

Florida Lottery



Long-Range Program Plan Fiscal Years 2009-10 through 2013-14

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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

Now that the Florida Lottery has surpassed its 20th year of operation it recognizes the need to constantly 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 its first full year of operation (FY 1988-89) to \$1.28 billion in FY 2007-08.

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 perception 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 \$1.50 billion per year to education – up from \$1.28 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:
(Based on Revenue Estimating Conference)
(Outcome: Annual Transfers to the EETF)**

Baseline FY 1997-98	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
\$801.68 M	\$1.29 Billion	\$1.30 Billion	\$1.30 Billion	\$1.30 Billion	\$1.30 Billion

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

1. Protecting Our Communities
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

Success for Every Student

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, 2008, Florida Lottery ticket sales had generated nearly \$19 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. The Lottery has funded more than one million annual Bright Futures scholarships since the program’s inception in 1997. Lottery funds also contribute to K-12 programs in Florida’s 67 school districts; bonds for school construction and maintenance; state universities and community colleges, including workforce education programs; 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 FY 2007-08, twenty-one Lottery employees assisted public school students as mentors or tutors, providing extra support needed to help these students have a successful school year.



Keeping Florida's Economy Vibrant

Being a \$4 billion-per-year business, the Lottery helps stimulate Florida's economy in a number of ways. During FY 2007-08, the Lottery contracted with approximately 13,300 retailers, located throughout the state, who earned more than \$235 million in commissions and incentives by selling tickets and redeeming prizes. Of that, approximately \$68.20 million was paid in commissions to minority retailers statewide.

The Florida Lottery strives to ensure that sales requirements and performance standards do not minimize the ability of smaller businesses to become Lottery retailers. Contract requirements maintain the highest of standards to concentrate on Lottery retailer integrity and customer service.

The Florida Lottery's recruitment plan includes participating in a broad range of business associations, chambers, and other organizations, including minority businesses, to build awareness of the benefits of being a Lottery retailer and of the Lottery's role in funding education in Florida. Networking within these organizations also increases the Lottery's ability to identify potential new Lottery retailers.

The Lottery retailer network is dominated by convenience stores and grocery stores. In an effort to expand this network and increase sales, the Lottery not only continues to explore traditional sales sources, but also explores nontraditional venues for ticket sales, e.g., restaurants, bus stations, beauty salons, independent drug stores and other trade styles. Several of these trade styles also hold the promise of increasing minority representation in our network.

Retailers use their commissions in a number of ways, including paying current personnel salaries, hiring additional personnel, improving retailer facilities, and advertising. In other words, commission dollars are often used to grow business, attract customers and help Florida's economy. Florida Lottery customers often make multiple trips to retail locations increasing the likelihood of making additional purchases of staple inventory.

The Lottery disbursed approximately \$2.52 billion to winners of lottery prizes in FY 2007-08. Approximately 76% of the prizes were paid by retailers. 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 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 contributes to the local economy.



Protecting Our Communities

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. During FY 2007-08, the Florida Lottery was involved in 12 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, greatly increasing 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.

The Florida Lottery and the Florida Retail Federation partnered with the Division of Emergency Management (DEM) in an effort to provide critical information and lists of recommended supplies to the public in the area of disaster preparedness. The Lottery has a link on its Web site that directs visitors to DEM's Family and Business Disaster Planning Web sites. The Lottery annually provides a hurricane flyer to each of its retailers with information to assist with business as well as personal protection planning efforts.

The Florida Lottery's Division of Security also acts in a support role to Emergency Support Function (ESF)16 (Law Enforcement and Security) at the State Emergency Operations Center in response to disaster events. The sworn personnel within the Division of Security participate, with all state law enforcement, in the Florida Mutual Aid Plan that is put into action during and following disasters. The Division maintains contact and a presence at the State Emergency Operations Center during activations, and has previously assisted with law enforcement and security duties in areas that were affected by a hurricane.

During FY 2007-08, the Division of Security continued its efforts in crime/loss prevention awareness. Although budget restraints limited the outreach efforts, there was participation in the national convention on Preventing Crime in the Black Community. Security staff gave a presentation on Lottery fraud prevention



to certified fraud examiners and the Northwest Florida Institute of Internal Auditors. Efforts are being focused on assisting sales staff in protecting lottery products and themselves with safety and security awareness tips. A Lottery scam brochure continues to be useful to local law enforcement agencies for distribution to community members during their crime prevention presentations. Although the focus for these brochures is the elderly, they are beneficial to all citizens.

