
 COL A11
 SCH VIIIIB-2
 REDUCTIONS
 POS AMOUNT PRIORITY CODES

LOTTERY, DEPARTMENT OF THE 36000000

PRIORITY SUMMARY NARRATIVE:

As required in the Legislative Budget Request the Lottery has completed its Schedule VIIIIB exercise. Listed below are the categories for the Legislature to consider:

1. The On-line Games Contract Category - This reduction is offered based on the July 2009 Revenue Estimating Conference forecasted sales for FY 2010-11.
2. The Instant Ticket Purchase Category - This reduction is offered based on the July 2009 Revenue Estimating Conference forecasted sales for FY 2010-11.
3. Advertising Agency Fees Category - This reduction of \$330,000 is being proposed due to savings the Lottery expects as a result of the Advertising contract negotiations.
4. Paid Advertising/Promotion Category - The Lottery would have to recommend decreasing this category despite a Revenue Estimating Conference impact analysis that demonstrates the consequence would be a net loss in Educational Enhancement Trust Fund funding.
5. Advertising Agency Fees Category - If the Paid Advertising/Promotion category were reduced, the Lottery would propose a reduction to the Agency Fees as well - an amount equivalent to ten percent of the reduction to the Paid Advertising/Promotion Category.

Prior year expenditure data was used to determine potential reductions in the next four categories:

6. Other Personal Services
7. Salary Incentive Payments
8. Expense Category
9. Contracted Services

SCHEDULE VIIIIB REDUCTIONS - OPERATING		33B0000
POTENTIAL REDUCTION TO ON-LINE GAMES CONTRACT CATEGORY	1	33B0030
TRUST FUNDS.....	3,850,000-	2000

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SCH VIIIIB-2 NARR 10-11 NOTES:

The Lottery has identified the On-Line Games Contract for a potential reduction for FY 2010-11. Based on the July 2009 Revenue Estimating Conference (REC) forecasted sales for FY 2010-11, it is anticipated that the Lottery will have \$3.85 million to offer as a potential reduction in this category. The Online Contractor is paid based on a percentage of sales. The fee for the base term expiring 3/27/11 is 1.1499% with renewal option fees dropping to 1.0699%. If sales

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LOTTERY, DEPARTMENT OF THE			36000000
SCHEDULE VIIIB REDUCTIONS -			
OPERATING			33B0000
POTENTIAL REDUCTION TO ON-LINE			
GAMES CONTRACT CATEGORY	1		33B0030

exceed the REC forecast the Lottery would need to submit a budget amendment before the Legislative Budget Commission.

POTENTIAL REDUCTION TO INSTANT			
TICKET PURCHASE CATEGORY	2		33B0010

TRUST FUNDS.....		734,000-	2000
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SCH VIIIB-2 NARR 10-11 NOTES:

The Lottery has identified the Instant Ticket Purchase category for a potential reduction for FY 2010-11. Based on the July 2009 Revenue Estimating Conference (REC) forecasted sales for FY 2010-11, it is anticipated that the Lottery will have \$734,000 to offer as a potential reduction in this category. The vendor is compensated based on sales, and the contract contains a different percentage rate for each price point, therefore if sales exceed the REC forecast the Lottery would need to submit a budget amendment before the Legislative Budget Commission.

POTENTIAL REDUCTION TO ADVERTISING			
AGENCY FEES CATEGORY	3		33B0910

TRUST FUNDS.....		330,000-	2000
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SCH VIIIB-2 NARR 10-11 NOTES:

This reduction is being proposed due to savings the Lottery expects as a result of the Advertising contract negotiations. The Advertising Agency Fee appropriation is based on 10% of the Paid Advertising/Promotion line item appropriation. The agency negotiated a fee of 9.8%, a 26% reduction from the previous contract, and this reduction reflects the anticipated saving in this category.

