

CHARLIE CRIST  
*Governor*



LEO DIBENIGNO  
*Secretary*

## FLORIDA LOTTERY

### LONG RANGE PROGRAM PLAN

September 30, 2010

Jerry L. McDaniel, Director  
Office of Policy and Budget  
Executive Office of the Governor  
1701 Capitol  
Tallahassee, Florida 32399-0001

JoAnne Leznoff, Council Director  
House Full Appropriations Council  
221 Capitol  
Tallahassee, Florida 32399-1300

David Coburn, Staff Director  
Senate Policy and Steering Committee on Ways and Means  
201 Capitol  
Tallahassee, Florida 32399-1300

Dear Directors:

Pursuant to Chapter 216, Florida Statutes, our Long Range Program Plan (LRPP) for the Florida Lottery is submitted in the format prescribed in the budget instructions. The information provided electronically and contained herein is a true and accurate presentation of our mission, goals, objectives and measures for the Fiscal Year 2011-12 through Fiscal Year 2015-16. This submission has been approved by Leo DiBenigno, Secretary, Florida Lottery

Any questions concerning this submission can be directed to the Florida Lottery's Budget Manager, Melisa Spivey, at 487-7777 extension 2440.

Sincerely,

A handwritten signature in blue ink that reads "Cynthia B. Jackson".

Cynthia B. Jackson, CPA  
Chief Financial Officer  
CBJ/ms  
Enclosures



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**Florida Lottery**

**Long-Range Program Plan  
Fiscal Years 2011-12 through 2015-16**

Leo DiBenigno, Secretary  
September 2010



## 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





## Agency Goals and Objectives

In the Florida Lottery's 23rd year of operation, the department continues to recognize the need for constant commitment and perseverance to meet the challenges resulting from the slowing growth typical of mature lotteries and a slumping economy. As always, the Florida Lottery is 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 \$1.24 billion in FY 2009-10.

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.

The Florida Lottery refuses to simply accept the notion that as a mature organization it must accept the fate of slower growth and lower sales. The department continues to set goals to move the organization forward to transcend the stagnant perception. 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 is working towards regaining and surpassing its previous sales levels by reaching the goal of \$5 billion in annual sales.

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.



## Agency Service Outcome and Performance Projection Table (Based on Revenue Estimating Conference)

(Outcome: Annual Transfers to the EETF)

Baseline FY 1997-98	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
\$801.68 M	\$1.17 Billion	\$1.21 Billion	\$1.22 Billion	\$1.24 Billion	\$1.24 Billion

The Lottery's financial impact to the state goes well beyond merely selling tickets and paying prizes. One result that provides positive dividends to the state's overall bottom-line includes significant savings to debt management. Due to the Lottery's stable revenue projections, the Division of Bond Finance was able earlier this year to refinance \$371 million in 1998 and 2001 Lottery Revenue bonds with the result of saving \$51 million dollars in reduced interest payments to the bond holders. Paying less interest on outstanding bond debt permits a larger percentage of Lottery revenue to go directly to education programs funded via EETF.



## Linkage to Governor's Priorities

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 Florida Lottery supports a number of these priorities, primarily "Success for Every Student." The Lottery firmly believes that education is the key to success for Florida's 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, 2010, Florida Lottery ticket sales have generated more than \$21 billion to education. Although Lottery contributions constitute only approximately six 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 2009-10, 21 Lottery employees assisted public school students as mentors or tutors, providing extra support needed to help these students have a successful school year.

Not only is the Lottery committed to improving the education of the children of Florida, but two of its major vendors realize the importance of a quality education by sponsoring opportunities for learning experiences. The "After School Advantage Program" opens three new computer centers per year providing



computer access to at-risk children ages 5-18 in afterschool programs. Additionally, seven selected Bright Futures scholarship students are offered annual internships in areas such as marketing research, account management, copywriting, design, and media.

### **Keeping Florida's Economy Vibrant**

Being a \$4 billion-per-year business, the Lottery helps stimulate Florida's economy in a number of ways. Upon the Florida Lottery joining POWERBALL® in January 2009, the Universal Orlando Resort became the location for the POWERBALL drawings resulting in an unprecedented partnership within the lottery industry. With Florida hosting the twice-weekly drawings to nearly 100 television stations nationwide, the new partnership brings another resource for nationwide exposure to Florida's assets.

During FY 2009-10, the Lottery contracted with approximately 13,200 retailers, located throughout the state, who earned more than \$216 million in commissions and incentives by selling tickets and redeeming prizes. Of that, approximately \$57.4 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 relating to Lottery retailer integrity and customer service.

