

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

FLORIDA LOTTERY

LONG RANGE PROGRAM PLAN

September 30, 2012

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

JoAnne Leznoff, Staff Director
House Appropriations Committee
221 Capitol
Tallahassee, Florida 32399-1300

Terry Rhodes, Staff Director
Senate Budget Committee
201 Capitol
Tallahassee, Florida 32399-1300

Dear Directors:

Pursuant to Chapter 216, Florida Statutes, our Long Range Program Plan (LRPP) for the Department of the 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 2013-14 through Fiscal Year 2017-18. The internet website address that provides the link to the LRPP located on the Florida Fiscal Portal is <http://www.flalottery.com/inet/aboutus-opengovernmentMain.do>. This submission has been approved by Cynthia F. O'Connell, Secretary of the 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/ssh

Enclosures



\$24 Billion
to Education
since 1988.



Long Range Program Plan
Fiscal Years 2013-14 through 2017-18

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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

Agency Goals

As the Florida Lottery approaches its 25th Anniversary we are proud of our commitment to improve schools and support students, whether through merit scholarships, infrastructural renovations, or educator salaries. By annually investing over a billion local dollars into the educational system, we safeguard the community's greatest need and brightest hope: a more inspiring future for all.

Engaging a community in fun takes hard work. Twenty-five years ago we set out developing products that were both aboveboard and awe-inducing. Today, we bring sunshine, optimism and a spark of fun into the lives of all who play our scratch and jackpot games. Our funding of education sponsors smiles throughout our state with programs that form the backbone of a thriving economy and enriched communities.

In the Florida Lottery's 25th year of operation, the department continues to recognize the need for constant commitment and perseverance to meet the challenges faced by mature organizations and a sluggish economy. The Florida Lottery continues to focus on the goal of increasing transfers to the Educational Enhancement Trust Fund (EETF) to support improvements to public education. With the objective of continuing to transfer 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 \$1.32 billion in FY 2011-12.

The Lottery will aggressively pursue strategies over the next few years to:

- Continually increase transfers to the Educational Enhancement Trust Fund;



- Refresh and expand the Lottery's corporate image resulting in opening new markets and methods of electronic marketing; and
- Allow Florida's players additional opportunities by providing new locations and more convenient purchasing technology while maintaining the integrity and security of the product and process.



Agency Objectives

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. For 25 years, we have pushed ourselves to redefine excitement. That started with our first draw and set of Scratch-Off games, which have since grown to include hundreds of innovative and inventive games that delight players of all ages and backgrounds. All of us believe that we play a part in leading Florida forward, and we strive to show lotteries and citizens in states across the nation the true meaning of fun.

By implementing the items outlined in this long-range plan, the Lottery has recently regained and surpassed its previous sales levels and is now reaching for a new 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 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
\$801.68 M	\$1.35 Billion	\$1.37 Billion	\$1.39 Billion	\$1.40 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 in the fall of 2011 was able to refinance \$242 million in 2002 and 2003 Lottery Revenue bonds with the result of saving \$24 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. At this time the Division of Bond Finance is working on a new issuance for school funding that will not exceed \$115 million and is planned to be repaid with level debt service payments over 20 years.

Performance Goals and Projection Table
(Based on Florida Lottery Internal Goals)

	FY 2011-12		FY 2012-13
	Goal	Actual	Goal
Annual Transfers to EETF	\$1.25 Billion	\$1.32 Billion	\$1.35 Billion
Sales	\$4.22 Billion	\$4.45 Billion	\$4.62 Billion
Product Distribution Network	13,700	14,893	15,500
Containing Executive and Administrative Costs to less than 5% of total agency costs	Standard 6.2%	3.9%	5%
Administration Positions less than 12% of total agency positions	12%	11.79%	12%



Linkage to Governor's Priorities

Governor Rick Scott has identified several issues that are of priority to his administration:

1. Accountability Budgeting
2. Reduce Government Spending
3. Regulatory Reform
4. Focus on Job Growth and Retention
5. World Class Education
6. Reduce Property Taxes
7. Phase-Out Florida's Corporate Income Tax

Education is the Future of Florida

The Florida Lottery supports the majority of these priorities with a focused approach ensuring it operates its business efficiently and effectively to contribute a growing amount to the education system that supports the future of Florida's economy. Education is the key to success for all Florida's students and thereby Florida's economy. From the first day of pre-kindergarten to the last day in one of Florida's world class universities, students' futures begin to take shape as they work to make their dreams come true. 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, 2012, Florida Lottery ticket sales have generated more than \$24 billion to education. Although Lottery contributions are not the majority of the funds required to fund the state's entire education system, the Florida Lottery's contributions can be seen in every facet of Florida's public education system. The Lottery has funded more than 1.6 million 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.

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, currently there are twenty-two centers 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.

Florida Lottery employees also show their commitment to Florida students by mentoring through programs such as the Florida Mentoring Partnership. In FY 2011-12, Lottery employees assisted public school students as mentors and tutors by providing extra support needed to help these students have a successful school year.