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LOTTERY, DEPARTMENT OF THE			36000000
SCHEDULE VIIIIB REDUCTIONS -			
OPERATING			33B0000
POTENTIAL REDUCTION TO PAID			
ADVERTISING AND PROMOTION CATEGORY	4		33B0090
TRUST FUNDS.....	7,133,925-		2000

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SCH VIIIIB-2 NARR 10-11 NOTES:

The Lottery would have to recommend decreasing this category despite a Revenue Estimating Conference (REC) impact analysis that demonstrates the consequence would be a net loss in Educational Enhancement Trust Fund (EETF) funding. In April, 2007, a REC Impact Analysis adopted a negative impact on EETF from proposed reductions in advertising. The REC adopted that reducing or elimination the Lottery's advertising budget would result in a net loss of a \$3.89 to EETF for each dollar saved by a media spending decrease. Advertising media purchases are a vital, cost-effective tool in alerting the public to new games and promotions, reminding them of the fun of playing and informing them of the use of Lottery proceeds to enhance education. Since the Florida Lottery is a mature Lottery and must rely heavily on its advertising effort to continue to encourage players to try new play styles or products, a decrease in services from the agencies is not recommended.

POTENTIAL REDUCTION TO ADVERTISING			
AGENCY FEES - PERCENTAGE OF			
REDUCTION TO PAID ADVERTISING			
PROMOTION	5		33B0920
TRUST FUNDS.....	713,390-		2000

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SCH VIIIIB-2 NARR 10-11 NOTES:

The department currently utilizes two advertising agencies, one for the General Market and one for the Spanish Language Market. Both agencies are required to provide a certain level of services and are compensated based upon a negotiated percentage for all activities coordinated by their firms. Each contractor is compensated based on the amount of advertising expenditures placed by their agency. If the Advertising Expenditure is reduced, the corresponding fees would be reduced as well. This item directly correlates to item 4. The General Market Agency contract, the largest percentage of the expenditure, was recently renegotiated with a reduction in fees from the prior contract.

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LOTTERY, DEPARTMENT OF THE			36000000
SCHEDULE VIIIIB REDUCTIONS -			
OPERATING			33B0000
POTENTIAL REDUCTION TO OTHER			
PERSONAL SERVICES APPROPRIATION		6	33B0040
TRUST FUNDS.....	75,000-		2000

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SCH VIIIIB-2 NARR 10-11 NOTES:

The Lottery's prior year expenditure data was used in order to identify a proposed reduction of \$75,000 within the Other Personal Services Category. The agency feels that this reduction can be realized without a major impact to Lottery Operations.

POTENTIAL REDUCTION TO LAW			
ENFORCEMENT SALARY INCENTIVE			
PAYMENTS		7	33B0080
TRUST FUNDS.....	5,000-		2000

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SCH VIIIIB-2 NARR 10-11 NOTES:

This appropriation category is utilized to make salary incentive payments in accordance with Florida Statute when sworn law enforcement officers obtain additional education credits. Based on the current levels in the organization, this category could be slightly reduced.

POTENTIAL REDUCTION TO CONTRACTED			
SERVICES		8	33B0070
TRUST FUNDS.....	300,000-		2000

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SCH VIIIIB-2 NARR 10-11 NOTES:

If required the Lottery feels that we can streamline various operations in order to save approximately \$300,000. In reviewing prior year expenditures that are paid from the Contracted Services category, it should be noted that the majority of these expenditure relate to contracts required to support technology based activities, and the Lottery's various office buildings. The Lottery is committed to continuous refinement of its operations to identify individual costs that can be reduced but is compelled to advise that decreases to the current technology contracts could potentially

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SCHEDULE VIIIIB REDUCTIONS -			
OPERATING			33B0000
POTENTIAL REDUCTION TO CONTRACTED			
SERVICES		8	33B0070

decrease sales revenue and possibly have an undesired negative effect on EETF transfers if the Lottery can not provide the level of service required. The balance of the appropriation category is utilized to cover expenditures that are either required by law such as background checks on vendors, retailers and employees or are considered to be mission critical to our revenue generating operations.

POTENTIAL REDUCTION TO EXPENSE -			
OPERATING EXPENSES		9	33B0210

TRUST FUNDS.....	700,000-		2000
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SCH VIIIIB-2 NARR 10-11 NOTES:

If required the Lottery feels that we can streamline various operations in order to save approximately \$700,000. Prior year expenditures which included restricted activities in the areas of travel, training, office supplies, printing, software renewals, communications etc. resulted in a reversion from this category. The Lottery will continue to monitor and limit spending within these areas.

TOTAL: LOTTERY, DEPARTMENT OF THE			36000000
BY FUND TYPE			
TRUST FUNDS.....	13,841,315-		2000
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