The Florida Lottery's recruitment plan includes partnering with 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. Commission dollars are often used to grow business, attract customers and help stimulate Florida's economy. Florida Lottery customers often



make multiple trips to retail locations increasing the likelihood of making additional purchases of staple inventory.

In FY 2009-10, the Florida Lottery disbursed approximately \$2.34 billion to winners of lottery prizes. Approximately 75 percent 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 for customers to spend some or all of their 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's Division of Security is a state law enforcement agency that is staffed 24 hours a day, seven days a week. The division employs sworn law enforcement officers with statewide jurisdiction.

With the help of Lottery special agents, 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 2009-10, the Florida Lottery was involved in eight Amber Alert activations. When 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.

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 site 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'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.

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 Attorney's Office to submit appropriate paperwork for the filing of criminal charges. A brochure is available in hard copy as well as on the Lottery's Web site detailing the law enforcement assistance offered and provided by the Division of Security.

During FY 2009-10, the Division of Security continued its efforts in crime/loss prevention awareness. The Division of Security collaborated with the South American Theft Group Intelligence Network (SATGIN), a not-for-profit organization established to facilitate a networking platform for law enforcement intelligence sharing and assisting industry and corporate professionals in crime prevention and safety. The focus of the group is South American theft groups. These organized criminals are responsible for much of the lottery scams perpetrated against the elderly in Florida. Through this involvement, the Lottery has been able to provide many agencies with public service announcement videos regarding lottery scams for broadcast on local television stations. We have also acted as a conduit to get other lottery security offices in touch with local Florida law enforcement agencies regarding individuals acting in multiple states.

The Division of Security is exploring an opportunity to update the Lottery scams brochure, and has had discussions with the Florida Bankers Association regarding the placement of the brochures in bank lobbies in an effort to prevent the public from becoming victims of fraudulent schemes. The scams brochures continue to be useful to our local law enforcement agencies, and are distributed to community members during crime prevention presentations. The primary focus of these brochures is to help educate the elderly about lottery scams; however, the brochures are made available to all citizens. An "Advice for Winners" flyer, with security tips, is distributed to winners of \$100,000 or more. And, hurricane flyers with tips on how to keep lottery products safe in the event of severe weather are distributed to all Lottery retailers at the start of hurricane season.

The division has submitted articles for the Lottery's retailer newsletter concerning preparations for flu season or a potential pandemic, and appropriate steps for retailers to take in responding to and reporting the theft of lottery tickets. Terminal



messages are sent advising retailers to be aware of potential fraud scams including snatch and grab attempts, and Lottery employee impersonators.



## Trends and Conditions Statement

The Florida Lottery was created in 1988 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.

The Lottery offers a variety of On-line games, Scratch-Off games, and promotions that have generated more than \$60 billion in revenues, more than \$32 billion in prizes and \$21 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 determine its priorities, which include 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 these priorities.

### Accomplishments ⇒

- 📖 FY 2009-10 was the eighth consecutive year the Florida Lottery transferred in excess of \$1 billion to the Educational Enhancement Trust Fund (EETF).
- 📖 Florida ranked fourth highest in the domestic lottery industry for government transfers to its beneficiary (the EETF) as a percentage of sales.
- 📖 In FY 2009-10, the Lottery achieved \$3.89 billion in total ticket sales despite a slow economy.
- 📖 The Lottery boasts the strongest \$20 Scratch-Off ticket sales in the nation.
- 📖 In FY 2009-10, total ticket sales were the third highest in the nation.
- 📖 The Lottery offers one of the highest selling licensed-property Scratch-Off games in the nation.



- 📖 The Lottery's FLORIDA LOTTO™ game is the strongest single-state lotto game in the nation.
- 📖 The Lottery is ranked among the top 12 in the domestic lottery industry in per capita sales.
- 📖 The Lottery is ranked among the top 5 in the domestic lottery industry for total Scratch-Off sales.
- 📖 The Lottery is ranked eighth in worldwide lotteries for total Scratch-Off sales.