Established Business Practices for Sustainable Growth

Being a \$4 billion-per-year business focused on maximizing profits, it is paramount that the Florida Lottery embraces proven business principles designed to ensure an enterprise with sustainable growth. These are the same concepts Governor Scott has incorporated into his operating guidelines for state government: accountability, cost efficiencies, process reform, and measured outcomes. These practices will assist the state in achieving the goal of world class education and job growth.

The Lottery set an all-time sales record in FY 2011-12 with fiscal year sales of \$4.45 billion. Sales exceeded last year's by more than \$440 million and all of the nine sales districts met or exceeded their annual sales goals. The Lottery broke its all-time record in annual contributions to education by transferring \$1.32 billion to EETF which is especially impressive considering that the Florida Lottery is a mature lottery as it begins its 25th year of sales this year. The Florida Lottery's success was a result of the agency's ambitious move to expand and revise its roster of games. During FY 2011-12, the Scratch-Off sales-breaking year was driven by 50 new Scratch-Off games including WHEEL OF FORTUNE[®], GUY HARVEY[®], and the MONOPOLY[™] and LUCKY FOR LIFE families of games. Improvements to POWERBALL[®] in January 2012 led to increased sales and created 22 new millionaires in Florida. To attract new players and build loyalty with current players, the Lottery offered promotions such as the Gas for Life promotion and the Fantastic College Football promotion. The Lottery completed a new player segmentation study for the development of future games and marketing strategies.

The Lottery's product distribution model is solidly based on mutually beneficial relationships with various Florida businesses. The model for developing and maintaining these relationships is based on customer service rather than regulation. During FY 2011-12, the Lottery contracted with more than 13,296 businesses, located throughout the state, who earned more than \$247 million in commissions and incentives by selling tickets and redeeming prizes. Approximately \$65 million of that amount was paid in commissions to minority retailers statewide.

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 businesses, 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.

During the year the Lottery continued to review its administrative rules to ensure no unnecessary barriers restrict businesses from becoming members of the distribution chain. The Lottery routinely reviews its rules and policies to meet the requirements of a changing competitive environment, to ensure the integrity of the products and/or to bolster public confidence.

The Florida Lottery values the businesses that sell its products. Customer satisfaction surveys are continuously utilized to measure the Lottery's approval rating among retailers and ensure the relationship is performing at its maximum efficiency. The Lottery also uses periodic business reviews with the retailers to show the owners available business opportunities which could be used to enhance their own revenue stream from Lottery sales.

Sustainable growth is dependent on measurable increases in the distribution chain. The Florida



Lottery is not only focused on increasing the number of members in the distribution chain, but also providing distribution options to businesses willing to enter the network. Within the last 18 months, the Lottery has deployed 1,500 Instant Ticket Vending Machines (ITVMs) in locations throughout the state to enhance purchasing convenience. Constant monitoring of sales generated by those locations ensures that the placement of the machines continues to be profitable for both the business owner and the Educational Enhancement Trust Fund. During the 2012 Legislative session the department received appropriation to add Full Service Vending Machines (FSVMs) to the distribution network. The equipment is being installed around the state in select locations over August through November 2012. The department continues to research and advocate for other distribution options, such as Full Service Vending Machines, to enhance the existing network.

In FY 2011-12, the Florida Lottery disbursed approximately \$2.76 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.

Competitive procurement, contract monitoring and process reengineering are routine techniques employed by the Lottery to ensure that operations are streamlined and its business partners are performing as expected. These efforts help the Lottery focus its activities on areas most likely to support the sustainable growth initiatives. Resources are evaluated at every opportunity to determine the return on investment and/or available alternatives. The department utilizes best practices, contract renegotiations, performance monitoring and competitive procurement techniques in order to obtain the best values for product development and prizes.

In order to ensure the Lottery can function efficiently during times of disaster, the Lottery's Division of Security is responsible for maintaining and coordinating the Department's Continuity of Operations Plan (COOP) in close coordination with the Florida Division of Emergency Management. The department routinely conducts failover tests and COOP activation drills to ensure the department is prepared to respond during detrimental weather conditions or other types of disasters.

Integrity and Public Confidence

The Lottery is required by statute to have a Division of Security to promote and protect the integrity of, and public confidence in, the department and lottery games. This division is responsible for maintaining the security of the facilities, data, game drawings, and the integrity of employees, retailers, and major service providers. We know that a lottery is only credible if it operates with complete transparency: without trust, our winning slips are simply a scrap of paper. That's why we practice with the utmost professionalism, providing good, clean fun that's always above-board. Clear in our principles and forthright in our focus on the public's best interest; we invite all Floridians to hold us accountable to the highest ethical standards. Our efforts serve to maintain the public's confidence and trust that Lottery games are operated in a fair and consistent way and that every ticket has an opportunity to win. Failing to do so and losing public confidence in the process would negatively impact sales. Lottery tickets lose their

value if there is no confidence in the integrity of the product and the outcome of the drawings.

Background investigations are conducted on all department employees, retailers, and service providers for major procurements. This scrutiny helps ensure that personnel employed at the Lottery or involved in the Lottery business are of high moral character, which serves to protect the integrity of the Lottery operations.