Through contacts with local law enforcement and the Florida Division of Alcoholic Beverages and Tobacco, Lottery Security periodically assists with "sting" operations targeting underage sales of alcohol and tobacco, particularly at convenience stores, which are often Lottery retailers as well. In addition, the law enforcement entity is requested to include underage purchases of lottery tickets as part of their operation. The Florida Lottery can take administrative action against retailers, including the termination of their contract, for being involved in this illegal activity.

Lottery Special Agents provide valuable lead information to local law enforcement investigators when lottery tickets are reported stolen by retailers. Often, multiple burglary and theft offenses are solved within their jurisdictions. Retailers benefit by getting the perpetrators of those crimes off the street, and books of tickets, that can then be re-activated and sold to players, are often recovered, too. The Special Agents also assist retailers by providing important transaction information when internal theft is suspected and work directly with the State's Attorney's Office to submit appropriate paperwork to have criminal charges filed.

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 more than \$52 billion in revenues, more than \$27 billion in prizes and \$19 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 FY 2007-08 the Lottery exceeded \$4.17 billion in total ticket sales.
- 📖 FY 2007-08 was the sixth consecutive year the Lottery transferred in excess of \$1 billion to the Educational Enhancement Trust Fund.
- 📖 Since FY 1999-00, Scratch-Off ticket sales have more than quadrupled, growing from \$568 million to more than \$2.36 billion.
- 📖 Strongest \$20 Scratch-Off ticket sales in the nation.
- 📖 Highest selling licensed property Scratch-Off game in the nation.
- 📖 Achieved highest On-line sales to date during FY 2006-07.
- 📖 Strongest lotto game in the nation.
- 📖 One of the best and quickest selling raffle games in the nation.
- 📖 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.

LaFleur's 2008 World Lottery Almanac



Current Lottery Operations

FY 2007-08 was another record year for the Florida Lottery, with total revenues exceeding \$4 billion for two consecutive years. Transfers to the Educational Enhancement Trust Fund for FY 2007-08 were approximately \$1.28 billion (unaudited), up 1.61% from the previous year. This marks the sixth consecutive year that transfers to the Educational Enhancement Trust Fund have exceeded \$1 billion.

The Florida Lottery headquarters is located in Tallahassee, with nine district offices located throughout the state that provide prize payment services to the public, as well as sales and marketing support to a network of approximately 13,300 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



During the last eight years, the Florida Lottery has continued to add more retailers to its network and games to its product line without increasing the level of staffing.



Table 1 represents a comparative statement of income and expenses for the last five fiscal years. As shown, total revenues have increased from \$3.08 billion to \$4.18 billion (36%) during this period. The Lottery's contributions to public education have increased from \$1.05 billion to approximately \$1.28 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 2.28% in FY 2003-04 to 1.75% in FY 2007-08. 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 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08*
Total Revenues	\$3,086.4	\$3,487.5	\$3,946.7	\$4,142.6	\$4,182.5
Total EETF Transfers	\$1,051.7	\$1,103.6	\$1,224.6	\$1,263.3	\$1,283.6
Total Operating Costs **	\$70.5	\$71.0	\$71.8	\$73.3	\$73.0
Total FTE's	446	446	440	440	440
Operating Costs as a Percent of Total Revenue	2.28%	2.04%	1.82%	1.77%	1.75%
EETF Contribution per FTE	\$2.4	\$2.5	\$2.8	\$2.9	\$2.9

**Data for FY 2007-08 is unaudited.*

***Department operations only.*

The contribution to the Educational Enhancement Trust Fund per Lottery employee continued to increase each year although human resources have remained relatively constant.

Over the past five years, overall revenue growth has averaged 7.9% 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 (74.42%) over the period, while On-line ticket sales have increased only 5.44%. Clearly, the Lottery has been able to “ride the coattails” of its Scratch-Off ticket boom, and is focusing efforts on cultivating and ensuring its 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 (2007-08), Scratch-Off sales grew at 3.73% -- a slower growth rate for the third consecutive year, while On-line sales decreased at 1.77%.

Table 2.

