

CHARLIE CRIST
Governor



LEO DIBENIGNO
Secretary

FLORIDA LOTTERY

LONG RANGE PROGRAM PLAN

September 30, 2009

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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 2010-11 through Fiscal Year 2014-2015. 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/rf



\$20 Billion to Education
since 1988.



With you
every step.



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EDUCATION™**

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Florida Lottery

**Long-Range Program Plan
Fiscal Years 2010-11 through 2014-15**

Leo DiBenigno, Secretary
September 2009



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

As the Florida Lottery has completed its 21st year of operation it continues to recognize the need for constant commitment and perseverance to meet the challenges resulting from the slowing growth typical of mature lotteries – and all regular businesses for that matter. As always, the Florida Lottery has focused on the goal of maximizing transfers to the Educational Enhancement Trust Fund (EETF) to support improvements to public education. With the objective of transferring at least \$1 billion annually to the EETF, the Florida Lottery’s contributions have grown from \$694 million in its first full year of operation (FY 1988-89) to \$1.28 billion in FY 2008-09.

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

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

In order to continue to achieve its goals, the Florida Lottery realizes it must transcend the perception that mature lotteries must simply accept their fate of slower growth and lower sales. The Lottery’s mission of increasing education funding is one that all Floridians – especially teachers, parents, and students – can embrace. By implementing the items outlined in this long-range plan, the Lottery believes it can achieve \$5 billion in annual sales within the next three fiscal years, which would translate to approximately \$1.50 billion per year to education – up from \$1.28 billion today.

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



**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	\$1.19 Billion	\$1.20 Billion	\$1.21 Billion	\$1.21 Billion	\$1.21 Billion



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 Lottery's goal supports a number of these priorities, primarily "Success for Every Student." The Florida Lottery firmly believes that education is the key to success for Florida'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, 2009, Florida Lottery ticket sales have generated over \$20 billion to education. Although Lottery contributions constitute only about seven-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 2008-09, twenty-three Lottery employees assisted public school students as mentors or tutors, providing extra support needed to help these students have a successful school year.



Keeping Florida's Economy Vibrant

Being a \$4 billion-per-year business, the Lottery helps stimulate Florida's economy in a number of ways. Upon the Florida Lottery joining POWERBALL® in January 2009, the Universal Orlando Resort became the location for the POWERBALL drawings and became 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 2008-09, the Lottery contracted with approximately 13,200 retailers, located throughout the state, who earned more than \$220 million in commissions and incentives by selling tickets and redeeming prizes. Of that, approximately \$61.04 million was paid in commissions to minority retailers statewide.

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

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

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

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



The Lottery disbursed approximately \$2.26 billion to winners of lottery prizes in FY 2008-09. Approximately 83% of the prizes were paid by retailers. Retailers not only receive a bonus commission for cashing these prizes, but they also put cash in the hands of customers who are in their stores. What better place to spend some or all of the prize payout than in the store where they already shop – this is yet another way that the Lottery helps increase retail sales and contributes to the local economy.

Protecting Our Communities

The Florida Lottery has joined other law enforcement agencies and media outlets in partnering with the Florida Department of Law Enforcement's (FDLE) Missing Children's Information Clearinghouse (MCIC) by participating in Amber Alert activations. During FY 2008-09, 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.

The Florida Lottery, Division of Security, is a state law enforcement agency that is staffed 24 hours a day, seven days a week. When the Lottery receives an Amber Alert notification from FDLE, the information is forwarded via terminal messaging to Lottery retailers in the requested areas providing key information regarding the missing child, the suspect and the suspect's vehicle if known, and sometimes a photograph. Retailer employees and members of the public who are in the store are then able to view this information. The Lottery Web site is also updated to indicate that an Amber Alert is in progress and provides a link to the FDLE MCIC Web 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.