Pursuant to Section 24.108, Florida Statutes, the Florida Lottery must, at least once every two years, engage an independent firm experienced in security procedures to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Lottery. The Department recently completed the evaluation process, and the report has been presented to management and members of the legislature. The 2012 evaluation states: "The overall security of the Florida Lottery is very good. The results of our organizational scan indicate a very strong security culture within the organization. Employees believe that management sets a strong tone on the importance of security and believe that security measures are consistently applied throughout the organization."

Scratch-Off ticket security is ensured by a high level of security at the printer location during packing and delivery of the tickets. Each new game is thoroughly tested and ticket security criteria scrutinized by the Lottery's Division of Security prior to the launch of the game. The Department employs an extensive system of internal controls and procedures to ensure the integrity of lottery drawings for Terminal games, including secure storage of draw machines and ball sets, a monitored storage vault with strict access procedures, multiple recordings of every drawing by broadcast and Lottery Security staff. An independent verification of the results of each drawing is performed by an employee of the Division of Security and an accountant from an independent certified public accounting firm. A number of additional Terminal game ticket security requirements were implemented to accommodate and support the sale of POWERBALL® tickets in the state of Florida.

Internal controls are also in place for the frequent second chance drawings offered by the Lottery which allow players to enter non-winning Scratch-Off tickets in the Lottery's website for promotion prizes and merchandise. These drawings are also overseen by the Division of Security and witnessed by an accountant from an independent certified public accounting firm.

Lottery Special Agents periodically conduct unannounced visits in an undercover capacity, to Lottery retailers across the state as part of a Retailer Integrity Program. This program is designed to ensure Lottery retailers are properly validating claims and paying prizes to Lottery players thus ensuring public confidence in the Lottery's games.

Supporting Community and Public Safety

With the help of Lottery Special Agents, Security Officers, and the state-wide sales system the Florida Lottery has joined other law enforcement agencies and media outlets in partnering with the Florida Department of Law Enforcement's (FDLE) Missing Endangered Persons Information Clearinghouse (MEPIC) by participating in Amber Alert activations. During FY 2011-12, the Florida Lottery was involved in five Amber Alert activations. 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

(sometimes with a photograph), the suspect and the suspect's vehicle, if known. Retailer employees and members of the public who are in the store are then able to view this information. The Lottery's website is also updated to indicate that an Amber Alert is in progress and provides a link to the FDLE MEPIC Website page. 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 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.

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

All of these illustrate the Florida Lottery's commitment to protecting citizens and visitors of our state.



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.

25 years have seen numerous changes and advancements. The Lottery now offers a variety of Terminal games, Scratch-Off games, and promotions. These have generated more than \$68 billion in revenues, more than \$37 billion in prizes and \$24 billion in transfers to the Educational Enhancement Trust Fund over 24 years. The Florida Lottery is a ticket for excitement as well as 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, the Florida Lottery is strongly focused on achieving the Agency's goals. These include continually increasing transfers to the Educational Enhancement Trust Fund, refreshing and expanding the Lottery's corporate image through new markets and electronic marketing, and providing new convenient purchasing technology while maintaining the integrity and security Floridians expect. Following is a list of accomplishments that reiterate the Lottery's commitment to these priorities.

Accomplishments ⇒

- FY 2011-12 was the 10th consecutive year the Florida Lottery transferred in excess of \$1 billion to the Educational Enhancement Trust Fund (EETF).
- Florida ranked 11th highest in the domestic lottery industry for government transfers to its beneficiary (the EETF) as a percentage of sales.
- In FY 2011-12, the Lottery achieved \$4.45 billion in total ticket sales a new sales record.
- Florida POWERBALL[®] sales are number 1 nationally and are 73% higher than the next highest state.
- The Lottery boasts the strongest \$20 Scratch-Off ticket sales in the nation.
- In FY 2011-12, total ticket sales were the 3rd 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 per capita in the nation.
- Gold Rush is the Lottery's best \$20 Scratch-off game for the past eight years and has contributed over \$3 billion in sales since its launch in 2004.
- The Lottery is ranked 13 in the domestic lottery industry in per capita sales.
- The Lottery is ranked 6th in the domestic lottery industry for total Scratch-Off sales.
- The Lottery is ranked 11th in worldwide lotteries for total Scratch-Off sales.