*LaFleur's 2010 World Lottery Almanac*

## Current Lottery Operations

During FY 2009-10, the Florida Lottery achieved total revenues exceeding \$3.90 billion, down slightly from \$3.96 billion in FY 2008-09. Transfers to the Educational Enhancement Trust Fund for FY 2009-10 were approximately \$1.24 billion (unaudited), down 3.16% from the previous year. Although revenues and transfers reflect small decreases from the previous year, this marks the eighth 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 13,200 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 reflect a slight decrease in the last five years from \$3.94 billion to \$3.90 billion (1.02%). The Lottery's contributions to public education have increased from \$1.22 billion to approximately \$1.24 billion (1.64%) during this same period. Also noteworthy is the fact that the Lottery's operating costs, expressed as a percentage of revenue, have only experienced a slight increase over time, from 1.82% in FY 2005-06 to 1.87% in FY 2009-10. 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 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10*
Total Revenues	\$3,946.7	\$4,142.5	\$4,203.9	\$3,960.1	\$3,909.0
Total EETF Transfers	\$1,224.6	\$1,263.2	\$1,283.4	\$1,287.8	\$1,247.1
Total Operating Costs **	\$71.8	\$73.3	\$73.0	\$72.7	\$73.1
Total FTE's	440	440	440	438	438
Operating Costs as a Percent of Total Revenue	1.82%	1.77%	1.74%	1.84%	1.87%
EETF Contribution per FTE	\$2.8	\$2.9	\$2.9	\$2.9	\$2.8

\*Data for FY 2009-10 is unaudited.

\*\*Department operations only.

The contribution to the Educational Enhancement Trust Fund (EETF) per Lottery employee has remained fairly constant through this five-year period, even though human resources have decreased slightly over time.

Although the past two fiscal years' revenue has declined, the overall revenue growth for the past five fiscal years has averaged 2.50% per year. Table 2 provides an illustration of sales by product for the five most recent fiscal years. As shown, Scratch-Off ticket sales have decreased 1.10% over the period and On-line ticket sales have decreased 0.36%.



**Table 2**

	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10*
Scratch-Off	\$2,100.1	\$2,283.6	\$2,368.8	\$2,064.1	\$2,077.1
LOTTO	\$835.0	\$735.6	\$779.0	\$650.6	\$445.9
Fantasy 5	\$306.7	\$326.2	\$309.4	\$287.3	\$282.0
Cash 3	\$343.2	\$348.7	\$336.1	\$320.2	\$304.0
Play 4	\$215.5	\$225.3	\$227.9	\$239.0	\$235.0
Mega Money	\$128.5	\$130.1	\$122.7	\$102.2	\$92.1
Raffle		\$72.5	\$30.8	\$41.3	\$29.3
Power Ball				\$233.4	\$434.1
<b>Total On-line</b>	<b>\$1,828.9</b>	<b>\$1,838.4</b>	<b>\$1,805.9</b>	<b>\$1,873.9</b>	<b>\$1,822.3</b>

\* Data for FY 2009-10 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 2010-11, the REC has forecasted Scratch-Off ticket sales to increase by 1.41%, and On-line sales are projected to decrease by 2%.

Florida Lottery game sales have been showing declines when compared to prior years since early 2008. The fluctuation of gasoline prices and the resulting drop in available funds for discretionary spending in products like lottery tickets seem to be the key factors for the declines; however, other economic conditions, most notably the rise in home foreclosures, the credit crisis and the increase in grocery prices, are also likely contributors. So far this fiscal year, Lottery sales are down 2% from a year ago.

Given Florida's growing demand for education funding (the class-size constitutional amendment and Bright Futures scholarships are but two examples), for FY 2008-09, and FY 2009-10 policy makers found themselves needing to supplement the Educational Enhancement Trust Fund for revenues that were previously anticipated from the Lottery. 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 its 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 2011-12 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 and weaknesses, as well as opportunities and threats.

### Strengths ⇒

- 📖 Flexible prize payout authority for both Scratch-Off and On-line games.
- 📖 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.
- 📖 Deployment of Instant Ticket Vending Machines (ITVMs) into the marketplace was forecasted to achieve an efficient return on investment.
- 📖 Scratch-Off contract provides strategies to enhance Scratch-Off ticket sales.
- 📖 POWERBALL® game continues to provide an additional revenue source and increased player enjoyment.
- 📖 Midday draws for CASH 3® and PLAY 4™ offer players’ two chances daily to play and win.
- 📖 Overall Scratch-Off sales have increased for the 1,000 retailers that have an Instant Ticket Vending Machine (ITVM) in their stores.
- 📖 The addition of XTRA® to FLORIDA LOTTO in October 2009 has been received positively by players.
- 📖 Multiple \$20 Scratch-Off games continue to rank at the top in sales for all Scratch-Off games available. 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, which include enhancements that have allowed more efficient player interaction, has proven successful.

### **Weaknesses** ⇒

- 📖 Signs of continued slow growth, which is typical of mature lotteries, with negative growth present for the last 30 months.
- 📖 Low market penetration; the Lottery's retailer-to-population ratio ranks 22<sup>nd</sup> out of 43 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.
- 📖 Reduced Retailer Incentive funding impacts the ability to reward top-selling retailers.