Net Sales by Product (Millions)

	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08*
Scratch-off	\$1,358.1	\$1,844.6	\$2,100.1	\$2,283.6	\$2,368.7
LOTTO	\$785.4	\$689.8	\$835.0	\$735.6	\$779.0
Fantasy 5	\$259.7	\$252.5	\$306.7	\$326.2	\$309.4
Cash 3	\$349.2	\$345.6	\$343.2	\$348.7	\$336.1
Play 4	\$192.6	\$207.0	\$215.5	\$225.3	\$227.9
Mega Money	\$125.9	\$131.2	\$128.5	\$130.1	\$122.7
Raffle				\$72.6	\$30.8
Total On-line	\$1,712.8	\$1,626.1	\$1,828.9	\$1,838.5	\$1,805.9

* Data for FY 2007-08 is unaudited.

The Lottery is pursuing a comprehensive and aggressive strategy to out-perform the projections of the Revenue Estimating Conference (REC) with regard to sales and EETF revenue. For FY 2008-09, the REC has forecasted Scratch-Off ticket sales to decrease by 4.72%, while On-line sales are actually projected to increase due to the introduction of Powerball ® in January 2009.

Florida Lottery game sales have been showing declines when compared to prior years since early 2008. The rapid rise in gasoline prices and the resulting drop in available funds for discretionary spending in products like lottery tickets seem to be the key factor for the declines; however, other economic conditions, most notably the dramatic decline in the housing market, the credit crisis and the increase in grocery prices are also likely contributors. So far this fiscal year, Lottery sales are down 6% from a year ago. Only the daily games, CASH 3™ and PLAY 4™, have run counter to the downward trend. This has been due to the addition of midday drawings, which began in May 2008.

Given Florida's growing demand for education funding (the class-size constitutional amendment and Bright Futures scholarships are but two examples), policy makers recently found themselves needing to supplement the Educational Enhancement Trust Fund for revenues that were previously anticipated from the Lottery. A repeat of 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 that nothing outlined within this strategy should be construed as an expansion of lottery gaming. In other words, the Lottery will not be required to request legislative changes 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 to a per capita level comparable to other successful states. 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 FY 2009-10 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 new product and promotion options.
- 📖 On-line gaming contract allows for growth to 20,000 terminals and provides multiple opportunities for new play styles and promotions.
- 📖 The Lottery has negotiated a new contract with provisions and strategies to enhance its Scratch-Off ticket sales.
- 📖 Unclaimed funds are being used to enhance player satisfaction with internet-based second chance drawings and other promotional games.
- 📖 Full scale deployment of the Lottery’s Web site as a marketing tool.
- 📖 Web site enhancements have allowed more efficient player interaction.
- 📖 The Lottery’s 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.



Weaknesses ⇒

- 📖 Showing signs of slowing growth typical of mature lotteries, experiencing a slower growth rate for the third consecutive year compared to the previous five years.
- 📖 Low market penetration – the Lottery’s retailer-to-population ratio ranks nine 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.
- 📖 Heavy reliance on the unpredictable jackpot rollovers of its flagship game, FLORIDA LOTTO™, to drive game sales. Although efforts have been made to enhance the game, sales remain relatively flat.
- 📖 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.
- 📖 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.
- 📖 Create new strategic alliances focused on increasing sales.
- 📖 Deployment of Instant Ticket Vending Machines (ITVMs) into the marketplace to achieve the efficient return on investment possible.
- 📖 Upgrade department operations to use available technology from vendors to allow more player flexibility and higher satisfaction.

Threats ⇒

- 📖 Inadequate 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.”
- 📖 Rising investment costs impact jackpot levels and cash management options.
- 📖 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.
- 📖 Compliance with mandates of other state agencies could jeopardize Lottery sales.
- 📖 Reduced discretionary spending by Florida consumers.

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 FY 2009-10 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 approximately 13,300 retailers located statewide.

The Lottery’s advertising budget has actually been reduced over the last several years. In FY 2000-01, the Lottery’s advertising budget totaled \$36.24 million; today the budget is \$34.86 million. Even more significantly, the budget as a percentage of sales has dropped from 1.60% to .80%. In addition, the current budget does not allow for increases that have occurred within the media industry. 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.