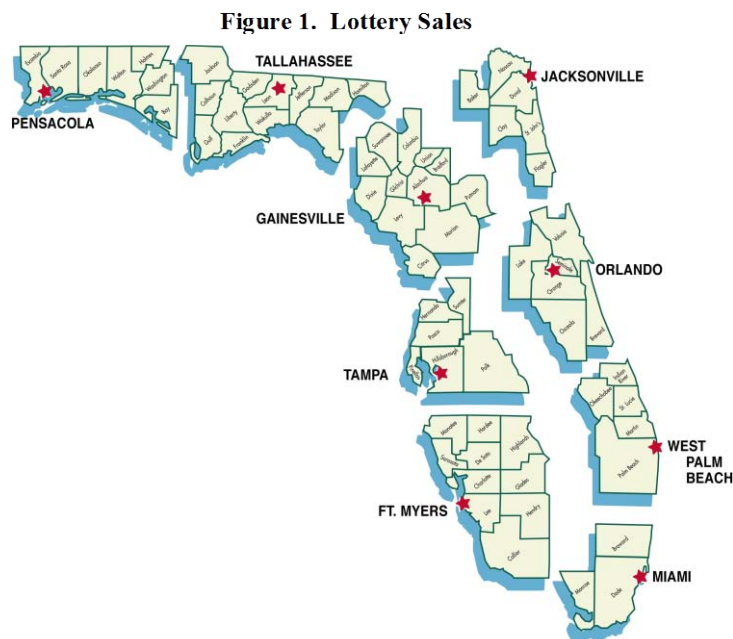
LaFleur's 2012 World Lottery Almanac



Current Lottery Operations

During the recent economic downturn, the Lottery, like many other business, felt the effect of decreased spending on the part of consumers. 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. During FY 2011-12, the Florida Lottery once again realized growth from its continued efforts to engage the public and capitalize on economic recovery. The Lottery achieved total revenues exceeding \$4.46 billion, up eleven percent from \$4.02 billion in FY 2010-11. Transfers to the Educational Enhancement Trust Fund for FY 2011-12 were approximately \$1.32 billion (unaudited). Fiscal Year 2011-12 marks the tenth 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 over 13,296 retailers. The district offices are located in Pensacola, Tallahassee, Jacksonville, Gainesville, Orlando, Tampa, West Palm Beach, Fort Myers and Miami. (Figure 1)



During the last ten years, the Florida Lottery has continued to add more retailers and distribution points 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 depicted, the data demonstrates decreased revenue for two fiscal years, while the economy was declining and a steady increase for the next two fiscal years. Since FY 2007-08, total revenues reflect an increase in the last five years from \$4.20 billion to \$4.46 billion (6.19 %). When viewed over a longer period, it is evident that the recent increases have now exceeded all previously obtained sales levels. The Lottery's contributions to public education during this particular five year period have increased from \$1.28 billion to approximately \$1.32 billion (2.98%). Noteworthy is the fact that the Lottery's operating costs, expressed as a percentage of revenue, are now at the lowest level in five years. 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 Terminal game and Scratch-Off ticket vendor fees, retailer commissions, or prizes.

Table 1

Comparative Statement of Income and Expenses (Millions)

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12*
Total Revenues	\$4,203.30	\$3,960.10	\$3,914.10	\$4,021.30	\$4,463.39
Total EETF Transfers	\$1,283.40	\$1,287.80	\$1,247.10	\$1,191.80	\$1,321.66
Total Operating Costs**	\$72.60	\$71.20	\$71.50	\$71.40	\$72.91
Total FTE's	440	438	438	437	424
Operating Costs as a Percent of Total Revenue	1.73%	1.80%	1.83%	1.78%	1.64%
EETF Contribution per FTE	\$2.90	\$2.90	\$2.80	\$2.70	\$3.12

*Data for FY 2011-12 is unaudited.

**Department operations only.

Table 2 provides an illustration of sales by product for the five most recent fiscal years. As shown, Scratch-Off ticket sales have exceeded previous levels while Terminal products are continuing to increase and have climbed slightly over the previous high in the initial year of POWERBALL® sales.

Table 2

Comparative Statement of Sales (Millions)

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12
Scratch-Off	\$2,368.8	\$2,064.1	\$2,078.1	\$2,225.7	\$2,567.0
LOTTO	\$779.0	\$650.6	\$445.9	\$411.4	\$419.0
Fantasy 5	\$309.4	\$287.3	\$282.0	\$282.8	\$290.7
Cash 3	\$336.1	\$320.2	\$304.0	\$313.3	\$314.7
Play 4	\$227.9	\$239.0	\$235.0	\$235.7	\$244.7
Mega Money	\$122.7	\$102.2	\$92.1	\$89.0	\$92.4
Raffle	\$30.8	\$41.3	\$29.3	\$12.6	---
Lucky Lines					\$17.7
Power Ball		\$233.4	\$434.1	\$393.0	\$503.7
Total Terminal Games	\$1,805.9	\$1,873.9	\$1,822.4	\$1,783.0	\$1,882.9
Total Ticket Sales	\$4,174.8	\$3,938.0	\$3,900.5	\$4,008.7	\$4,449.9

* Data for FY 2011-12 is unaudited.

The Lottery is constantly pursuing a comprehensive and aggressive strategy to outperform the projections of the Revenue Estimating Conference (REC) with regards to sales and EETF revenue. For FY 2011-12, the Lottery exceeded both the sales and EETF transfer forecasts. Given the new FSVM and an additional \$4 million in advertising appropriation the REC has forecasted continued growth for FY 2012-13, with increases in both Scratch-Off (5.31%) and Terminal (4.89%) ticket sales for a combined ticket sales increase of 10.20%.