During the FY 2008-09, the Division of Security continued its efforts in crime/loss prevention awareness. Although budget restraints limited our outreach efforts, the Division of Security participated with the South American Theft Group Intelligence Network (SATGIN). This group is 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 PSA videos on lottery scams to air 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 Lottery scam brochures continue to be useful to our local law enforcement agencies and are distributed to community members during their crime prevention presentations. The focus for these brochures is the elderly, but they are made available to all citizens. Once again hurricane flyers were distributed to all retailers giving them tips on keeping Lottery products safe in the event of severe weather. The flyers are distributed in new game orders at the start of hurricane season. An "Advice for Winners" flyer is distributed to winners of \$100,000 or more. The flyer provides security tips and is also available on the Lottery Web site.

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

The Division submitted articles for the retailer newsletter concerning fraud protection and internal theft and advising retailers on counterfeit money detection and reporting. Terminal messages were sent advising retailers to be aware of potential fraud scams including snatch and grab attempts and Lottery employee impersonators.

The Lottery will not condone inappropriate sales or redemption practices by its retailers. All retailers were mailed a letter as a reminder of their fiscal and operational responsibilities and a notice is now included in the new retailer package.



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 both On-line and Scratch-Off games and promotions. The Lottery has generated more than \$56 billion in revenues, more than \$30 billion in prizes and \$20 billion in transfers to the Educational Enhancement Trust Fund. The Florida Lottery is a ticket to the future for Florida's students. With the patronage of lottery players, the dedication of retailers and employees, a state-of-the-art gaming system, and the insight of Florida's Governor and Legislature, the future looks bright for the Florida Lottery, its players and beneficiaries.

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

Accomplishments ⇨

- 📖 FY 2008-09 was the seventh consecutive year the Lottery transferred in excess of \$1 billion to the Educational Enhancement Trust Fund.
- 📖 In FY 2008-09 the Lottery achieved \$3.93 billion in total ticket sales despite a slow economy.
- 📖 In FY 2008-09 the Lottery launched the state's first multi-state game.
- 📖 POWERBALL ticket sales for the first drawing was more than any other state's first draw sales in POWERBALL history and was double the previous record held.
- 📖 POWERBALL sales for the first month surpassed the state's forecast for the first six months of sales.
- 📖 Ranked among the top three in the domestic lottery industry for one of its \$20 Scratch-Off ticket sales and for total sales.



- 📖 Strongest \$30 Scratch-Off ticket sales in the nation.
- 📖 Highest selling licensed property Scratch-Off game in the nation.
- 📖 Achieved highest On-line sales to date during FY 2008-09.
- 📖 Strongest single state lotto game in the nation.
- 📖 One of the best and quickest selling raffle games in the nation.
- 📖 Ranked among the top 12 in the domestic lottery industry per capita sales.
- 📖 Ranked among the top 5 in the domestic lottery industry for total Scratch-Off sales.
- 📖 Ranked seventh in worldwide lotteries for total Scratch-Off sales

LaFleur's 2009 World Lottery Almanac

Current Lottery Operations

During FY 2008-09 the Florida Lottery, achieved revenues exceeding \$3.9 billion, down slightly from \$4.1 billion in Fiscal Year 2007-08. Transfers to the Educational Enhancement Trust Fund for FY 2008-09 were approximately \$1.28 billion (unaudited), up 0.11% from the previous year. This marks the seventh 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 have increased in the last five years from \$3.48 billion to \$3.96 billion (14%). The Lottery's contributions to public education have increased from \$1.10 billion to approximately \$1.28 billion (16%) during this same period. These increases are even more impressive in light of the fact that the Lottery's operating costs, expressed as a percentage of revenue, have decreased over time, from 2.04% in FY 2004-05 to 1.84% in FY 2008-09. 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 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09*
Total Revenues	\$3,487.5	\$3,946.7	\$4,142.5	\$4,203.9	\$3,961.3
Total EETF Transfers	\$1,103.6	\$1,224.6	\$1,263.2	\$1,283.4	\$1,284.7
Total Operating Costs **	\$71.0	\$71.8	\$73.3	\$73.0	\$72.7
Total FTE's	446	440	440	440	438
Operating Costs as a Percent of Total Revenue	2.04%	1.82%	1.77%	1.74%	1.84%
EETF Contribution per FTE	\$2.5	\$2.8	\$2.9	\$2.9	\$2.9

**Data for FY 2008-09 is unaudited.*

***Department operations only.*

The contribution to the Educational Enhancement Trust Fund per Lottery employee continued to increase each year even though human resources have decreased slightly over time.