Despite annual appropriation reductions, the Lottery continues to implement numerous cost savings initiatives throughout agency operations to remain within the allotted appropriation limits. Since fiscal year 2006, the appropriation for contracted services and office expenses has been reduced by 22%, while the Operating Capital Outlay (OCO) base appropriation has decreased from \$1.10 million in FY 01-02 to \$1,000 for the current fiscal year. The Lottery no longer



has a recurring base budget for the maintenance and upkeep of its vehicle fleet, which is used by sales representatives throughout the state. Additionally, on an annual basis, the agency requests an appropriation for the purchase of motor vehicles to replace its' aging fleet. While the Lottery continues to reduce costs and achieve operating efficiencies, the agency has been unable to recognize any financial benefit for our savings.

A successful business must reinvest in its infrastructure in order to grow and offer additional services to its customers. Past experience has shown that we are unable to use these efficiencies toward sustaining our infrastructure. Immediate impacts in our infrastructure should be made to incentivize the sales staff, replace a failing telephone system, maintain or replace vehicles and create an accounting system to support a \$4 billion-per-year entrepreneurial business.

Opportunities

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

To restate, the goal of the Lottery will be a simple one: To achieve the goal of continuing our mission of increasing our funding. By implementing the items outlined in this plan, the Lottery believes it can achieve \$5 billion in annual sales within three fiscal years. That should translate to about \$1.50 billion per year to education – up from \$1.28 billion today.

NEW AND ENHANCED GAMES AND PROMOTIONS

With the implementation of the multi-state game of Powerball® beginning in January 2009, the transfers to EETF are expected to be even higher. Strategic utilization of EZmatch™ and MILLIONAIRE RAFFLE™ provides player satisfaction while increasing the amount of the transfers. The Lottery's Product Development Team are constantly monitoring and evaluating the marketplace for new and exciting opportunities to provide players.



RETAILER NETWORK EXPANSION

When analyzing states with higher per capita sales, Florida ranks second from the top in total population and ninth in annual per capita sales. The top 10 states average a retailer density of 1-to-1,200 versus retailer density of 1-to-1,400 for the next thirty states. The average per capita level for the lower 30 states is 65.60% less than that of the top ten states. Also, the average retailer sales for the top 10 states is 136% better than the next 20 states showing better in-store marketing of the products. Clearly, retailer density is important.

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-1,400. This indicates that Florida's ideal number of retailers should be 15,300, instead of the roughly 13,300 that currently exist. Two thousand additional retailers would constitute a 15% increase in the overall number of retailers. Given past sales performance standards, every 1,000 additional retailers would translate into approximately \$40-60 million in additional annual sales. 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. Once again in its April 2008 report (no. 08-19), 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 also states that adding 1,500 new retailers to the Florida Lottery's retailer base has the potential to generate an additional \$37 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.

INSTANT TICKET VENDING MACHINES (ITVMs)

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 ITVMs 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 13,300-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 of sales, and a 1% commission for redeeming 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 is 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

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 helpful resources. In the past year, the Lottery has incorporated new marketing and sales initiatives, including Webcasting of Lottery drawings, online second-chance drawings, digital videos of Lottery players and commercials for new games. Interactive features could be added to the Lottery Web site 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 may log in and generate their own sales reports, update their information and request other services.

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. "\$19 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

No policy changes which would require legislative action are anticipated at this time.

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 type of data helps improve the Lottery's ability to increase sales and transfer more money to the EETF.

Retailer Satisfaction Survey - This is an annual survey developed to assess retailers' overall satisfaction level with lottery employees and the general level of



service they receive from the Florida Lottery, including: visits to the retailer by the Lottery sales representatives, stocking and upkeep of the Lottery playstation, inventory management, staff training and Lottery orientation, point-of-sale materials, Lottery help desk, Lottery Web site; and to assess retailers' satisfaction with the Florida Lottery's On-line and Scratch-Off vendors.

Scratch Game Opti-Mix – This is a bi-annual analysis of prospective Scratch-Off games conducted online to determine the potential of 25 to 50 scratch tickets under consideration (with varying price points) among scratch players in Florida (by the total population and by the Lottery's scratch player segments).

Scratch-Off Market Segmentation Study – The results of this study are used on a monthly basis to 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 are 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 conducts focus groups in three cities to ascertain customer acceptance of potential game changes to On-line games. This was recently done for LOTTO PLUS™.

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.