Though attainable, this comprehensive and aggressive strategy will not be easy. It should be noted that nothing outlined within this strategy should be construed as an expansion of lottery gaming. All of the game ideas outlined are considered "traditional" lottery games. The effort to expand the distribution base is designed to moving Florida to a per capita level comparable to other successful states and making the approved products more conveniently accessible to the public. As a matter of policy, however, if 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.

Strategy for Sustainable Growth

In order for the Lottery to focus its activities on the critical elements needed to ensure the growing demands for revenue continue to be met, the management team evaluated the strengths, weaknesses, opportunities, and threats of the enterprise. This evaluation is the basis for the strategy that we believe will promote the sustainable growth the State of Florida requires for the World Class Education System Governor Scott has depicted.

Listed below are a few of the key findings uncovered during the evaluation process.

Strengths ⇒

- In Fiscal Year 2011-12, the Florida Lottery set all-time records for total sales, Scratch-Off game sales and contributions to education funding.
- According to the latest available, comparable statistics (calendar year 2011), Florida Lottery is ranked third in total lottery sales in the U.S. and fourteenth among lotteries worldwide.
- The Lottery is ranked among the top 6 in the domestic lottery industry for total Scratch-Off sales and eleventh worldwide.
- National reputation and recognition as one of the most efficient lotteries with a 24 year reputation built on integrity and trust.
- Strong, transparent integrity and responsible business practices including internal controls with game, prize payments and drawing activities.
- Variable payout authority for both the Scratch-Off and Terminal games.
- Scratch-Off contract designed in flexible manner to facilitate various approaches for increased sales.
- Terminal gaming contract allows additional growth to 20,000 terminals and many opportunities for new play styles, distribution options and promotions.
- Scratch-Off sales have shown a substantial net sales gain for the 1,500 retailers having an Instant Ticket Vending Machine (ITVM) resulting in a higher return on investment than anticipated.
- In Fiscal Year 2011-12, Florida sales of POWERBALL with Power Play[®] surpassed Florida Lotto for the first time as the top-selling Florida Lottery terminal game and generated over \$200 million in education funding.
- Midday draws for CASH 3[®] and PLAY 4[™] offer players' two chances daily to play and win.

- 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 website as a marketing tool, which includes enhancements that have allowed more efficient player interaction, has proven successful.
- Potential and current Lottery retailers are effectively and efficiently educated on the Federal and State American with Disabilities Act (ADA) accessibility requirements resulting in a 97% compliance rate.
- The Florida Lottery is recognized for industry best practices for vendor diversity initiatives and activities.
- The Lottery is introducing Full Service Vending Machines (FSVMs) which are expected to generate an additional \$20 million for education in the first full year of implementation; all are expected to be installed by November.
- Fiscal Year 2012-13 increase in advertising provided a new, although limited opportunity to increase sales through innovative promotions and advertising campaigns.

Weaknesses ⇨

- Florida ranks 13th in total per capita sales among U.S. Lotteries indicating an opportunity for sales growth.
- Florida ranks 19th out of 43 domestic lotteries in retailer-to-population ratio, suggesting the continuing need to emphasize retailer recruitment.
- Current advertising budget increase of \$4M is not recurring so opportunities for us to sustain growth are limited.
- Heavy reliance on the unpredictable jackpot rollovers of POWERBALL with Power Play[®] and the Lottery's flagship game, FLORIDA LOTTO[®], to drive game sales. Limited ability to replace aging infrastructure to support basic Lottery operations without receiving specific legislative authority.
- Reduced Retailer Incentive funding impacts the ability to create new opportunities to reward top-selling retailers.

Opportunities ⇨

- New FSVM automation will allow the public to exercise purchasing options for the entire portfolio of products in a more convenient manner.

- Revitalize the Lottery brand to spark interest, increase revenue and help bring both the Terminal and Scratch-Off games into the age of new technology.
- Research, develop and launch new or modified Terminal games to replace under-performing games.
- Continue to exercise flexibility in setting prize payout percentages for Terminal games, thereby increasing Terminal sales and transfers to the Educational Enhancement Trust Fund.
- 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.
- Offer innovative cutting edge products to quickly entice players into new play styles.
- Licensed-property Scratch-Off games with second chance drawings provide an opportunity for more players to win merchandise and cash.
- Ability to create new strategic alliances focused on increasing sales.
- Continuation of the pilot with Wal-Mart the world's largest retailer, allows the department to overcome "big box" corporate obstacles with methodical business solutions.
- Upgrade department operations with advanced technology from vendors to allow more player flexibility and higher satisfaction.
- Patent authority allows the Lottery to apply for and hold patents on unique game ideas, processes, or play-styles that can assist the state in protecting its intellectual property and revenue stream.

Threats ⇒

- Reduction in advertising funding which is required to successfully promote Lottery products.
- 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."
- Caution on the part of corporations during the gradual economic recovery is hampering the Lottery's ability to increase its retailer network to its full potential.
- Reduced discretionary spending by Florida consumers.
- Rising financing costs adversely impact jackpot levels and cash management options.
- Annual authorization to update aging infrastructure including 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.

