Agency Strategic Plan
For the Fiscal Years 2007 – 2011 Period

Submitted by:

Texas Lottery Commission

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STATEWIDE ELEMENTS

THE MISSION OF TEXAS STATE GOVERNMENT

Texas state government must be limited, efficient and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high….We are not here to do inconsequential things!

THE PHILOSOPHY OF TEXAS STATE GOVERNMENT

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse, and providing efficient and honest government.

Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.
RELEVANT STATEWIDE GOALS AND BENCHMARKS

Following are the statewide goals and benchmarks that are relevant to the activities of the Texas Lottery Commission.

ECONOMIC DEVELOPMENT

Priority Goal: To foster economic opportunity, job creation, capital investment, and infrastructure development by promoting a favorable business climate, addressing transportation and housing needs, and developing a productive workforce.

Relevant Benchmarks:

- Per capita gross state product
- State taxes per capita as a percent of personal income
- Texas unemployment rate
- Median household income
- Net number of new non-government, non-farm jobs created
- Number of new small businesses created
- Percent of the small communities’ population benefiting from public facility, economic development, housing assistance, and planning projects

REGULATORY

Priority Goal: To ensure Texans are effectively and efficiently served by high-quality professionals and businesses through clear standards, compliance, and market-based solutions.

Relevant Benchmarks:

- Percent of documented complaints to licensing agencies resolved within six months
- Percent of new and renewed licenses issued via Internet
RELEVANT STATEWIDE GOALS AND BENCHMARKS (CONT’D)

GENERAL GOVERNMENT

Priority Goal: To support effective, efficient, and accountable state government operations and to provide citizens with greater access to government services while reducing service delivery costs.

Relevant Benchmarks:

- Total state taxes per capita
- Total state spending per capita
- State and local taxes per capita
- Number of state services accessible by Internet
- Savings realized in state spending by making reports/documents/processes available on the Internet

HEALTH AND HUMAN SERVICES

Priority Goal: To reduce dependence on public assistance through an efficient and effective system that promotes the health, responsibility, and self-sufficiency of individuals and families.

- Percent of parents awarded child support payments who receive them

Texas Lottery Commission programs and strategies also indirectly support the following statewide goals.

EDUCATION—PUBLIC SCHOOLS

Priority Goal: To ensure that all students in the public education system are at grade level in reading and math by the end of the third grade and continue reading and developing math skills at appropriate grade level through graduation, demonstrate exemplary performance in foundation subjects, and acquire the knowledge and skills to be responsible and independent Texans.

PUBLIC SAFETY AND CRIMINAL JUSTICE

Priority Goal: To protect Texans from crime by quick and fair enforcement of laws, maintain statewide emergency and disaster preparedness and response, police public highways, and to confine, supervise, and rehabilitate offenders.
AGENCY VISION

To be the preeminent Lottery and Charitable Bingo agency through innovative leadership.

AGENCY MISSION

Texas Lottery: The Texas Lottery is committed to generating revenue for the state of Texas through the responsible management and sale of entertaining lottery products. The Texas Lottery will incorporate the highest standards of security and integrity, set and achieve challenging goals, provide quality customer service and utilize a TEAM approach.

Charitable Bingo: Provide authorized organizations the opportunity to raise funds for their charitable purposes by conducting bingo. Determine that all charitable bingo funds are used for a lawful purpose. Promote and maintain the integrity of the charitable bingo industry throughout Texas.

AGENCY CORE VALUES

Integrity and Responsibility - The Commission works hard to maintain the public trust by protecting and ensuring the security of our lottery games, systems, drawings and operational facilities. We value and require ethical behavior by our employees, licensees and vendors. We promote the integrity of charitable bingo in Texas for the benefit of charitable organizations.

Innovation - We strive to incorporate innovation into our products to provide the citizens of Texas with the best entertainment experience available through our products. We pursue the use of technology that enhances the services that we provide to our customers and reduces our operating expenses.

Fiscal Accountability - We emphasize fiscal accountability by ensuring that all expenditures directly or indirectly generate revenue, enhance security, fulfill regulatory requirements, improve customer service and/or boost productivity. We recognize our responsibility in generating revenue for the state of Texas without unduly influencing players to participate in our games. We maximize benefits to charities through the continual examination and review of charitable bingo operations.
AGENCY VISION, MISSION, VALUES & PHILOSOPHY

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AGENCY CORE VALUES (CONT’D)

Customer Responsiveness - The Commission takes pride in providing exemplary service to the people of Texas through the courteous dissemination of clear and accurate information about our products, services and regulatory functions. We seek and respond to feedback expressed by our employees, retailers, licensees and the playing and non-playing public. We apply this feedback in the development of our products and in the services that we provide.

Teamwork - We are committed to creating an environment of mutual respect where open, honest communication is our cornerstone. We embrace the diversity of our team and individual perspectives in working together to achieve our common goals.

Excellence - We strive for excellence by taking a position of leadership on issues that impact the Commission and achieve challenging goals by focusing on our core values.
Texas Lottery Commission
Agency Strategic Plan
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EXTERNAL/INTERNAL ASSESSMENT

I. OVERVIEW

A. Main Functions

The Texas Lottery Commission has two main functions:

The Texas Lottery Commission is charged under the State Lottery Act with administrating Texas Lottery games in an efficient and secure manner using appropriate marketing tools and innovative technology to generate revenue for the state of Texas while enhancing public confidence in the integrity and fairness of the games.

The Charitable Bingo Operations Division is charged under the Bingo Enabling Act with the regulation and administration of all charitable bingo-related activities in the state of Texas and contributes to the regulatory and tax and revenue collection functions of the agency. The division licenses all bingo-related activities; collects taxes and prize fees generated from the conduct of charitable bingo; audits bingo licenses; conducts tests on bingo products intended for use in Texas, such as bingo paper, pull-tabs and electronic equipment; and makes quarterly allocations to local units of government for their share of the prize fees collected.

B. Statutory Basis

Article III, Section 47, of the Texas Constitution, the State Lottery Act (Chapters 466 and 467, Government Code) and the Bingo Enabling Act (Occupations Code, Chapter 2001) are the operative statutes for the Texas Lottery Commission. These statutes set out the primary duties and powers of the Commission, which are to administer and appropriately market the Texas Lottery and to regulate charitable bingo in Texas.

The Texas Sunset Act provides that a group of ten legislators and two public members, the Sunset Advisory Commission (SAC), must periodically evaluate a state agency to determine if the agency is needed and is effective, and whether improvements are needed to ensure that tax dollars are well spent.

The Texas Lottery Commission was first reviewed by the SAC in 2002, but the legislation containing the SAC’s recommendations did not pass the 78th Legislature. Instead, the Legislature passed House Bill (HB) 2455 to continue the Texas Lottery Commission until 2005 and to require the SAC to review the appropriateness of its 2002 recommendations regarding the agency at that time.