### **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.
- 📖 Ability to maintain a competitive advantage in the areas of distribution channel management, product development, product positioning, identifying new market opportunities, and expanded retailer network, particularly underrepresented minorities.
- 📖 Licensed-property Scratch-Off games with second chance drawings provide an opportunity to attract new players.
- 📖 Ability to create new strategic alliances focused on increasing sales.
- 📖 Department operations may be upgraded to use available technology from vendors to allow more player flexibility and higher satisfaction.



📖 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.

### 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.”
- 📖 The current economic conditions have caused business closings, as well as terminations due to low ticket sales or other financial issues, thus hampering the ability to increase the retailer network to its full potential.
- 📖 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.
- 📖 Inadequate Salaries and Benefits funding to compete with private sector compensation packages.

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 2011-12 for the replacement of an aging fleet of vehicles used on a daily basis by the sales force responsible for supporting the approximately 13,200 retailers located statewide.

Approval was granted in the Lottery’s Legislative Budget Request (LBR) for FY 2010-11 to purchase replacement ball machines used for two of the On-line games. The Lottery will be requesting additional ball machines be replaced in the FY 2011-12 LBR. The draw machines currently in use were purchased in 1997, and although all draw machines receive preventive maintenance and cleaning,



they are subject to malfunction due to their age and frequent use. It is imperative that the Lottery maintain public confidence, without which could result in loss of revenue due to a malfunction of one of its draw machines during a live draw.

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. For FY 2010-11 the Advertising budget totals \$34.86 million and is separated in three budget appropriations: \$30.59 million for Advertising; \$3.15 million for Advertising Agency Fees, and \$1.12 million for a Compulsive Gambling Program. Even more significantly, the budget as a percentage of sales has dropped from 1.60% to .88%. In addition, the current budget does not allow for increases occurring within the media industry. 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, which include renegotiating contracts, scrutinizing return on investments and reengineered existing processes, throughout agency operations to remain within the allotted appropriation limits. Since fiscal year 2006, the appropriation for Contracted Services and Expenses has been reduced by 23%, while the Operating Capital Outlay (OCO) base appropriation has decreased from \$1.10 million in FY 2001-02 to \$1,000 for the current fiscal year. In addition, the Lottery no longer has a recurring base budget for vehicle acquisitions; therefore, the agency must request an appropriation for the purchase of motor vehicles to replace its aging fleet annually. Vehicles are used by sales staff throughout the state on a daily basis. 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 aging technology, and maintain or replace vehicles 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 long-range plan, the Lottery is working towards regaining its previous sales levels to begin moving toward the goal of \$5 billion in annual sales.

### **New and Enhanced Games and Promotions**

Lottery states that sell POWERBALL and MEGA MILLIONS™ were given the authority to cross-sell games beginning in January 2010. Currently, POWERBALL is sold in all lottery states except California, and MEGA MILLIONS is sold in all lottery states except Louisiana and Florida. Florida has not yet elected to join MEGA MILLIONS because of our concern about the potential sales impact on our popular FLORIDA LOTTO game. The development of a national lottery game is underway and could be launched in FY 2010-11. Florida anticipates joining a national game at some time in the future.

With an increased number of large states now selling POWERBALL, jackpots are more robust and faster growing. Four POWERBALL rollover series achieved jackpots higher than \$200 million in FY 2009-10. Florida has had two POWERBALL jackpot winners since joining the consortium in January 2009.

FLORIDA LOTTO continues to be the Lottery's most popular game although sales have declined by more than 40% since POWERBALL was introduced. The highest FLORIDA LOTTO jackpot in FY 2009-10 was \$52 million. Since XTRA was introduced in October 2009, more than 10% of players have added the new feature to their FLORIDA LOTTO purchase.

The Lottery's Product Development Team is constantly monitoring and evaluating the marketplace for new and exciting opportunities to provide players.



Two new On-line games will be introduced in FY 2010-11. A new play type called 1-OFF™ was added to CASH 3 on August 23, 2010. 1-OFF allows players to miss one or more of the three digits in their CASH 3 number by one and still win a cash prize. CASH 3 1-OFF tickets contain 26 additional numbers that are all possible combinations with one number higher or lower than the 3-digit number selected by the player. If the 3-digit number comes in Straight, they win \$250 on a \$1 play (or \$125 on a \$.50 play.) If their number is 1-OFF, the player wins \$10 on a \$1 play (or \$5 on a \$.50 play.)