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 Representatives' Routes – The Florida Lottery uses MAPINFO and CLARITAS to “Load Balance” the routes of the sales force. This is done on an as needed basis when a route is added or eliminated. This is also done to balance the number of retailers for each representative, in order to service our retailers more efficiently.

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.

LIST OF RECENTLY COMPLETED STUDIES THAT ARE RECURRING IN NATURE

Market Segmentation – 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 sales and maximize advertising return on investment.

Security Review - The Florida Lottery is mandated by Chapter 24 of the Florida Statutes, to "engage 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 Department." This evaluation is required every two years. The scope of this review covers Lottery Security; Lottery Applications, Communications, and Operational Systems; and the Security of Gaming Vendors Operations. The review focuses on areas of greatest risk and vulnerability, examining not only standard security practices, but also areas where unauthorized intrusion could potentially damage the integrity of the Lottery.



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 2008-09 (Words)	Approved Prior Year Standard FY 2007-08 (Numbers)	Prior Year Actual FY 2007-08 (Numbers)	Approved Standards for FY 2008-09 (Numbers)	Requested FY 2009-10 Standard (Numbers)
Transfers to the state Educational Enhancement Trust Fund	\$1.206 B	\$1.283 B	\$1.206 B	\$1.206 B
Total revenue in dollars	\$3.918 B	\$4.204 B	\$3.918 B	\$3.918 B
Operating Expense* as percent of total revenue	9.52%	9.28 %	9.52%	9.52%
Percent of respondents who are aware of the Lottery's contribution to education	65%	67%	65%	65%
Provide executive direction and support services for all lottery operations as measured by percent of total agency budget	6.2%	5.81%	6.2%	6.2%

- *Includes payments to gaming vendors and retailer commissions*



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

Measure Number	Approved Performance Measures for FY 2008-09 (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> <p>Compensate retailers in the form of incentives</p>



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
4	Percent of respondents who are aware of the Lottery's contribution to education	Compensate retailers in the form of incentives
		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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Note: Activity Titles are to be revised in FY 2009-10.



LOTTERY, DEPARTMENT OF THE		FISCAL YEAR 2007-08			
SECTION I: BUDGET		OPERATING		FIXED CAPITAL OUTLAY	
TOTAL ALL FUNDS GENERAL APPROPRIATIONS ACT			161,004,712	0	
ADJUSTMENTS TO GENERAL APPROPRIATIONS ACT (Supplementals, Vetoes, Budget Amendments, etc.)			3,817,148	0	
FINAL BUDGET FOR AGENCY			164,821,860	0	
SECTION II: ACTIVITIES * MEASURES		Number of Units	(1) Unit Cost	(2) Expenditures (Allocated)	(3) FCO
<i>Executive Direction, Administrative Support and Information Technology (2)</i>					0
Supervise And Administer The Operation Of Lottery Games * Number of games administered		140	83,094.53	11,633,234	
Conduct Market Research And Special Studies * Number of studies conducted		39	18,951.92	739,125	
Provide Adequate And Convenient Availability Of Tickets To The Public * Number of tickets sold		2,338,350,823	0.04	99,238,204	
Advertise And Promote Lottery Games * Total gross annual sales		4,227,170,465	0.01	34,187,723	
Conduct Investigations Of Retailers, Vendors And Employees * Number of investigations conducted		5,388	609.37	3,283,291	
Pay Prizes For Winning Tickets Submitted To Lottery Headquarters * Number of prizewinners paid		55,755	18.41	1,026,173	
Keep The Public Informed Of Lottery Activities * Number of media releases and public education materials distributed		7,849,569	0.41	3,243,985	
Compensate Retailers In The Form Of Incentives * Number of retailers compensated		34,184	63.84	2,182,350	
TOTAL				155,534,085	
SECTION III: RECONCILIATION TO BUDGET					
PASS THROUGHS					
TRANSFER - STATE AGENCIES					
AID TO LOCAL GOVERNMENTS					
PAYMENT OF PENSIONS, BENEFITS AND CLAIMS					
OTHER				6,893,835	
REVERSIONS				2,393,954	
TOTAL BUDGET FOR AGENCY (Total Activities + Pass Throughs + Reversions) - Should equal Section I above. (4)				164,821,874	

SCHEDULE XI/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.

OCO - Operating Capital Outlay

OPPAGA – Office of Program Policy and Government Accountability.

REC – Revenue Estimating Conference.