Notwithstanding the SAC’s Management Recommendations not passing the Legislature, the agency moved forward and implemented the recommendations.

The Texas Lottery Commission was reviewed by the SAC again in 2004, but the legislation containing the SAC’s recommendations again did not pass the 79th Legislature, Regular Session. Instead, the Legislature passed HB 1116 to continue the Texas Lottery Commission through Fiscal Year (FY) 2011.
C. Historical Perspective

On August 26, 1991, HB 54, creating a lottery in Texas, was passed during a special session of the 72nd Legislature. On November 5 of that same year, House Joint Resolution (HJR) 8, containing the constitutional amendment to authorize a state lottery, was approved by Texas voters.

The Texas Lottery began generating revenue for the state of Texas in 1992, initially as a division within the Comptroller of Public Accounts. It became a separate, independent agency on September 1, 1993, through the authority of HB 1587 as passed by the 73rd Texas Legislature, Regular Session.

In 1979, the 66th Legislature, Regular Session, passed Senate Joint Resolution (SJR) 18, proposing a constitutional amendment to authorize bingo games for charitable purposes on a local option basis. At the time of the constitutional amendment, bingo was prohibited by Article III, Section 47, of the Texas Constitution. However, in many communities, the law was selectively enforced. The purpose of the constitutional amendment and the ensuing enabling legislation was to provide for uniform regulation so that charitable bingo would be conducted fairly.

In 1980, Texas voters approved a constitutional amendment authorizing charitable bingo. The amendment requires all bingo proceeds to be spent in Texas for charitable purposes. The Texas Legislature adopted the Bingo Enabling Act in 1981, and the first licenses were issued in spring 1982. Bingo has been regulated by three different agencies since its inception. From 1982 to 1990, Charitable Bingo was a division of the Comptroller’s Office. From 1990 to 1994, the division was part of the Texas Alcoholic Beverage Commission.

House Bill 2771, 73rd Legislature, Regular Session, transferred regulatory authority for charitable bingo to the Texas Lottery Commission, effective April 1, 1994.

D. Texas Lottery® Games

The Games of Texas are the body of games that the Texas Lottery makes available to the playing public. These include instant games and on-line games. As of February 2006, five on-line games and approximately 90 instant games constitute the current FY 2006 game portfolio.

Instant Ticket Games

Also referred to as “scratch-off” or “scratch” games, instant ticket games consist of preprinted tickets with symbols hidden under a latex covering. The player scratches off the latex and determines “instantly” whether or not a prize may be claimed. Instant tickets include a variety of themes, play styles, and prize structures in order to offer an attractive game mix to each of the player segments. Popular game themes include gaming, money, numbers, seasonal, annuity and extended play.

Play styles include matching like dollar amounts or symbols, tic-tac-toe games, key number or symbol matches, beat score, and add-up games. Enhancements to play styles, such as “doubler” features and “automatic win” symbols, provide added value to the games. Players enjoy mul-
multiple chances and multiple ways to win on each ticket.

Prizes for current instant games range from $1 to $5 million. The majority of $1 tickets offer a top prize of no more than $1,000, while $2, $3, $5, $7, $10, $20, $25 and $30 games offer higher top prizes. There are also games that provide annuity prizes that are paid out over a period of time. As of April 2006, annuity style instant games are available at the $1, $2, $5 and $10 price points.

Whereas on-line games have a set number of draws scheduled each week, instant ticket games offer the possibility of immediate winning experiences with cash and non-cash prizes. Most instant ticket purchases are impulse buys. Therefore, it is important to create games that are attractive to players, provide frequent opportunities to win, and offer a variety of prizes per game. In response to market research findings, the Texas Lottery has also added specific prize amounts to the faces of the tickets.

The Texas Lottery Commission has experienced an increase in the overall prize-payout percentage for the past several years. This can be attributed to a continued decline in overall on-line product sales and an increase in overall instant product sales. During FY 2005, instant tickets accounted for approximately 74 percent of total sales. Since instant games historically have a higher prize payout than on-line games and make up a greater share of the agency’s total sales, the result is an increase in payout overall.

Another contributing factor is the introduction and success of higher price point instant games, such as $30 games, that have higher prize pay-outs. This has contributed to the increase in the overall instant product prize payout.

The continued increase in popularity in the instant category, even when coupled with declining on-line sales, has led to an increase in overall sales and revenue. However, the agency must continue to closely manage payouts given the potential impact to net revenue generated for the state of Texas.

The Commission is monitoring this issue closely and evaluating the effects of higher prize pay-outs on revenue return. The agency has also solicited the assistance of the University of Texas at Austin to conduct research to ascertain optimal prize-payout percentages.

### On-line Games

The industry term “on-line game” does not refer to an Internet-based game, but rather to the fact that the game tickets are generated from a terminal connected to a central system. The terminal in the retailer locations is said to be “on-line” with the lottery operator’s central computer in Austin. GTECH Corporation is the current operator for the Texas Lottery. The Texas Lottery conducts drawings to determine a set of winning numbers for these types of games.

Most on-line games require the player to select from a pool of numbers. For example, when the pool consists of 37 numbers and a player selects five numbers from the pool, the game is described as having a 5-of-37 matrix. In order to claim the largest prize, the player’s ticket must correctly match all five numbers. Players also have the option of having their numbers selected by the on-line terminal by choosing the Quick Pick option.

The Texas Lottery’s current on-line game offerings include *Mega Millions®* with the add-on Megaplier® feature, *Lotto Texas®, Pick 3™, Cash Five®*, and *Texas Two Step®*. 
Players must match the five numbers plus the Mega Ball to win the jackpot. Each ticket costs $1 per drawing. Players in Texas must select their jackpot payment option – Cash Value Option or 26 Annual Payments – at the time of the ticket purchase. For added convenience, Multi Draw is available for up to ten drawings.

Texas is the only participating Mega Millions state to offer players a chance to increase their non-grand/jackpot prize winnings through a special feature called the Megaplier. For $1 more per play board, players can increase their non-grand/jackpot prize winnings by 2, 3, or 4 times. The Megaplier number is selected using a random number generator with an animated draw system. Each Megaplier drawing is conducted in Texas prior to the Mega Millions drawing in Atlanta, which is held Tuesdays and Fridays at 10:00 p.m. Central Time. Broadcasts of the two drawings are then merged and are made available via satellite to Texas television stations at 10:12 p.m.

Lotto Texas®

As the first on-line game to be introduced in Texas, Lotto Texas remains the flagship in-state game of the Texas Lottery. Sales for Lotto Texas began on November 7, 1992.

The starting jackpot for Lotto Texas has been increased twice in its 13-year history. When the game first started, the jackpot began at $2 million. The starting jackpot increased to $3 million in January 1994, and increased to $4 million in January 1995.