LUCKY LINES™ is a new instant-win, On-line game that will be launched in October 2010. Players can select their own numbers or Quick Pick seven numbers, and play for \$1, \$2, \$3, or \$5. The LUCKY LINES ticket will contain their seven numbers and a game board with numbers 1 through 49. Players circle their seven numbers on the game board section of the ticket, and if the numbers form a winning pattern they can win instant cash prizes of up to \$3 million. A winning pattern is composed of three to seven numbers in a horizontal, vertical or diagonal line, or of none of the seven numbers touching.

The Lottery is utilizing more licensed games to attract new players. BASS PRO SHOPS®, SHERLOCK HOLMES and THE PRICE IS RIGHT® were high-sales-indexing games that launched in FY 2009-10. Several licensed games with second chance drawings will be launched in FY 2010-11, including our first affiliation with the National Football League. The DOLPHINS, TAMPA BAY BUCCANEERS and JACKSONVILLE JAGUARS games launched in August 2010, and included second chance drawings that offer players a chance to win once-in-a-lifetime experiential prizes, season tickets and team merchandise.

The CRUISE FOR CASH game launched in September 2010, and also included a second chance promotion that provides players a chance to win Royal Caribbean International® cruise packages. Once again, players may participate in second chance drawings based upon partnerships with the Florida Gators®, Florida State Seminoles®, and the Miami Hurricanes® for chances to win season tickets and team merchandise.

In December 2010, players will be able to play MOVIE NITE and have a chance to win movie tickets and concession.

After four successful seasons, the *Holiday* MILLIONAIRE RAFFLE™ game is not planned for this year due to the timing of the LUCKY LINES launch.



## **Retailer Network Expansion**

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. Accompanying this net increase will be a gain in profits or, in Florida's case, an increase in EETF monies. In recent years, by placing a special emphasis on retailer recruitment, the Florida Lottery has been able to reduce the gap between its population-to-retailer ratio (1,430 per retailer) to its current 1,386 per retailer. Since 2004, the Lottery increased its number of full-service retailers from 9,700 to its present 13,200.

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. As a result of such findings, in September 2007, the Lottery received authority to lease an additional 500 retailer terminals from its On-line vendor, which will ultimately bring the retailer base to 13,500.

Once again, in its January 2010 report (No. 10-16), 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 \$32 million annually for the Educational Enhancement Trust Fund. The report went on to recommend that the Lottery focus its retailer recruitment efforts in geographic areas currently with lower Lottery retailer densities. It also suggested that the Lottery take a careful look at the return on investment of its various recruitment tools.

These efforts will continue as the Lottery seeks more retailers who are able to sustain profitable sales levels, while at the same time exploring new venues and distribution channels. The Inspector General's Office completed an analysis of the effectiveness of the major tools in use by the Lottery to recruit retailers, such as targeted prospect calling, retailer seminars and sales representative contests. In addition, the Lottery is continuously considering new games that have the potential for sales in different kinds of trade style locations, e.g., restaurants and bars.

As a result of an audit conducted by the Inspector General's Office, and based on consultation with the Secretary, the number of retailer recruitment seminars



was reduced, but not discontinued. In addition, the use of outreach seminars was increased. Efforts to continually increase the Florida Lottery's retailer base with quality retailers are on-going through the use of the retailer recruitment seminars and outreach missions.

The first retailer recruitment seminar for FY 2009-10 was held on November 3, 2009 in the Orlando district. This seminar resulted in 79 representatives in attendance representing 39 businesses, with seven applications submitted. Follow up efforts are still under way with the district to secure additional applications from other attendees. The second seminar, which was held in South Florida to combine the West Palm Beach and Miami districts, was held on May 13, 2010. There were 50 representatives in attendance, representing 35 businesses. One application was obtained at the second seminar and approximately eight to 10 applications are currently being secured from businesses that stayed after the seminar. Both of the aforementioned seminars were conducted in the documented low-market-penetration areas as identified in OPPAGA's retailer recruitment low-market-penetration map.

Additionally, a sales Outreach mission was held July 12 – 15, 2010 in the low-market-penetration areas of the Orlando district. It is anticipated that half of the prospects will be submitting applications as a result of the face-to-face appointments that were conducted. Further, the Lottery's Business Development unit is currently gathering information from other state lotteries pertaining to retailer recruitment, employee recruitment incentives, and policy and procedures to compare with the Florida Lottery's existing methods and documents in an attempt to identify additional strategies to improve retailer recruitment, and possibly offer employee recruitment incentives in the future.