Over the past five years, overall revenue growth has averaged 5.4% per year. Table 2 provides an illustration of sales by product for the five recent fiscal years. As shown, Scratch-Off ticket sales have increased 11.83% over the period, and On-line ticket sales have increased 15.24%. With the introduction of POWERBALL in January 2009, Scratch-Off ticket sales declined by 12.91% while On-line ticket sales show an increase of 3.77%.

Table 2

	Net Sales by Product (Millions)				
	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09*
Scratch-Off	\$1,844.6	\$2,100.1	\$2,283.6	\$2,368.8	\$2,062.9
LOTTO	\$689.8	\$835.0	\$735.6	\$779.0	\$650.6
Fantasy 5	\$252.5	\$306.7	\$326.2	\$309.4	\$287.3
Cash 3	\$345.6	\$343.2	\$348.7	\$336.1	\$320.2
Play 4	\$207.0	\$215.5	\$225.3	\$227.9	\$239.0
Mega Money	\$131.2	\$128.5	\$130.1	\$122.7	\$102.2
Raffle			\$72.5	\$30.8	\$41.3
Power Ball					\$233.4
Total On-line	\$1,626.1	\$1,828.9	\$1,838.4	\$1,805.9	\$1,874.0

* Data for FY 2008-09 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 2009-10, the REC has forecasted Scratch-Off ticket sales to decrease by 3.86%, and On-line sales are projected to decrease less than 1%.

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 2.86% 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), policy makers recently found themselves needing to supplement the Educational Enhancement Trust Fund for revenues that were previously anticipated from the Lottery. A repeat of this scenario is obviously not acceptable,



and all of our efforts at the Lottery must be directed toward improving the current sales trend.

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

Looking Forward

As the Florida Lottery looks forward to FY 2010-11 and beyond, it is important to examine and evaluate both the external and the internal environment in which the Lottery operates. In doing this, the Lottery has identified the following strengths, weaknesses, as well as opportunities and threats.

Strengths ⇨

- 📖 Flexible prize payout authority for both Scratch-Off and On-line games.
- 📖 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 is forecasted to achieve an efficient return on investment.
- 📖 In FY 2008-09, the Lottery negotiated a new contract which provides strategies to enhance its Scratch-Off ticket sales.
- 📖 The addition of the POWERBALL game provides an additional revenue source and increased player enjoyment.
- 📖 Midday draws to CASH3® and PLAY4™ offer player’s two chances daily to play and win.
- 📖 Multiple \$20 Scratch-Off games and the first \$30 game continue to rank at the top in sales for all Scratch-Off games available.



- 📖 Full scale deployment of the Lottery's Web site as a marketing tool which include enhancements that have allowed more efficient player interaction.

Weaknesses ⇒

- 📖 Signs of continued slow growth, which is typical of mature lotteries; however, negative growth has been seen for 18 months.
- 📖 Low market penetration – the Lottery's retailer-to-population ratio ranks 26 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.
- 📖 The Lottery has the ability to maintain a competitive advantage in the areas of distribution channel management, product development, product positioning, identifying new market opportunities, expanded retailer network, particularly underrepresented minorities.
- 📖 By October 2009, Scratch-Off tickets will be available through 1,000 new Instant Ticket Vending Machines (ITVMs) statewide.
- 📖 Create new strategic alliances focused on increasing sales.
- 📖 Upgrade department operations to use available technology from vendors to allow more player flexibility and higher satisfaction.
- 📖 The Lottery's patent authority allows the Lottery to apply for and hold patents on unique games or play-styles and could be an additional source of revenue.

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 2010-11 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.

The Lottery will also request funding to replace two sets of three On-line Draw Machines. 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 fewer ticket sales. In August 2009 the Lottery received negative press 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 2009-10 the Advertising budget totals \$34.86 million and is separated in three budget appropriations: \$30.26 million for Advertising; \$3.48 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 throughout agency operations to remain within the allotted appropriation limits. Since fiscal year 2006, the appropriation for contracted services and office expenses has been reduced by 21%, while the Operating Capital Outlay (OCO) base appropriation has decreased from \$1.10 million in FY 01-02 to \$1,000 for the current fiscal year. The Lottery no longer has a recurring base budget for 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. 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 plan, the Lottery believes it can achieve \$5 billion in annual sales within three fiscal years. That should translate to about \$1.50 billion per year to education – up from \$1.28 billion today.