Lotto Texas has undergone three matrix changes. From 1992 until July 2000, Lotto Texas players chose six numbers between 1 and 50. Lack of jackpot growth was a key factor in a decline of Lotto Texas sales beginning in FY 1998.
The matrix was changed for the first time in July 2000, and players then chose six numbers between 1 and 54. In FY 2001, the first full year with the new 6-of-54 matrix, Lotto Texas sales topped $695 million, an increase of 19 percent over FY 2000. Shortly after the matrix change, one of the game’s largest jackpots, $85 million, was reached for the drawing on March 7, 2001.

A second matrix change was implemented on May 4, 2003. Players chose five out of 44 numbers and then one bonus ball number from a second field of 44 numbers. In order to win the jackpot, players needed to match all five numbers drawn plus the bonus number drawn. The new matrix and payout structure, while increasing the odds of winning the jackpot prize, improved the overall odds of winning any prize to 1 in 57, the exact overall odds from the original 6-of-50 matrix. In addition, there were eight prize tiers, or categories, providing players with more ways to win. A record Lotto Texas jackpot of $145 million was reached for the drawing on June 19, 2004.

A continued decline in Lotto Texas sales lead to a third matrix change that was implemented in April 2006. The Texas Lottery Commission took in nearly 1,500 comments submitted by the public from December 2005 through January 2006. General consensus among the comments revealed players’ discontent with the bonus ball feature of the Lotto Texas game. Based in part on the public comment received, a new 6-of-54 matrix was introduced. This revised game includes overall odds of winning the jackpot prize of 1 in 25.8 million and overall odds of winning any prize of 1 in 71.

Players can make up to five plays on one play slip. In addition, they can play their selected numbers for up to ten drawings in advance by using the Multi Draw feature. They can also choose their own numbers or use the Quick Pick option.

Lotto Texas drawings are conducted Wednesday and Saturday at 10:12 p.m. and have been made available via satellite to television stations across the state since the first drawing in 1992.

Pick 3™

Pick 3 was added to the on-line game mix in October 1993. In March 2002, the Texas Lottery Commission approved the addition of a Pick 3 day drawing.

Sales for the day drawing began on April 28, 2002. Drawings are held twice daily every Monday through Saturday at 12:27 p.m. and 10:12 p.m. and are made available via satellite to television stations across the state.

Pick 3 is the only on-line game that offers players a 50-cent play. Players select three numbers from 0 to 9 and choose the way they want to play. They have four choices for how they can play their 3-digit number: Exact Order, Any Order, Exact/Any Order, or Combo. Players can choose to play their numbers for up to 12 consecutive day draws only, 12 consecutive night draws only or 12 consecutive day and night drawings, by using the Multi Draw feature. The cost of a play is dependent on the play style selected, the amount wagered and the number of drawings played. Pick 3 is the only game in the agency’s on-line product portfolio that has realized a sales increase every year since its inception.
OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

Cash Five®

The first five-digit game introduced in Texas, Cash 5 was a 5-of-39 lotto-style matrix when it was first added to the on-line game mix in October 1995. After seven years of existence with minimal changes, in April 2002, the Texas Lottery Commission approved changes that would refresh the Cash 5 game and result in more chances to win and better overall odds. The revised game, marketed as Cash Five, started July 28, 2002 with a 5-of-37, lotto-style matrix. This matrix, along with a new “match 2-of-5” prize tier and overall odds of 1 in 8, helped move the game from being one of the most difficult to win five-digit games in the country to one of the easiest.

Players win by matching two, three, four or five of five numbers drawn. If no ticket matches all five numbers drawn, the prize pool set-aside for the top, or 5-of-5, prize is allocated to the 4-of-5 prize level. The 4-of-5 prize increases accordingly. Players can choose their own numbers or use the Quick Pick feature. Players can also play their numbers for up to 12 drawings in advance by using the Multi Draw feature. Cash Five also offers an Advance Play option, where players can choose the day they want to start playing their numbers.

Cash Five drawings are held daily, every Monday through Saturday night, at 10:12 p.m. and are made available via satellite to television stations across the state.

Texas Two Step®

Texas Two Step is a 4-of-35 plus 1-of-35 bonus ball on-line game. Players select four numbers plus a bonus ball number for a chance to win the jackpot prize. If no ticket correctly matches all four numbers plus the bonus ball, the jackpot rolls over (grows) until a ticket(s) matches all four numbers plus the bonus ball for a given draw.

Jackpots start at $200,000. There are seven different ways to win a prize, and all prizes, including the jackpot prize, are paid in one lump sum. Players win a guaranteed $5 prize for matching just the bonus ball. Players can also win a guaranteed $7 prize for matching one number from the first set of four numbers plus the bonus ball. Players can choose their own numbers or use the Quick Pick feature. Players can play their numbers for up to ten drawings in advance by using the Multi Draw feature.

In April 2004, the Texas Lottery Commission adopted proposed amendments to the Texas Two Step game rule, 16 TAC §401.312, which allowed the Executive Director flexibility to change the drawing schedule and draw days of the Texas Two Step game without first undergoing a rule change. The impact on Texas Two Step due to Texas joining the Mega Millions game in December had been closely monitored. Due to a decline in sales of Texas Two Step, the decision was made to change the Texas Two Step draw days to Mondays and Thursdays. The intent of this change was to reduce the competition that Texas Two Step faced from Mega Millions on Tuesday and Friday draw nights, and to offer players a jackpot-style game every night of the week except Sundays.

Texas Two Step drawings are held every Monday and Thursday at 10:12 p.m. and are made available via satellite to television stations across the state.
E. Charitable Bingo

Bingo is the oldest form of legalized gaming in Texas. The conduct of charitable bingo has been approved by voter referendum in 118 counties, 156 justice precincts, and 264 cities.

In Texas, all bingo games are required to be conducted by licensed nonprofit organizations, with the exception of groups or organizations that qualify for exemption from licensing as defined by the Texas Occupations Code §2001.551. Types of organizations that may be eligible for exemption are organizations conducting bingo on behalf of persons 60 years of age or older, senior citizens’ associations, community centers operated or funded by a governmental entity, nursing homes and hospitals certified by the Texas Health Department, and retirement homes.

Although the original bingo game has not changed, the venues where bingo is conducted and the style of play have evolved over the years.

Venues where charitable bingo is conducted may range from a small church hall in a rural area to a large “commercial hall” in an urban center. For example, the traditional bingo game conducted in a rural setting may be conducted in the hall or other facility owned by the church. These games are generally low-stakes and are characterized primarily as a social event. More often than not, these games are conducted by volunteers at a relatively slow pace, with a large number of games being played for smaller prizes, over longer periods of time.

A commercial hall, which gets its name from the type of license held by the landlord (a commercial lessor), is a location where more than one licensed nonprofit organization conducts bingo. Games conducted in these venues are generally conducted by paid employees, may include the use of electronic card-minding devices, and are fast-paced with fewer games played for larger prizes over a shorter period of time.