The goal is a simple one: *Increase funding for the Educational Enhancement Trust Fund.* The strategies required to achieve that goal are aggressive and will impact the entire organization, requiring concentrated efforts by the various functional units within the business.

**Continually Increase Transfers to the
Educational Enhancement Trust Fund**

1. Continue to review, revise and develop games that are exciting and desirable by the public.

While the Florida Lottery is a mature lottery by industry measure, the enterprise persists in searching for new ideas and approaches to continuously provide the desired products for the purchasing market. The present product line is under constant review and evaluation. In addition, new and existing external resources are assessed for new offerings or enhancement opportunities. Interaction with national and international resources is paramount to this ongoing effort.

2. Use available research to support game revisions or development.

The Lottery presently has access to research information from multiple sources. The collection of data represents the various viewpoints desired to ensure the Lottery is considering all stakeholders in its efforts. A research panel for both players and retailers is another tool that has been recently added to the Lottery's arsenal of data gathering opportunities. The department must stay diligent in utilization of market data when evaluating product line and distribution model changes.

3. Continue to evaluate processes and procedures to identify cost savings due to efficiencies.

The Lottery long ago realized that in addition to sales growth, cost efficiencies are direct contributors to increasing profitability. In addition to obvious cost savings realized through procurement renegotiations, the various processes utilized by the Lottery offer opportunities for efficiency if modern technology and reengineering efforts are continuously applied. As a twenty-four 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.

Most recently both technology and reengineering efforts have allowed the Lottery to make significant improvements in customer service and resource utilization in the areas of reporting, prize payments, customer service front line activities,

communications, client services and software testing. Enhancements to Corporate Reporting improved report detail, flexibility of reporting timeframes and provided more efficient and timely delivery of weekly reports via an automated solution. This solution resulted in a reduction in work effort for the Lottery and provided Corporate chains stronger oversight and controls over their financial management, thus allowing their stores to carry more games, increasing overall sales and the Lottery's contribution to education. The Lottery has successfully implemented an iPhone application, Facebook promotional application, a help desk solution – GetIT, a software testing application – SQA Tracker, automated the winning number and payout postings and automated the creation of press emails. The agency has also successfully rolled out Windows 7 and migrated all legacy AIX servers to new and more robust servers. The Lottery has already identified other areas within the agency that have processes that would benefit from modernization and reengineering. Some of these areas include a sales force mobility solution, Android application and enhanced Intranet/Internet sites with a content management solution.

4. Continue to ensure public integrity and confidence by performing heightened levels of due diligence with regard to contractor performance, game development and process execution.

The Lottery is already known in the industry for the diligence used in various aspects of its operations to ensure the integrity of its products and processes. The foundation and requirement of a successful Lottery is that the public has confidence that the games and processes supporting the games are all fair and legitimate. Without public confidence in the integrity of the organization selling the ticket, the ticket is a meaningless piece of paper. The Lottery must continue to prove to the public and all other stakeholders that its games and operations are structured on the highest level of principles and ethical standards. Some of the opportunities the Lottery has used for monitoring and demonstrating those efforts include the Bi-Annual Security Audit, Live Draw Events, Law Enforcement Cooperation, Retailer Monitoring and various stakeholder communication efforts.

**Refresh and Expand the Lottery's Corporate Image
To Result in Opening New Markets and
Methods of Electronic Marketing**

1. Brand Refresh.

The Lottery is no different than any other consumer product enterprise when it comes to marketing and brand awareness. It is paramount that the brand associated with the Florida Lottery be recognizable and representative of the enterprise. The Lottery intends to direct activities of an extensive review of its current branding elements. This effort will include both of the advertising agencies and an analysis of all communication tools and techniques used by the Lottery to support the brand. The current logo is twenty four years old and the Lottery will modernize it to maximize the benefits of brand recognition.

2. Explore new media options.

In a mature industry, all options and available tools must be evaluated and utilized if appropriate. The Lottery recognizes that it did not have presence in many of the new and emerging media formats. Since our last report, we have successfully launched social media through Facebook and Twitter. The results have been very successful in our efforts to further engage with our player base.

3. Website redesign.

Averaging over three million unique visitors per month, the Lottery's stable and robust website is aligned to support Lottery's revenue growth in an efficient and cost effective manner. The website will be reevaluated and expanded to provide existing and prospective retailers with access to tools and services, including promotional information, forms, business aids, point of sale materials, and frequently asked questions. Through the Corporate Reporting portal, existing corporate retailers have secured access to a variety of Business Intelligence sales and inventory reports for a single store or rolled up to the chain level. The Lottery plans to continue to incorporate the website into its internet marketing campaigns by leveraging social media, providing mobile phone applications, and offering marketing and sales initiatives. Plans are expected to include web casting of all Lottery drawings, Terminal and Scratch-Off second-chance drawings, digital videos, commercials, E-coupons, E-mail, text alerts, simulated games, and Terminal prize redemptions.