New and Enhanced Games and Promotions

With the implementation of FLORIDA LOTTO™ with XTRA®, beginning in October 2009, the transfers to EETF are expected to increase. LOTTO players can add extra value for \$1 more per play, win extra on non-jackpot prize levels, and get an extra chance to win a FREE ticket. The XTRA number, from 2 to 5, will be drawn prior to the drawing to determine the multiplier for the non-jackpot prizes for that draw.

With POWERBALL jackpots starting at \$20 million and rolling twice a week when there is no top winner, the possibility of extremely high top prizes excites players with dreams of mega-jackpot winnings. Since POWERBALL is played in 30 states, the prize possibilities are likely to be known to newcomers and visitors.

Power Play® is an add-on feature to POWERBALL that allows players to multiply their non-jackpot winnings by two, three, four or five times for \$1 more per play. Power Play players who match five numbers win \$1 million – the original match 5 prize multiplied by five. All other non-jackpot prizes are multiplied by the Power Play multiplier, from two through five, selected at random at the start of each drawing. Periodically a promotion will be activated with a 10 multiplier allowing players to win 10 times the non-jackpot prize when a Power Play is purchased.

Second chance promotional drawings are becoming frequent and successful events allowing players additional chances to win prizes such as cars and car



related merchandise, football tickets to university games, shopping sprees and even gold bars.

Strategic utilization of EZmatch™ and MILLIONAIRE RAFFLE™ provides player satisfaction while increasing the amount of the transfers. The Lottery's Product Development Team are constantly monitoring and evaluating the marketplace for new and exciting opportunities to provide players.

Retailer Network Expansion

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 (1,450 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 bring the retailer base to 13,500.

Once again in its March 2009 report (No. 09-14), the Office of Program Policy Analysis and Government Accountability (OPPAGA) recognized that increasing the number of lottery retailers has the potential to increase revenues by making lottery products more readily available to both residents and tourists. The OPPAGA report also states that adding 1,500 new retailers to the Florida Lottery's retailer base has the potential to generate an additional \$37 million annually for the Educational Enhancement Trust Fund.

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



Instant Ticket Vending Machines (ITVMs)

Instant Ticket Vending Machines or ITVMs are an example of a different retail channel than those used by Florida in recent years. These machines operate just as soft drink and candy vending machines do, except that the products for sale are Scratch-Off game tickets. Currently, 70% of lottery states utilize ITVMs. The addition of ITVMs can increase product visibility, thus enhancing Lottery sales. ITVMs are also a device that is attractive to non-traditional and existing retailers that otherwise would be less inclined to sell lottery tickets in the traditional manner.

Although Chapter 24, Florida Statutes, specifically authorizes the Lottery to utilize ITVMs, the Lottery must continue to pursue budgetary authority to deploy ITVMs. In the spring of 2007, the Lottery completed a successful pilot project with 10 ITVMs placed in 10 different stores. These 10 machines were given premier placement and were diligently kept full. The results were very promising for a future rollout of additional ITVMs. The only financial considerations are: 1) to ensure that the cost of leasing the machines is more than offset by increased revenue derived from the ITVMs; and 2) to minimize same-store cannibalization. Studies and experiences from other states show that as long as the two criteria cited above are strictly adhered to, ITVMs are a proven way to increase net lottery sales. Indeed, the pilot study generated a 36% net Scratch-Off sales gain in the participating stores.

Following a favorable impact analysis by the Revenue Estimating Conference in 2008, the Legislature authorized the purchase and installation of 1,000 ITVMs in Florida Lottery retailers. The installation is near completion in the state's top six grocery chains and a relatively small number of high-volume independent retail locations. The Florida Lottery's goal is to exceed the REC's forecasts of the net gain in EETF to be realized from ITVMs. Because this initial placement of 1,000 ITVMs will represent a 7% saturation as opposed to the industry standard of 16%, the Lottery's plan is to use this success in the future to make the case for a larger deployment of the machines.