Style of Play

Bingo is a game of chance played with a field of 75 numbers and a game card. Each game card has 24 different preprinted numbers enclosed within five columns and five rows with a free spot in the middle. Each column on a bingo card starts with one of the letters in the word B-I-N-G-O.

Game cards come in two forms—disposable paper sheets, and hard permanent cards.

The paper cards are generally marked with a special-colored ink marker called a dauber. Permanent cards may have little shutters or windows that can be slid over the number when it is called. There are 75 lightweight bingo balls, each printed with one of the letter/number combinations previously identified. They are encased in either a ball cage or a blower where they can be spun around to ensure that each pick is random. After a bingo ball is selected, its number is announced by the caller and may be displayed on an electronic board for all players to see. The process of selecting and calling the balls is repeated until one or more players cover the selected pattern for that game and shout, “Bingo!”

Bingo games are played out in many different predetermined patterns, the most common being
a straight line in any direction: vertical, horizontal or diagonal. Many other patterns may be chosen for play, including a “coverall,” in which all of the numbers on the winning player’s card are selected.

Bingo Paper

Bingo paper is usually manufactured and sold in sheets of paper that have one or more bingo card faces on each sheet, generally referred to as “ons.” They are also manufactured and sold as single or multiple sheets, generally referred to as “ups.” The number of sheets normally corresponds with the number of games being played. A 12-on-10 up sheet would consist of ten sheets for ten games with 12 card faces on each sheet. For purposes of security and accountability, each sheet has an identifying serial number and card number.

Electronic Bingo

In 1995, the Texas Legislature authorized the use of electronic card-minding devices. These are mechanical, electronic, electromechanical or computerized devices, including related hardware and software, that are interfaced with or connected to equipment used to conduct a game of bingo and that allow a player to store, display, and mark bingo card faces. The device is preprogrammed to play multiple games of bingo with a fixed number of card faces, the maximum of which is normally determined by state gaming rules and regulations. The maximum number of card faces allowed in Texas is 66 card faces per game. Card-minding devices are usually sold as stationary units or portable (hand-held) units. Players often play bingo with paper products in conjunction with monitoring the card minder(s). Electronic bingo includes card minders that incorporate multimedia capabilities of cable TV broadcasts or standard computer games. The latest form of card minders utilize wireless hand sets which receive game and called ball information from the server. Additionally, many of the newest versions of hand-held card minders are designed with color screens and advanced graphics.

Pull-tab Bingo

Pull-tab bingo is a form of bingo played using a folded or banded ticket, or a card with perforated tabs on one side, made completely of paper products, the face of which is covered or hidden to conceal numbers, symbols or letters. Some of the configurations of numbers, symbols or letters have been designated in advance as prize winners. Pull-tab bingo emerged in the 1970s as a popular fundraising game for charities and found easy acceptance in bingo games. The sale of pull-tab bingo spread to other locations, such as fraternal clubs, service clubs and veterans organizations, and into taverns, depending upon state regulations.

Game participants open the perforated tabs and compare the configurations with game information provided on the front of the tickets, or on sheets called flares, in order to determine whether a particular ticket is a winner. The flare also shows the number of cards in the set or deal, how much money should be collected from the sale of all the tickets, and the total dollar amount of the prize payouts. Additionally, the
OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

flare shows the profit amount if all of the game cards are sold, the payback percentage, and the win ratio. Ticket prices normally range from 25 cents to $1, with individual prizes ranging from 50 cents to $750. Prize payouts generally range from 65 percent to 79.4 percent of total box sales, with an approximate average of 71.8 percent. In Texas, the prize payout must be at least 65 percent. For security purposes, each set or deal of cards is factory sealed and given a unique serial number.

Pull-tab tickets come in a variety of themes that are designed for pull-tab payouts, and the sets or deals come in a wide range of ticket counts. The newest style of pull-tab tickets is an “event” ticket and continues to be overwhelmingly popular with bingo players as well as profitable for the charities. Event tickets include the same features of regular pull-tabs but incorporate a second level of play that provides an additional opportunity to win. Event ticket winners are determined by some subsequent action, such as drawing a ball(s), spinning a wheel, opening a seal on a flare, or any other approved action, as long as that action has designated numbers, letters, or symbols that conform to the randomly selected numbers or symbols.

A major advantage of event tickets is that they come in much smaller ticket counts per set or deal and the major “event” winners are not paid until all tickets are sold, which guarantees the exact stated profit per set or deal. Gross receipts for pull-tab sales in 2005 were more than $222.8 million, the highest amount ever for pull-tab ticket sales in Texas.

Pull-tab tickets are generally sold in the bingo hall by floor ushers or out of a special area designed solely for pull-tab sales. They may also be sold from mechanical dispensing machines during an organizations licensed bingo occasion.

F. Key Service Populations

The agency serves a number of direct and indirect customers. The primary direct customers of the Texas Lottery Commission include lottery players and licensed retailers, charitable bingo players and licensees, advisory groups, vendors, and the Texas Lottery Commissioners, and agency staff. Indirect customers are those Texas populations that benefit from the conduct of the Games of Texas and charitable bingo, from the agency’s net revenue contributions to the state of Texas, and from associated agency activities that serve the public good.

Direct Customers

Lottery and Charitable Bingo Players

The Texas Lottery player base consists primarily of adult Texans 18 years and older, as well as similar-aged players from surrounding states and Mexico who travel to Texas to purchase Texas Lottery tickets. The charitable bingo player base consists primarily of adult Texans 18 years and older; however, it is not required that a bingo player be 18 if accompanied by a parent or guardian.

Lottery Retailers

As of January 28, 2006, the Texas Lottery had 16,260 licensed retailers. The two largest groups according to the Standard Industrial Code (SIC) are convenience stores with gas, and grocery stores.

Charitable Bingo Licensees

The Charitable Bingo Operations Division licenses bingo conductors, lessors, manufacturers and distributors. In 2005, there were 1,835
bingo licensees. Of these, there were 1,363 charitable bingo conductors in Texas, comprising nonprofit organizations such as veteran organizations, religious societies, fraternal organizations, volunteer fire departments and groups supporting medical research programs. There were 436 commercial lessors, which are individuals, corporations, authorized organizations or associations of authorized organizations that lease property where bingo is conducted. There were 18 manufacturers of bingo products and 18 distributors.

**Bingo Advisory Committee**

The Bingo Advisory Committee (BAC) consists of nine members, appointed by the Texas Lottery Commission, that represent a balance of bingo industry interests. Those interests include representatives from the general public, charities that operate bingo games, commercial and charity lessors, manufacturers and distributors of bingo equipment and supplies, and a system service provider. The BAC may advise the Commission on the needs and problems of the bingo industry, comment on the development of bingo rules before final adoption, report to the Commissioners on their activities, and perform other duties as determined by the Commission.