4. Loyalty Club Deployment.

Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behavior, which is potentially beneficial to the business. A good loyalty program for a company would be one that gives discounts on products already offered after so many customer purchases. This keeps the revenue internal and increases loyalty for your products. The information gathered during the registration and the use of the program will give the Lottery better insight into the

current market. The demographic information can help in future growth and market penetration. At this time, the Lottery is undergoing a formal competitive procurement process, an invitation to negotiate to contract with a vendor to design, develop and manage a player loyalty club program for the Florida Lottery. Many of the other state lotteries have deployed the ever growing popular clubs with significant success. The Lottery believes incorporating this valuable tool into its current website offerings will benefit the department by dramatically assisting with revenue growth.

5. Maximize advertising appropriation with consolidated efforts, strategic placement and dynamic partnerships.

The Lottery, as it does with all of its major expenditure items, constantly evaluates the impact and return on investment of all the advertising funds used to support the products. The Lottery's current advertising efforts are designed to not only inform and persuade the consumer public into purchasing available products, but also to generate increased purchases over time of the games through "Branding." The "Branding" effort concentrates on the repetition of an image or product name in an effort to associate certain qualities with the brand in the minds of consumers. The Lottery recognizes additional strides are necessary to ensure that all advertising efforts not only maximize the value of the placement, but also support the "Branding" effort.

The Lottery has successfully utilized many partners in the past to provide consumers with fresh and exciting game options and prize packages. Those successes have spurred the Lottery to focus efforts on continuing to explore dynamic new partnerships with diverse types of organizations that could expand upon the already successful efforts. The Lottery will continue to explore the profitability and marketability of strategically linking multiple business partners together for more dynamic product offerings and promotions.

6. Strategic Point of Sale development and utilization.

Point of Sale (POS) materials are a tried and true form of consumer education and product awareness used by most successful consumer product providers. It is no surprise that is a staple in the sales tools utilized by the Lottery. The most traditional forms are used daily statewide to assist retailers selling our products in our distribution network. The Lottery has discovered that while a standardized design approach is desirable from a provider perspective, it is not always the most effective approach from the retailer perspective. As the Lottery strives to grow the number of participants in the distribution network, it will extend to new types of businesses and trade styles in Florida. The Lottery must continue its efforts to assess and utilize the most effective forms of POS to capture the interest of consumers frequenting that type of location.

**Allow Florida's Players Additional Opportunities
by Providing New Locations and More Convenient Purchasing
Options, While Maintaining the Integrity and Security of the
Product and Process.**

1. Aggressively grow retailer base.

The Lottery continues its aggressive goal for growing the retailer distribution network over the next five years. The goals are based on the desire to bring Florida to a per capita level comparable to other successful states while also making products more conveniently accessible to the public. The Lottery has prepared a prospect list, which identifies trade styles that might have the potential to sell Lottery products, and plans to reach out to their headquarters in an attempt to recruit and gain access to their stores. In the past year, the Lottery successfully recruited Wal-Mart Neighborhood Market stores in Florida. The 34 Florida stores have been selling Lottery products since October of 2011 making Florida the only Lottery in the U.S. to penetrate a Wal-Mart owned company. This relationship is in a "pilot" status, under which the Lottery has been approved to place its products in all new Neighborhood stores opening in Florida through January of 2013. The Lottery is using the successful recruitment of Neighborhood Market stores to recruit other trade styles currently not selling Lottery products.

One of the challenges new trade styles present is their demand for self service models. Many do not want to commit store personnel to selling or maintaining Lottery products. In order to counter this sentiment, the Lottery has obtained approval for a limited number of Full Service Vending Machines (FSVM) which will allow the Lottery to provide retailers with a unit that can sell a full range of products on a self serve basis. However, even these new units require the retailer to routinely monitor the machine's operations and stock the required inventory. Without adequate compensation to the retailer for the services required, the expected return on investment might be compromised.

Another challenge to recruiting new trade styles is the Lottery industry's lack of scanned sales. Not being able to "scan" Lottery tickets through their registers means retailers don't have the same back office accounting they have with almost every other product in their store. The industry vendors are working on an "in lane" selling and accounting solution that the Lottery would like to be postured to test in existing retail locations if and when the solution becomes available. This would allow the Lottery to approach a number of "big box" retailers whose past objections have been based on sales technology.

2. Strengthen relationships with corporate accounts.



Our continued focus on corporate accounts included expanding our focus to include the "Top 50" corporate accounts. Last year we focused primarily on our "Top 25" corporate accounts. Corporate sales continue to outpace overall Lottery sales growth with last year's "Top 50" corporate accounts showing year to year sales growth of +14% compared to +11% for the Lottery as a whole. In order to increase that focus, the corporate sales representative focus has also changed, including adding personnel from the Business Development team and re-organizing the corporate account structure. Results have included the highest grossing single year sales in the 25 year history of the Florida Lottery. Year to date corporate sales through August 19, 2012 are up 14% over the same time last year.

Use new technology to make products more convenient to purchase.

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 external operations. As previously discussed, the barriers to entering new trade styles have continued to involve resource commitment requirements on the part of the retailer. A smaller footprint in the retailer environment is being demanded in order to sell products in a more convenient and less resource demanding manner.