### **Instant Ticket Vending Machines (ITVMs)**

Instant Ticket Vending Machines, or ITVMs, are an example of an alternative retail channel. These machines operate just as soft drink and candy vending machines do, except that the products for sale are Scratch-Off tickets. Besides enhancing customer convenience, ITVMs can increase product visibility and, in so doing, boost Lottery sales. ITVMs also can be attractive to non-traditional and larger corporate retailers concerned about labor costs, who in the past have been hesitant to sell lottery tickets over the counter.

Chapter 24, Florida Statutes, specifically authorizes the Lottery to utilize ITVMs, but the lack of budgetary authority to lease these machines resulted in the Florida Lottery doing without ITVMs from 2002 to 2009. A successful pilot study and a favorable impact analysis by the Revenue Estimating Conference in 2008,



however, set the stage for the Legislature to authorize the leasing and installation of 1,000 ITVMs in Florida Lottery retailers in FY 2009-10.

The Lottery, and its gaming system vendor, GTECH, acted quickly on this new authority by manufacturing, shipping and installing 1,000 ITVMs in existing Lottery retailer locations throughout the state by October 2009. The vast majority of machines were installed in the high-volume-sales stores of the six largest grocery store chains in Florida. Fifty or so were installed in independently-owned stores with strong records of Scratch-off game sales.

As anticipated, the installation of ITVMs had a significant, beneficial effect on lottery sales at these retail locations. For the 37-week period extending from mid-October 2009 until the end of June 2010, Scratch-Off game sales grew by a net 20% over the year at retailer locations with ITVMs, compared to a Scratch-Off game sales increase of just 1% for all Lottery retailers and a decline of 2% among retailers without ITVMs. The word “net” is important here; it reflects the fact that the sales figures referenced are not just sales through the ITVMs but sales over the counter as well. Putting it another way, the ITVM retailers recorded an overall 20% gain by location – even after considering the sales shift from service counter to ITVM.

A just-completed quarterly update, required by proviso language in the FY 2010-11 General Appropriations Act, covered just the April-June 2010 period but found results quite similar to those just described. During that period, ITVM retailers saw net growth of 17.43% in Scratch-Off game sales, while statewide sales rose 1.26%. It was also determined, by comparing that quarter’s sales to the corresponding period in the previous year, that approximately 43% of the sales through the ITVMs had been the result of a shift from the service counter – meaning that 57% of sales using the ITVMs were new sales for each location.

The Florida Lottery’s goal has been to exceed the REC’s May 2009 forecasts of the net gain in EETF to be realized from ITVMs. In that REC impact statement, installation of the machines was to generate a net gain of \$3.5 million in EETF on an annualized basis. This estimate was premised on a net gain of \$40.4 million in sales. Annualizing the fourth quarter FY 2009-10 results to a full year (simply multiplying the quarterly net gain by four) yields an annual sales gain of \$55.8 million. Using the EETF contribution rate employed in the July 2010 REC, the net EETF gain from the ITVMs would be \$10.6 million on an annual basis.

Because this initial placement of 1,000 ITVMs will represent a 7% penetration rate, as opposed to the industry standard of 16%, the Lottery sought authority for leasing additional ITVMs during the 2010 legislative session. The Appropriations Act did authorize spending of \$987,000, and authorized the Lottery to seek further budgetary authority through the budget amendment process. However,





proviso language also set a per-machine-per-month lease fee limit of \$329. As of this writing, exploration of ways to obtain the needed machines continues.

### **Retailer Commissions and Incentives**

As mandated by the FY 2010-11 Appropriations Act, the Lottery is studying potential changes to its current compensation structure by analyzing the compensation frameworks of other U.S. lotteries and of comparable consumer goods companies, as well as by conducting surveys and focus groups involving our retailers. 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. The study will address sales commissions, prize redemption bonuses and incentives for increased sales.

### **Infrastructure**

In order to continue to operate as a successful business enterprise, the Lottery must ensure it has the tools and support necessary to continue, as well as improve, its core operations. As a 22-year-old business, the Lottery is looking to newer equipment that reduces operating costs, has a smaller footprint and power consumption, provides increased capabilities, and has an overall lower total cost of ownership. As the Lottery launches new products or modifies existing product offerings, the infrastructure and software must be adjusted to provide proper administration, monitoring and auditing of the gaming systems, internal control systems, and the prize payment system.

The Lottery has successfully replaced the phone systems at Lottery Headquarters, the Orlando Data Center (ODC) and the district offices. The Lottery's voice systems play an integral part in the smooth and efficient operation of the business. In the next couple of months, we will be implementing four-digit dialing between headquarters, ODC and the district offices. This will allow the Lottery to utilize the state's MyFloridaNetwork, avoiding long distance charges for interoffice calls.