**Indirect Customers**

**Local Jurisdictions**

Local jurisdictions are indirect customers who receive as an allocation from the state a portion of the funds from the prize fees collected by licensed organizations who conduct charitable bingo. Local jurisdictions are able to apply these funds within their jurisdictions as they deem appropriate.

**Texas Citizens**

Texas citizens derive great benefit from the creation of jobs resulting from the conduct of the *Games of Texas* and charitable bingo. Texas families benefit from the Texas Lottery’s net revenue contributions to the Foundation School Fund, which totaled more than $8 billion as of March 2006, and from lottery prize money that is returned to the state from winners who are delinquent in child support payments, student loan payments, or other taxes or moneys owed to the state. In addition, unclaimed Texas Lottery prize funds revert to the state to be appropriated for health care and other programs authorized by the state legislature.

Texas citizens benefit from the prize fees and rental taxes collected through the conduct of charitable bingo, because these funds are deposited into the state’s General Revenue Fund. Many Texas citizens are also beneficiaries of the charitable causes licensed charitable bingo organizations support.

Several Texas Lottery Commission initiatives indirectly support the welfare of the citizens of Texas.

The Texas Lottery continues its relationship with the Texas Amber Alert Network, bringing more than 16,000 retailers into the effort to
ensure that missing or abducted children are returned safely home. Since the Texas Lottery first joined the Amber Alert Network in 2003, the agency has participated in 12 alerts.

The Texas Lottery’s Enforcement Division also aids law-enforcement officials in the investigation and solving of lottery-related crimes. Since its launch in March 2002, the Texas Lottery Commission’s Latin Lotto Scam awareness campaign has resulted in increased awareness among the elderly population, particularly within the Hispanic community, of the dangers of being scammed. In August 2003, the agency launched a multimedia *Play Responsibly* public information campaign in order to educate players about important game-related issues and encourage them to play responsibly.
II. ORGANIZATIONAL ASPECTS

A. Workforce Composition

The Texas Lottery Commission has 318.5 Full Time Equivalent (FTE) employees distributed among its 11 divisions, as shown in Table 1.

Diversity

The Texas Lottery Commission takes pride in the diversity of its workforce, which is illustrated in Tables 2, 3 and 4. The agency’s average workforce composition over Fiscal Year (FY) 2005 was: 13 percent African American, 28 percent Hispanic, 57 percent White and 2 percent Asian. During the same time period, the agency’s staff was 59 percent female and 41 percent male, and 70 percent of the workforce was more than 40 years of age.

<table>
<thead>
<tr>
<th>DIVISION</th>
<th>FTE</th>
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<tbody>
<tr>
<td>ADMINISTRATION</td>
<td>66</td>
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<tr>
<td>CHARITABLE BINGO OPERATIONS</td>
<td>46</td>
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<tr>
<td>ENFORCEMENT</td>
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<td>EXECUTIVE</td>
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<td>GOVERNMENTAL AFFAIRS</td>
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<td>INTERNAL AUDIT</td>
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<td>LEGAL SERVICES</td>
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<td>LOTTERY OPERATIONS</td>
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<td>MEDIA RELATIONS</td>
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<tr>
<td>OFFICE OF THE CONTROLLER</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>318.5</strong></td>
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Source: Texas Lottery Commission

<table>
<thead>
<tr>
<th>AGE OF EMPLOYEES (AVG. OVER FY 2005)</th>
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<tr>
<td>Less than 30</td>
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<tr>
<td>Between 30 and 40</td>
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<tr>
<td>Between 40 and 50</td>
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<tr>
<td>Between 50 and 60</td>
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<tr>
<td>More than 60</td>
</tr>
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</table>

Source: SAO Electronic Classification Analysis System

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<th>GENDER</th>
<th>AFRICAN AMERICAN</th>
<th>HISPANIC</th>
<th>WHITE</th>
<th>ASIAN</th>
<th>INDIAN</th>
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</thead>
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<tr>
<td>FEMALES</td>
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<td>30%</td>
<td>53%</td>
<td>1%</td>
<td>0</td>
<td>59%</td>
</tr>
<tr>
<td>MALES</td>
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<td>25%</td>
<td>61%</td>
<td>3%</td>
<td>1%</td>
<td>41%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>13%</strong></td>
<td><strong>28%</strong></td>
<td><strong>57%</strong></td>
<td><strong>2%</strong></td>
<td><strong>0%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: SAO Electronic Classification Analysis System
ORGANIZATIONAL ASPECTS

B. Organizational Structure and Process

The three-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by law. The Governor appoints Commission members, with the advice and consent of the state Senate, to staggered six-year terms. One member must have experience in the bingo industry.

Commission members serve without salary, but are entitled to reimbursement for actual and necessary expenses incurred in performing commission member duties, subject to any applicable limitation in the General Appropriations Act.

The Executive Director, the Charitable Bingo Operations Division Director, and the Internal Audit Director are appointed by and report to the three-member Commission. The Texas Lottery Commission Executive Director provides leadership to nine divisions within the agency, ensuring that staff carry out applicable state law and Commission policies. The Charitable Bingo Operations Director is responsible for the day-to-day operations relating to the regulation of charitable bingo, ensuring that the staff carries out applicable state law and Commission policies. The Internal Audit Director works to ensure that internal and external controls are adequate to improve the efficiency and effectiveness of the Texas Lottery Commission.

The agency is divided into 11 divisions: Administration, Charitable Bingo Operations, Enforcement, Executive, Governmental Affairs, Human Resources, Internal Audit, Legal Services, Lottery Operations, Media Relations and the Office of the Controller.

Division Descriptions

Administration Division

The Administration Division serves the needs of the Texas Lottery Commission and its customers in the areas of information resources and support services. Additionally, the Administration Division coordinates the development, review and adoption of internal policies and procedures. The Administration Division is managed by a Director, who reports to the Deputy Executive Director.

Information Resources Department

The Information Resources Department is responsible for managing the agency’s network infrastructure, which includes the local- and wide-area networks, telecommunications, the Intranet site and the agency’s Web site. The department manages and supports a variety of software applications, including the agency’s Internal Con-
control System, which replicates transactions from the lottery operator and is used for reporting and balancing daily sales activity.

Support Services Department
The Support Services Department is organized into five distinct functional areas: Facilities, Research, Purchasing and Contracts, Publications and Graphics and Agency Timekeeping and Records Retention.

The Facilities Section manages the day-to-day physical operations of the agency. These services include building security and safety, warehouse management, property management, risk management, copy-center services, mail-center services, supply-inventory management, shipping and receiving, and vehicle-fleet management. This section manages support operations for office locations throughout the state, including the Austin headquarters facility, five regional offices, 16 claim-center offices and Austin warehouse facilities.

