print advertising in Creole; various grassroots marketing initiatives; and the development of a Lottery education-specific press kit. Additionally, the Lottery will host an education event at the Capitol in April 2008 to celebrate 20 years of contributing to the state's education system.

During the first quarter of 2007-08, the Lottery partnered with five universities in Florida to inform football fans (students, alumni, parents, etc.) about the Lottery's contributions to education, overall and especially as it relates to each school. The Lottery produced fans, with each school's logo printed on the front and Lottery education stats on the back, for distribution at all home football games. Also, in the first quarter of the fiscal year, full-page education ads were placed in *Florida Trend NEXT* magazine and in four Florida parenting magazines. This year's education campaign has already begun to prove a success, with the past two monthly tracking studies showing increases in total awareness to 63% in July and 73% in August. Among those surveyed, awareness of education-benefits ads fluctuated from 69% to 75%, and recently ended at 84% in August.

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LRPP Exhibit V: Identification of Associated Activity Contributing to Performance Measures

Measure Number	Approved Performance Measures for FY 2006-07 (Words)	Associated Activities Title
1	Transfers to the state Educational Enhancement Trust Fund	<p>Supervise and administer the operation of Lottery games</p> <p>Conduct market research and special studies</p> <p>Provide adequate and convenient availability of tickets to the public</p> <p>Advertise and promote Lottery games</p> <p>Conduct investigations of retailers, vendors and employees</p> <p>Pay prizes for winning tickets submitted to Lottery headquarters</p> <p>Keep the public informed of Lottery activities</p> <p>Compensate retailers in the form of incentives</p>
2	Total revenue in dollars	<p>Supervise and administer the operation of Lottery games</p> <p>Conduct market research and special studies</p> <p>Provide adequate and convenient availability of tickets to the public</p> <p>Advertise and promote Lottery games</p> <p>Conduct investigations of retailers, vendors and employees</p> <p>Pay prizes for winning tickets submitted to Lottery headquarters</p> <p>Keep the public informed of Lottery activities</p>



			Compensate retailers in the form of incentives
3	Operating expense as percent of total revenue		Supervise and administer the operation of Lottery games
			Conduct market research and special studies
			Provide adequate and convenient availability of tickets to the public
			Advertise and promote Lottery games
			Conduct investigations of retailers, vendors and employees
			Pay prizes for winning tickets submitted to Lottery headquarters
			Keep the public informed of Lottery activities
			Compensate retailers in the form of incentives
4	Percent of respondents who are aware of the Lottery's contribution to education		Conduct market research and special studies
			Advertise and promote Lottery games
5	Executive direction and support services for all lottery operations as measured by percent of total agency budget		Keep the public informed of Lottery activities
			The Executive Direction and Administrative Support Activities contribute to this measure

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LOTTERY, DEPARTMENT OF THE		FISCAL YEAR 2005-06					
SECTION I: BUDGET		OPERATING			FIXED CAPITAL OUTLAY		
TOTAL ALL FUNDS GENERAL APPROPRIATIONS ACT					207,758,772	0	
ADJUSTMENTS TO GENERAL APPROPRIATIONS ACT (Supplementals, Vetoes, Budget Amendments, etc.)					(41,302,789)	0	
FINAL BUDGET FOR AGENCY					166,455,983	0	
SECTION II: ACTIVITIES * MEASURES		FTE	Number of Units	(1) Unit Cost	Expenditures	(2) Expenditures (Allocated)	(3) FCO
<i>Executive Direction, Administrative Support and Information Technology (2)</i>		64.00			9,938,947		0
Supervise And Administer The Operation Of Lottery Games * Number of games administered		92.00	105	124,362.46	10,626,188	13,058,058	
Conduct Market Research And Special Studies * Number of studies conducted		4.00	15	28,468.93	321,301	427,034	
Provide Adequate And Convenient Availability Of Tickets To The Public * Number of tickets sold		204.00	2,242,226,494	0.04	90,337,255	95,729,662	
Advertise And Promote Lottery Games * Total gross annual sales		8.00	4,195,387,999	0.01	34,237,661	34,449,128	
Conduct Investigations Of Retailers, Vendors And Employees * Number of investigations conducted		37.00	5,140	639.56	2,309,287	3,287,322	
Pay Prizes For Winning Tickets Submitted To Lottery Headquarters * Number of prizewinners paid		13.00	50,828	18.73	608,124	951,758	
Keep The Public Informed Of Lottery Activities * Number of media releases and public education materials distributed		18.00	7,828,122	0.42	2,812,978	3,288,779	
Compensate Retailers In The Form Of Incentives * Number of retailers compensated		0.00	58,675	36.95	2,168,041	2,168,041	
TOTAL		440.00			153,359,782	153,359,782	
SECTION III: RECONCILIATION TO BUDGET							
PASS THROUGHS							
TRANSFER - STATE AGENCIES							
AID TO LOCAL GOVERNMENTS							
PAYMENT OF PENSIONS, BENEFITS AND CLAIMS							
OTHER						6,137,857	
REVERSIONS						6,958,351	
TOTAL BUDGET FOR AGENCY (Total Activities + Pass Throughs + Reversions) - Should equal Section I above. (4)						166,455,990	

EXHIBIT VI: AGENCY-LEVEL UNIT COST SUMMARY



- (1) Some activity unit costs may be overstated due to the allocation of double budgeted items.
- (2) Expenditures associated with Executive Direction, Administrative Support and Information Technology have been allocated based on FTE. Other allocation methodologies could result in significantly different unit costs per activity.
- (3) Information for FCO depicts amounts for current year appropriations only. Additional information and systems are needed to develop meaningful FCO unit costs.
- (4) Final Budget for Agency and Total Budget for Agency may not equal due to rounding.



Appendix Glossary of Terms and Acronyms

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.

EETF – Educational Enhancement Trust Fund.

OPPAGA – Office of Program Policy and Government Accountability.

REC – Revenue Estimating Conference.