As with most industries, utilization of modern and available technology is a key component of sustainable growth. The Lottery continues to search for the most efficient tools available to provide appropriate selling tools to an increasing variety of trade styles. The wider the variety of tools authorized for use, the wider the variety of trade styles that can be incorporated into the distribution network. To this end, the Lottery is requesting modernization of the authorizing language to allow the utilization of new selling tools available in the industry that it believes will eliminate more of the barriers of entry into new trade styles.

4. Use new technology to empower sales force to assist retailers in maximizing their own revenue stream.

As previously reported, the customer satisfaction scores at the local retailer level are extremely encouraging and indicate that the Lottery does a good job at supporting its retailer locations. But that does not necessarily mean the Lottery is efficient in the methods providing those services. In fact, the Lottery is woefully delinquent in its deployment of available technology to allow the current level of sales resources to support the expanding retailer network.

In order for the retailer relationships to continue to be mutually beneficial for both parties, the Lottery spends considerable time assisting retailers in identifying areas for improvement within their own stores which would not only result in increased Lottery product sales, but also increased foot-traffic. This is in addition to the inventory management and POS support provided by the sales force. Unfortunately, all of these field efforts are currently executed in a paper and pencil environment. Due to budget constraints, the department has been unable to deploy mobile computing technology for on-site field activities. However, plans are to submit a Legislative Budget Request (LBR) to allow the Lottery to purchase mobile sales tools.

The Lottery must continue to explore options to empower the sales force to work more efficiently and effectively while in the field supporting the local retailer.

The task before this business is one of paramount importance. The Lottery must assist the state in its pursuit of future greatness by enhancing the state's commitment to education. In light of that challenge, this Lottery ambitiously accepts the challenges presented to advocate for and implement this plan that we believe will promote sustainable growth.

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

The Lottery has no changes that will require legislative action relating to Chapter 24.

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.

Lottery Brand Study - This looked at the Florida Lottery as a brand and also assessed the brand by individual products. Based on the results of the study, it was deemed that the Florida Lottery and its products is a very recognized and strong brand.

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 Tracking Studies - Over 500 Florida general population adult residents are surveyed each month about the Lottery. Issues such as product play, Lottery integrity, advertising and education are assessed. The results of these studies indicate the general population is positive about the Lottery and its contribution to education.

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.

Internet-Based Player Panel Research - Various internet-based studies are conducted with players from a recruited panel. Studies can vary from the review of proposed advertising, new games and public policy. Overall results are generally positive and helpful in making final decisions about these issues.

Florida Lottery General Market Segmentation Study - The purpose of this study was to identify lottery customer segments to better inform our marketing and product development departments so that they can develop products and campaigns that appeal to these customer groups.

Florida Lottery Logo Focus Groups - Focus groups throughout the state were used to evaluate the Lottery's existing and various new logo concepts created by Futurebrand. Groups consisted of players and retailers. Each concept was ranked by the focus groups.



**Long Range Program Plan
Fiscal Years 2013-14 through 2017-18**

**Performance Measures and Standards -
LRPP Exhibit II**

**Cynthia F. O'Connell, Secretary
September 2012**

LRPP Exhibit II - Performance Measures and Standards

Department:	FLORIDA 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 2012-13 (Words)	Approved Prior Year Standard FY 2011-12 (Numbers)	Prior Year Actual FY 2011-12 (Numbers)	Approved Standards for FY 2012-13 (Numbers)	Requested FY 2013-14 Standard (Numbers)
Transfers to the State Educational Enhancement Trust Fund	\$1.206 B	\$1.321 B	\$1.206 B	\$1.206 B
Total Revenue in dollars	\$3.918 B	\$4.463 B	\$3.918 B	\$3.918 B
Operating Expense* as a Percent of Total Revenue	9.52%	8.62%	9.52%	9.52%
Percent of Respondents who are aware of the Lottery's Contribution to Education	65%	62%	65%	65%
Provide Executive Direction and Support Services for all Lottery Operations as measured by Percent of Total Agency Budget	6.2%	3.9%	6.2%	6.2%

**Includes Payments to Gaming Vendors and Retailer Commissions*





**Long Range Program Plan
Fiscal Years 2013-14 through 2017-18**

**Assessment of Performance for Approved
Performance Measures - LRPP Exhibit III**

**Cynthia F. O'Connell, Secretary
September 2012**

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.



**Long Range Program Plan
Fiscal Years 2013-14 through 2017-18**

**Associated Activities Contributing to
Performance Measures - LRPP Exhibit V**

**Cynthia F. O'Connell, Secretary
September 2012**

LRPP Exhibit V: Identification of Associated Activity Contributing to Performance Measures		
Measure Number	Approved Performance Measures for FY 2012-13 (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

Glossary of Terms and Acronyms

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

EETF – Educational Enhancement Trust Fund

ITVM – Instant Ticket Vending Machines

FSVM – Full Service Vending Machines

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

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

POS – Point of sale marketing materials to increase customer awareness

REC – Revenue Estimating Conference