The Research Section conducts and/or coordinates all market research, enabling staff to respond to the ever-changing market conditions of the gaming industry. The Purchasing and Contracts Section manages all procurements for the agency. This includes Lottery- and Charitable Bingo-related contracts for a broad range of goods and services provided by state agencies and private vendors. The section also administers the HUB/Mentor-Protégé Program and monitors contract compliance. The Publications and Graphics Section supports the design, development, production and distribution of all agency publications for print and Web media.

The Timekeeping and Records Retention Section is responsible for overseeing all agency timekeeping and record retention functions. This includes developing procedures, coordinating staff training and assisting divisions with required paperwork and inquiries.

Charitable Bingo Operations Division
The Charitable Bingo Operations Division is responsible for the regulation of all activities relating to the conduct of charitable bingo games in the state of Texas. The Charitable Bingo Operations Division is managed by a Director, who reports to the three-member Commission. The division is organized into three departments: Audit Services, Accounting Services and Licensing Services. While each department of the Charitable Bingo Operations Division performs a distinct function, they also interact frequently with each other, as well as with other divisions of the Texas Lottery Commission in the regulation of charitable bingo activities in Texas.

Audit Services Department
The Audit Services Department conducts game observations, audits, books and records inspections, tax reviews, compliance reviews, location verification inspections, pre-licensing interviews, and assessment and assistance inspections on the various organizations licensed, or applying for a license, to engage in activities relating to the conduct of charitable bingo. The Audit Services Department also performs testing on electronic card-minding devices and pull-tab ticket dispensers, conducts the Bingo Operator Training Program for licensees, and conducts certain investigations based upon complaints.

Accounting Services Department
The Accounting Services Department has two components: Accounting Services and Special Projects. The key services and functions of Accounting Services are: to process all quarterly tax returns and mail out billing notices; calculate and remit allocation checks to local jurisdictions that share the revenue from bingo; monitor the charitable distributions of bingo revenue; and communicate with licensees regarding compliance issues.

If a licensee does not pay, or underpays, its prize fee or gross rental tax for a quarter, the Account-
Accounting Services interacts frequently with licensees regarding the filing of reports, the application for their initial startup loan, and the calculation of their required charitable distribution. On a quarterly basis, Accounting Services notifies all conductors in writing of their required charitable distributions and then verifies that their charitable distributions were made as mandated by the Bingo Enabling Act.

Accounting Services is responsible for working with the Office of the Controller of the Texas Lottery Commission to allocate bingo funds to local cities and counties on a quarterly basis. The allocation of bingo funds to local jurisdictions is based on bingo prize fees collected at games conducted in counties and municipalities. A county or municipality that imposed a gross receipts tax on the conduct of bingo as of January 1, 1993, is entitled to 50 percent of the prize fee collected under Section 2001.502 on a prize awarded at a game conducted in the county or municipality. In the event that a county and municipality are both entitled to a share of the fee, the county is entitled to 25 percent of the fee on a prize awarded at a game conducted in the county, and the municipality is entitled to 25 percent of the fee on a prize awarded at a game conducted in the municipality.

The key services and functions of the Special Projects staff are to review pull-tab products and bingo paper, assist with the development and maintenance of the operator training program, coordinate and maintain the Charitable Bingo Operations Division Web site, develop and implement publications, research bingo/gaming trends, research charitable gaming regulations of other jurisdictions, coordinate and track open records requests, assist in the development and implementation of surveys.

Licensing Services Department

The Licensing Services Department is responsible for the review and processing of all applications to conduct a charitable bingo activity in the state of Texas. Licensing examiners communicate via written correspondence, fax or telephone with all applicants to clear deficiencies before licenses are issued. Licensees may renew their licenses every year or every two years, and all license renewal applications are reviewed by licensing examiners to verify compliance with the Bingo Enabling Act and the Charitable Bingo Administrative Rules. Examiners also process and issue temporary licenses to authorized organizations for one-time occasions. The Licensing Services Department is responsible for maintaining a registry of approved bingo workers. Additionally, all examiners provide assistance as necessary to applicants who call on the 1-800 information line.

Enforcement Division

The Enforcement Division investigates and prosecutes administrative violations of the Lottery Act and the Bingo Enabling Act. The Enforcement Division’s commissioned peace officers and administrative investigators work closely with local law enforcement agencies, district and county attorneys, and the Lottery Operations Security Department and claims office staffs.

In 2005, investigators and background specialists conducted 1,123 investigations, including 332 alleged violations of the Lottery Act and 26 alleged violations of the Charitable Bingo Act, plus background investigations of 647 license applicants and 118 Texas Lottery Commission...
applicants. In addition, enforcement attorneys and legal support staff conducted 66 bingo hearings, 70 lottery hearings, and 297 lottery summary suspension hearings, and participated in the settlement of numerous other cases. The Enforcement Division is managed by a Director, who reports to the Executive Director.

**Executive Division**

The Executive Division refers to the Executive Director, Deputy Executive Director and administrative staff. The Executive Division is the focal point for the decision making and strategic planning related to the day-to-day operation and administration of the Texas Lottery. The Executive Director and Deputy Executive Director play key roles in the short- and long-term planning for the agency.

The Executive Director serves as the Chief Executive Officer for the Texas Lottery Commission relating to the agency’s lottery operations. The Executive Director performs highly advanced management activities with broad oversight responsibility, and exercises strict control and supervision over all lottery games conducted by the Commission. Through leadership, example, and daily conduct, the Executive Director promotes and ensures integrity, security, honesty, and fairness in the operation and administration of the Texas Lottery.

The current Deputy Executive Director position was created within the Executive Division in September 2002. The Deputy Executive Director is responsible for the day-to-day operations of the agency and for overseeing the agency’s strategic and budget planning process.

**Human Resources Division**

The Human Resources Division is responsible for the recruitment and selection processes of new employees as well as workforce planning and employee retention. The division also assists management with employee performance evaluations, salary actions and compensation. Human Resources is responsible for coordinating employee benefits, including retirement and insurance concerns, deferred compensation plans, saving plans, and tuition reimbursement programs. Human Resources assists management and employees in matters relating to Family and Medical Leave Act (FMLA), Americans with Disabilities Act (ADA), Sick Leave Pool requests and the Employee Assistance Program. Human Resources coordinates with the Texas Department of Insurance, Division of Workers’ Compensation and other agencies involving state human resources matters.

Human Resources is responsible for responding to employee concerns and has employee relations responsibilities that include Equal Employment Opportunity (EEO) and other types of employment investigations.

Human Resources is also responsible for conducting employee training, including New Hire Orientation Training, and coordinating EEO and Sexual Harassment Training, Ethics Training, Information Resources Security Manual Training, Supervisor Training and Open Records
Training. Divisions are currently developing training plans more specialized for their particular lines of work and employee needs.