Retailer Commissions and Incentives

As mandated by the FY 2009-10 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

The Lottery is finalizing the replacement and upgrade of Local Area Network (LAN) equipment at Headquarters, Orlando Backup Data Center (ODC) and the District Offices. This equipment provides the underlying communications infrastructure for all Lottery equipment and applications, including access to administer, monitor and audit the gaming systems, internal control systems, prize payment system, Business Intelligence and Sales Reporting, management of the public web site, and all financial and accounting systems. The Lottery depends on being able to tightly monitor and audit the gaming systems and applications provided by its business partners and to manage and administer its various legislative and financial responsibilities. A secure, reliable and centrally managed network is critical to carrying out these responsibilities. This new LAN equipment will also reduce the possibility of extended network outages, improve recovery and restore times, and provides a more secure and better-managed network.

The Lottery is in the process of replacing the phone systems at Headquarters, ODC and the District Offices during the next few months. The Lottery's voice systems play an integral part in the smooth and efficient operation of the business. Replacement with new, supportable products will enable the Lottery to avoid the risk of significant phone system outages. This replacement of the phone systems will allow the Lottery to utilize the state's MyFloridaNetwork avoiding long distance charges for inter-office calls. The new systems occupy a smaller space and have a lower total cost of ownership.

The Lottery's Business Intelligence (BI) infrastructure continues to provide important analytical information on Lottery sales, promotions, retailers, and products. Lottery business objectives require significant improvements in BI for players and products. A new Business Accounting and Payment System (BAPS) will be completed to provide needed business intelligence on players, prizes, product costs, profitability, and cash management. The Payment system goes live in FY 2009-10 and the Accounting component is targeted for FY 2010-11. As



technology evolves, the Lottery will seek to expand Business Intelligence to the mobile sales force and retailer networks in an efficient and cost effective manner.

Averaging over two million unique visitors per month, the Lottery's stable and robust Web site is aligned to support Lottery's 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 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 Web casting of all Lottery drawings, On-line and Scratch-off second-chance drawings, digital videos, commercials, E-coupons, E-mail alerts, simulated games, and on-line prize redemptions.

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 twenty-one 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. This includes higher capacity servers allowing for greater server virtualization. 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.

Obsolete security equipment and the Lottery's physical security system need to be replaced. The Lottery is receiving assistance from a vendor to define the current operational needs for physical security, develop a design solution, obtain specification pricing and formulate implementation details for a new security system. Plans are in place for the next Security Audit/Evaluation to include a thorough review of the physical security system, which contains parts that are twenty-one years old.

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



The environment today is significantly different than it was fifteen or twenty 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 is 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-one 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. "\$20 Billion to Education" is not just a marketing phrase. It is precisely the amount of funding that would have had to be either cut from valuable education programs, or raised in the form of new taxes.

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

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

LIST OF CHANGES WHICH WOULD REQUIRE LEGISLATIVE ACTION

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

LIST OF ALL TASK FORCES, STUDIES, ETC, IN PROGRESS

The Florida Lottery conducts a comprehensive, on-going marketing research program comprising several different types of studies. The purpose of these studies is to gain a better understanding of consumer behaviors and preferences, retailer sales performance and the financial impacts of game or program changes. This type of data helps improve the Lottery's ability to increase sales and transfer more money to the EETF.

Retailer Satisfaction Survey - This is an annual survey developed to assess retailers' overall satisfaction level with lottery employees and the general level of service they receive from the Florida Lottery, including: visits to the retailer by the



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

Scratch-Off Game Concept Studies - This is an analysis of prospective Scratch-Off games conducted on-line to determine the potential of 25 to 50 scratch tickets under consideration (with varying price points) among scratch players in Florida (by the total population and by the Lottery's scratch player segments). 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.

Market Segmentation Study - The results of this study are used to guide product, marketing and sales strategies and tactics. Segmentation studies divide the population or a component of it into unique and identifiable segments based on their attitudes, motivations and play characteristics as they pertain to Scratch-Off games. Psychographics (attitudinal), demographic and geographic information are collected and analyzed to determine the segments.