Players are receiving faster payments after the recent implementation of the custom-developed FORTUNE prize payment system. This comprehensive, Web-based, automated software system supports Lottery payments offering real-time ticket validations, remote payments and accounting of prizes at Lottery district offices; secure role based authorizations; and compliance with Federal and Florida Statutes withholding requirements. The new system empowers the district offices to handle circumstances once forwarded to headquarters in the same automated, secure fashion as all ordinary claims without reliance on headquarters for assistance. This system enables the Lottery to continue to



deliver high-quality, efficient service to its customers well into the future by leveraging Lottery's modern technical architecture that is an industry standard for reliability, scalability and performance.

The Lottery's Business Intelligence (BI) infrastructure continues to provide important analytical information on Lottery sales, promotions, retailers, and products. The Lottery is in the process of implementing a Business Accounting System, scheduled for completion on or before December 31, 2010. The off-the-shelf package is an integrated financial management system composed of General Ledger, Accounts Receivable, Accounts Payable, Cash Management, Cost Management, and Budget Management functionality. It will be installed in the Lottery's Oracle 10g Web application framework that runs on AIX operating system servers.

Averaging over two million unique visitors per month, the Lottery's stable and robust Web site is aligned to support the Lottery's revenue growth in an efficient and cost-effective manner. The Web site will be expanded to provide existing and prospective retailers with access to tools and services; including promotions, forms, business aids, point-of-sale materials, and frequently asked questions. Through this portal, existing retailers will have secured access to additional tools, such as self generated Business Intelligence sales reports for a single store or rolled up to the chain level. The Lottery will continue to incorporate the Web site into its Internet marketing campaigns by offering marketing and sales initiatives, including Webcasting of all Lottery drawings, On-line and Scratch-Off second-chance promotions, digital videos, commercials, e-coupons, e-mail alerts, simulated games, and online prize redemptions.

Obsolete security equipment and the Florida Lottery's Integrated Security System (ISS) need to be replaced. The Lottery recently completed a software migration upgrade to the ISS. The Lottery is in the process of replacing some components of the security system due to equipment failure, and will also replace additional equipment that will allow the security system to operate more efficiently and handle additional demands to system memory and storage. The security system, while operational, contains parts that are almost 23 years old and recommendations to replace the system will continue.

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's 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-two 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. "\$21 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, ongoing 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-Off Game Concept Studies - This is an analysis of prospective Scratch-Off games conducted online or using focus groups to determine the potential of 25 to 50 Scratch-Off games under consideration (with varying price points) among scratch players in Florida (by the total population and by the Lottery's scratch player segments). On occasion these studies use focus groups as well.

On-line Game Concept Studies - In a manner similar to that used for Scratch-Off games, On-line games (jackpot or drawing games) are the subject of special research projects aimed at assessing the player appeal and estimating the potential fiscal impact of those games.

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.

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 Analysis - 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.

Security Review - The Florida Lottery is mandated by Chapter 24, 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.



# FLORIDA LOTTERY

## PERFORMANCE MEASURES AND STANDARDS

### LRPP EXHIBIT II



## 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 2009-10 (Words)	Approved Prior Year Standard FY 2009-10 (Numbers)	Prior Year Actual FY 2009-10 (Numbers)	Approved Standards for FY 2010-11 (Numbers)	Requested FY 2010-11 Standard (Numbers)
Transfers to the state Educational Enhancement Trust Fund	\$1.206 B	\$1.247 B	\$1.206 B	\$1.206 B
Total revenue in dollars	\$3.918 B	\$3.913 B	\$3.918 B	\$3.918 B
Operating Expense* as percent of total revenue	9.52%	8.85 %	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%	6.1%	6.2%	6.2%

*Includes payments to gaming vendors and retailer commissions*



# FLORIDA LOTTERY

## ASSESSMENT OF PERFORMANCE FOR APPROVED PERFORMANCE MEASURES

### LRPP EXHIBIT III





## LRPP Exhibit III: PERFORMANCE MEASURE ASSESSMENT

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

Measure: **Total Revenue in dollars**

**Action:**

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

Approved Standard	Actual Performance Results	Difference (Over/Under)	Percentage Difference
\$3.918	\$3.913	.005	-.12%

**Factors Accounting for the Difference:**

**Internal Factors** (check all that apply):

- |                                                                                                                                                     |                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Personnel Factors<br><input type="checkbox"/> Competing Priorities<br><input type="checkbox"/> Previous Estimate Incorrect | <input type="checkbox"/> Staff Capacity<br><input type="checkbox"/> Level of Training<br><input type="checkbox"/> Other (Identify) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|