The Human Resources Division is managed by a Director, who reports to the Deputy Executive Director.

**Internal Audit Division**

The Internal Audit Division serves as an independent appraisal function within the agency. The purpose of Internal Audit is to provide independent, objective assurance and consulting/advisory services designed to add value and improve the agency’s operations.

The division helps the agency accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The division supports the mission of the agency by evaluating the adequacy and effectiveness of controls designed to meet agency objectives. The Internal Audit Division is managed by a Director, who reports directly to the three-member Commission.

**Legal Services Division**

The Legal Services Division serves the agency and provides legal advice, assistance and services to the Commissioners, the Executive Director, the Charitable Bingo Operations Director, the Internal Audit Director, and agency staff. The Division includes the General Counsel Section and the Office of Special Counsel. The Division has 18 FTEs and is managed by the General Counsel, who reports directly to the Executive Director and serves as the attorney for the agency, Commissioners, Executive staff, and, when requested, other agency staff.

**General Counsel Section**

The General Counsel Section provides legal services to the agency primarily in connection with transactional matters such as procurements and contracts, processing lottery prize claimants, and rulemaking. The Section is supervised by the General Counsel Section Chief who reports to the General Counsel. During FY 2005, the General Counsel Section opened 1,980 cases and closed 1,749 cases.

The Open Records Coordinator, also located in the General Counsel Section, serves as the agency’s point of contact for requests from the general public for agency information. The Open Records Coordinator receives all requests, routes them to the appropriate division and collects the information to be transmitted to the requestor in a timely manner. Under The Public Information Act, any information collected, assembled or maintained by the agency is presumed to be public unless it falls within one of the exceptions to disclosure. The Act requires the Office of the Attorney General to liberally construe the Act in favor of open government.

Consistent with the Act, the agency provides responsive information and protects from disclosure information made confidential by law, together with information excepted from public disclosure under the Act.

The Office of Special Counsel provides personnel and employment law advice to the agency. The Special Counsel is the chief ethics lawyer for the agency and answers and addresses ethics issues for the agency and its employees. The Special Counsel is the lead attorney for intellectual property matters. Additionally, the Special Counsel works on special projects and serves as a liaison to division directors. The Special Counsel reports to the General Counsel.
Lottery Operations Division

The Lottery Operations Division is responsible for player, retailer, and vendor compliance with the requirements of Chapters 466 of the Texas Government Code and Chapter 401 of the Texas Administrative Code. The division serves the needs of the agency and its customers in the areas of vendor compliance; jurisdictional complaint monitoring; instant ticket printing, testing, security, warehousing and distribution; retailer recruitment and development; retailer licensing and accounting; customer service through the operation of a toll-free hotline, a customer service email box on the agency’s Web site, and oversight of jurisdictional complaint functions; product development; claims processing; retailer surveys and inspections; lottery drawings, security of lottery drawings and validations, promotions, and the oversight of mass-media advertising.

The division serves as the regulatory arm of the Texas Lottery while also contributing substantially to the agency’s revenue-collection function. Product development in the division focuses on maximizing revenue to the state while advertising efforts support the goal of effectively reaching the public to increase sales and enhance the awareness of Texas Lottery games.

The division is organized into five distinct functional areas: Advertising and Promotions, Drawings and Validations, Retailer Services, Products, and Security. The Lottery Operations Division is managed by a Director, who reports to the Deputy Executive Director.

Advertising and Promotions Department
The Advertising and Promotions Department oversees Texas Lottery advertising services and promotional events. The Advertising Section is responsible for overseeing and managing all advertising services for the agency. The section works closely with the Creative Coordinator, who assists with planning, developing, and implementing lottery advertising, and is responsible for making recommendations regarding marketing initiatives, advertising concepts and campaigns, media plans and media buys. Advertising services include creative concepts, production, planning, buying and placement of electronic, print and outdoor advertising, as well as brand management and creation of the communications strategy. The Promotions Section is responsible for overseeing and managing all promotional events, along with the procurement and distribution of promotional products for the agency.

Drawings and Validation Department
The Drawings and Validations Department has two operating units consisting of the Drawings and Claim Center sections. The Drawings Section conducts a comprehensive program that protects and maintains the security and integrity of lottery on-line game drawings, while ensuring that the on-line games are conducted fairly and in compliance with applicable statutes, agency guidelines, policies and procedures.

The agency contracts with a production company to broadcast drawings, and an independent certified public accountant is present to certify all drawings in accordance with statute. In addition, the section handles a variety of administrative responsibilities, including the maintenance of drawing machines, ball sets and related equipment.

The Claim Center Section is composed of 16 offices statewide. Claim centers process ticket claims for payment; respond by telephone and in person to player and general public information inquiries; represent the agency at local public events; conduct retailer site inspections for ADA compliance; and conduct Retailer Research Surveys to gather marketing data and feedback on agency and lottery operator service levels.

By statute, all lottery prizes of $600 or more must be claimed through the Texas Lottery Commission at a Texas Lottery Claim Center.
Prizes of $999,999 or less may be claimed at any of the 16 claim center offices. Prizes of $1 million or more and prizes involving installment payments must be claimed at the headquarters claim center in Austin.

Products Department
The Products Department is responsible for managing the research, development, implementation, promotion and sale of instant and on-line Texas Lottery products, with a focus on maximizing revenue generation for the state of Texas. Products staff works closely with instant ticket manufacturers, currently Scientific Games International and Pollard Banknote Limited, and with the lottery operator to plan the distribution of instant games and manage the ticket inventory, as well as to market and promote the games to retailers and players through contests and promotions.

The Products Department oversees the development of new on-line games and enhancements to existing games, and evaluates the performance of current product offerings and research data. The Products Manager and Product Coordinators, both instant and on-line, work closely with research staff in the Administration Division to coordinate marketing research that provides the Texas Lottery with information about market conditions and player opinions, so that the agency can respond to the dynamic nature of its customer base. In addition, there is a great deal of coordination between Products, Advertising and Promotions, and the Creative Coordinator to ensure that the necessary level of advertising and promotional support is present to make the Texas Lottery games successful. Products Department staff are also responsible for top-prize claimant processing functions that take place at Texas Lottery Commission headquarters.

Retailer Services Department
The Retailer Services Department is responsible for processing new retailer license applications and license renewal applications. Department staff enter and monitor retailer information, coordinate ownership transfers and lottery terminal moves, process license terminations, perform retailer records maintenance, and evaluate retailer compliance with ADA requirements. The department interacts daily with retailers on Electronic Funds Transfers (EFTs); sweep amounts; account adjustments; account reconciliations and final balances due. The department works with retailers who have experienced a non-sufficient fund EFT bank account sweep to ensure prompt payment. When appropriate, the department conducts collection/enforcement activities through the preparation of notices and evidence required for adverse licensing actions. The department tracks and manages delinquent retailer accounts using various collection methods, including bank account freezes, levies and property liens.