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 of the Florida Statutes, to "engage an independent firm experienced in security procedures, including but not limited to, computer security and systems security, to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Department". This evaluation is required every two years. The scope of this review covers Lottery Security; Lottery Applications, Communications, and Operational Systems; and the Security of Gaming Vendors Operations. The review focuses on areas of greatest risk and vulnerability, examining not only standard security practices, but also areas where unauthorized intrusion could potentially damage the integrity of the Lottery.



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 2008-09 (Numbers)	Prior Year Actual FY 2008-09 (Numbers)	Approved Standards for FY 2009-10 (Numbers)	Requested FY 2010-11 Standard (Numbers)
Transfers to the state Educational Enhancement Trust Fund	\$1.206 B	\$1.284 B	\$1.206 B	\$1.206 B
Total revenue in dollars	\$3.918 B	\$3.960 B	\$3.918 B	\$3.918 B
Operating Expense* as percent of total revenue	9.52%	8.88 %	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%	5.4%	6.2%	6.2%

- *Includes payments to gaming vendors and retailer commission*



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

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
65%	62%	-3%	3%

Factors Accounting for the Difference:

Internal Factors (check all that apply):

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

Explanation:

External Factors (check all that apply):

- Resources Unavailable
- Technological Problems
- Legal/Legislative Change
- Natural Disaster
- Target Population Change
- Other (Identify)
- This Program/Service Cannot Fix The Problem
- 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 2008-09, the percentage of the general population that identified education/scholarships as the recipients of Lottery funds ended at 62%. 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 site, print, and point-of-sale advertising in both English and Spanish; billboard ads in English; and public relations initiatives including press releases, letters to newspaper editors, collateral development, and participation in various education-related events/initiatives throughout the state.

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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

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AGENCY-LEVEL UNIT COST SUMMARY – LRPP EXHIBIT VI

LOTTERY, DEPARTMENT OF THE		FISCAL YEAR 2008-09		
SECTION I: BUDGET		OPERATING		FIXED CAPITAL OUTLAY
TOTAL ALL FUNDS GENERAL APPROPRIATIONS ACT			163,230,454	0
ADJUSTMENTS TO GENERAL APPROPRIATIONS ACT (Supplementals, Vetoes, Budget Amendments, etc.)			-5,646,860	0
FINAL BUDGET FOR AGENCY			157,583,594	0
SECTION II: ACTIVITIES * MEASURES		Number of Units	(1) Unit Cost	(2) Expenditures (Allocated)
<i>Executive Direction, Administrative Support and Information Technology (2)</i>				0
Supervise And Administer The Operation Of Lottery Games * Number of games administered		142	83,653.96	11,878,863
Conduct Market Research And Special Studies * Number of studies conducted		21	25,816.33	542,143
Provide Adequate And Convenient Availability Of Tickets To The Public * Number of tickets sold		2,377,253,227	0.03	77,105,826
Advertise And Promote Lottery Games * Total gross annual sales		3,973,544,637	0.01	34,307,645
Conduct Investigations Of Retailers, Vendors And Employees * Number of investigations conducted		5,248	621.31	3,260,640
Pay Prizes For Winning Tickets Submitted To Lottery Headquarters * Number of prizewinners paid		54,957	19.07	1,047,891
Keep The Public Informed Of Lottery Activities * Number of media releases and public education materials distributed		2,660,134	1.12	2,989,795
Compensate Retailers In The Form Of Incentives * Number of retailers compensated		129,971	15.51	2,015,546
TOTAL				133,148,349
SECTION III: RECONCILIATION TO BUDGET				
PASS THROUGHS				
TRANSFER - STATE AGENCIES				
AID TO LOCAL GOVERNMENTS				
PAYMENT OF PENSIONS, BENEFITS AND CLAIMS				
OTHER				6,271,741
REVERSIONS				18,163,513
TOTAL BUDGET FOR AGENCY (Total Activities + Pass Throughs + Reversions) - Should equal Section I above. (4)				157,583,603

SCHEDULE XI/EXHIBIT VI: AGENCY-LEVEL UNIT COST SUMMARY

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



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.