**Explanation:**

**External Factors** (check all that apply):

- |                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Resources Unavailable<br><input type="checkbox"/> Legal/Legislative Change<br><input type="checkbox"/> Target Population Change<br><input type="checkbox"/> This Program/Service Cannot Fix The Problem<br><input type="checkbox"/> Current Laws Are Working Against The Agency Mission | <input type="checkbox"/> Technological Problems<br><input type="checkbox"/> Natural Disaster<br><input checked="" type="checkbox"/> Other (Identify) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|

**Explanation:** In FY 2009-10, the Lottery had two significant issues affecting total revenue which resulted in the failure to achieve this Performance Outcome Measure. The Lottery had to record and report a realized security lending loss. The investment loss is an unusual event that related to loss of value in several mortgage-backed investments purchased by the State Board of Administration on the Lottery's behalf. Like all business with investments in the market, risk is mitigated with conservative investment guidelines. Unfortunately, the mortgage-backed investments were deemed to be such that no potential recovery was possible and had to be written off during the period. The Lottery also experienced a \$40 M decrease in total ticket sales from the prior year.

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

- Training  
 Personnel

- Technology  
 Other (Identify)

**Recommendations:** The Lottery is currently continuing to participate in the security lending income program with the State Board of Administration. The department believes that the loss generated in the prior year is a one-time event, and has worked with the SBA to revise the investment guidelines to mitigate such risks in the future. Although the July 2010 Revenue Estimating Conference has projected a decrease in total ticket sales, the Lottery is working towards regaining previous sales levels to achieve the standard of \$3.918 M.

## 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:**

- |                                                                                     |                                              |
|-------------------------------------------------------------------------------------|----------------------------------------------|
| <input type="checkbox"/> Performance Assessment of <u>Outcome</u> Measure           | <input type="checkbox"/> Revision of Measure |
| <input checked="" type="checkbox"/> Performance Assessment of <u>Output</u> Measure | <input type="checkbox"/> Deletion of Measure |
| <input type="checkbox"/> Adjustment of GAA Performance Standards                    |                                              |

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):

- |                                                      |                                                      |
|------------------------------------------------------|------------------------------------------------------|
| <input type="checkbox"/> Personnel Factors           | <input type="checkbox"/> Staff Capacity              |
| <input type="checkbox"/> Competing Priorities        | <input type="checkbox"/> Level of Training           |
| <input type="checkbox"/> Previous Estimate Incorrect | <input checked="" type="checkbox"/> Other (Identify) |

**Explanation:**

**External Factors** (check all that apply):

- |                                                                              |                                                      |
|------------------------------------------------------------------------------|------------------------------------------------------|
| <input type="checkbox"/> Resources Unavailable                               | <input type="checkbox"/> Technological Problems      |
| <input type="checkbox"/> Legal/Legislative Change                            | <input type="checkbox"/> Natural Disaster            |
| <input type="checkbox"/> Target Population Change                            | <input checked="" type="checkbox"/> Other (Identify) |
| <input type="checkbox"/> This Program/Service Cannot Fix The Problem         |                                                      |
| <input type="checkbox"/> Current Laws Are Working Against The Agency Mission |                                                      |

**Explanation:** Though the Florida Lottery supported its education message with a multi-media campaign including television, radio, Web site, print, outdoor and point-of-sale advertising, education-specific collateral materials, and participation in various education-related events during FY 2009-10, the percentage of the general population that identified education/scholarships as the recipients of Lottery funds ended at 60%. 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):

- Training  
 Personnel

- Technology  
 Other (Identify)

**Recommendations:** The Lottery will continue to convey its education message through television, radio, Web, 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, and collateral development in both English and Spanish; and participation in various education-related events/initiatives throughout the state.

*Office of Policy and Budget – July 2009*



## FLORIDA LOTTERY

### ASSOCIATED ACTIVITIES CONTRIBUTING TO PERFORMANCE MEASURES

#### LRPP EXHIBIT V



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

Measure Number	Approved Performance Measures for FY 2009-10 (Words)	Associated Activities Title
1	Transfers to the state Educational Enhancement Trust Fund	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
2	Total revenue in dollars	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
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
			Keep the public informed of Lottery activities
5	Executive direction and support services for all lottery operations as measured by percent of total agency budget		The Executive Direction and Administrative Support Activities contribute to this measure

Office of Policy and Budget – July, 2010







## 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

**Fortune** – The automated prize payment system used by Lottery headquarters and district offices to pay prizes to winners

**ITVM** – Instant Ticket Vending Machine