The Retailer Development Section in the Retailer Services Department designs and implements strategies for developing the retailer base through cooperative efforts with advertising, products and promotions programs as well as the lottery operator. Staff coordinate initiatives for exploring new trade styles and recruitment, as well as developing new business opportunities with existing retailers. The effective placement and maximum revenue generation of self-service equipment is also a priority. Retailer Development staff are also responsible for coordinating the agency committee process for ensuring consistent and accurate training and communication with retailers.

The Compliance Hotline Section in the Retailer Services Department takes in complaints regarding bingo and lottery issues from the public. Staff involved in tracking compliance issues use an automated system developed to monitor all lottery and bingo jurisdictional complaints received by the agency. A jurisdictional complaint is one in which the Texas Lottery Commission has the authority to interpret and apply the law in accordance with the State Lottery Act, the Bingo Enabling Act, or the Texas Lottery or...
Bingo administrative rules. Compliance staff provide general support related to complaints for the Legal Services, Charitable Bingo and Lottery Operations Divisions.

The Retailer Services Department monitors lottery operator compliance with contractual requirements related to instant ticket distribution, on-line terminal installation, and interaction with retailer licensees. Department staff maintain an office at the lottery operator business offices to facilitate a high level of interaction on performance issues important to the agency. Department staff are also stationed at the instant ticket distribution warehouse to monitor lottery operator compliance with contractual requirements related to instant ticket warehousing, distribution and returns.

The Retailer Services Department also responds to customer contacts through the toll-free Communications Services Telephone Hotline. Hotline staff answer questions about retailer licensing, retailer accounting and general regulatory issues. Questions are also received from the general public and Texas Lottery players, and callers are directed to other sources if their questions are not related to one of these subject areas. Hotline staff also communicate with retailers, game players and the general public via e-mail and written correspondence. The department is responsible for tracking, routing and responding to correspondence and ensuring timely responses on matters directed to the agency, the Executive Director and the Commissioners.

Security Department
The Security Department’s primary role is to ensure the security and integrity of lottery drawings and ticket validations. In accomplishing this function, Security Department personnel work closely with personnel from other Texas Lottery Commission divisions and departments.

The Security Department monitors lottery drawings and validation processes to ensure that they are conducted in compliance with the applicable laws, rules, regulations, and policies and procedures. In addition to the regular daily lottery drawings, the Security Department works with the Products Department in providing security at all second-chance drawings conducted throughout the year.

The Security Department works with the Austin Claim Center to validate legitimate winning on-line lottery tickets with a prize payment of $1 million or more and winning Mega Millions tickets valued at $250,000 or more.

Claims involving questionable lottery tickets (tickets reported stolen, altered, damaged or previously paid) are submitted to the Security Department. Security personnel conduct a preliminary investigation to determine the true status of the ticket. Based on the findings of the preliminary investigation, the claim is either forwarded to the Enforcement Division for further investigation or returned to the Austin Claim Center for a payment determination.

The Security Department houses a forensic laboratory which is used to perform forensic analysis on questionable tickets. The forensic analysts, through the use of laboratory equipment, examine tickets with suspected alterations to the game play data and claimant signatures to determine the legitimacy of ticket claims. Those tickets found to have been altered are routed to Enforcement for further investigation.

The Security Department works closely with the instant ticket manufacturers, the instant ticket testing vendor, and the Products Department to ensure that all Texas Lottery tickets sold to the public are fully tested to ensure that they are secure and of the highest quality. The Security Department is involved with instant ticket games throughout their existence. The department works with the Products Department in the production and introduction of new games, with the claim centers and Enforcement while the instant ticket games are being offered for sale, and with
Retailer Services in the destruction of instant ticket games that have ended.

**Media Relations Division**

The Media Relations Division is the first point of contact for all inquiries from local, state and national news media. The Media Relations Director works in conjunction with the Executive Director, Deputy Executive Director, Charitable Bingo Operations Director and Commissioners to develop and execute a media relations strategy that supports the agency’s mission and vision. The Media Relations Division is managed by a Director, who reports directly to the Executive Director.

The division is organized into two sections: Media Relations and Audio-Visual. The Media Relations Section responds to media inquiries and issues media advisories and news releases in English and Spanish to inform the public about agency activities. Through its Spanish-language outreach efforts, the section prepares news releases and video news releases for the Spanish-language media and makes bilingual staff available for interviews on breaking news. Through its winner awareness efforts, the section generates publicity for winners of large jackpots and other on-line prizes, as well as instant ticket merchandise and cash-prize winners.

The Media Relations Section coordinates the agency’s Speakers Bureau and provides a spokesperson to represent the agency before interested groups throughout Texas. The section also coordinates agency public awareness campaigns. By working with other divisions and making information about agency news and initiatives available to the media, the Media Relations Section helps keep the agency’s role in important public service initiatives in the public eye.

The Audio-Visual Section produces informational tapes for statewide broadcast and satellite distribution, including video news releases on lottery and charitable bingo activities, events and issues. The section also provides audio-visual support for events, as well as archival and training services for other divisions. In addition, the section occasionally provides audio-visual services to other state agencies through inter-agency cooperation contracts, with all costs paid for by the contracting agency.

**Office of the Controller**

The Office of the Controller provides financial services and reporting functions for the Texas Lottery Commission in accordance with statutes and requirements set by the Comptroller of Public Accounts, the Legislative Budget Board, the Governor’s Office of Budget, Planning and Policy, and other oversight agencies. The division’s primary functions include administration of the development, submission, and management of agency financial statements, financial reports, payroll, accounts payable, sales reports, revenue projections, allocations, fiscal notes, performance measures, annual and biennial budgets, Internal Revenue Services (IRS) tax reporting, and all other agency reports necessary to comply with agency and state requirements. The Office of the Controller is managed by a Director, who reports to the Deputy Executive Director.

**Management Style**

Directors of each division meet regularly to discuss agency business. To track the general performance of the divisions and help mark their progress, each division uses a variety of internal management reports that are regularly reviewed by executive management, the division director and the managers of the specific sections within each division.

Regular meetings to define strategy and recognize progress occur throughout the agency. Each division generally has weekly management
meetings and monthly staff meetings, and each division director meets weekly with the Deputy Executive Director and/or the Executive Director. Full directors’ meetings are held weekly, and agency-wide staff meetings occur monthly.

The Director of the Charitable Bingo Operations Division meets regularly with other division directors to review, plan and discuss projects that are cross divisional and involve and/or impact the Charitable Bingo Operations Division.

Directors involve their staff in planning and implementing directives within their areas and also seek feedback from staff through periodic internal staff surveys. Staff involvement at all levels has helped create the highly skilled and experienced staff that is in place today.

C. Geographical Location and Travel Requirements

The Texas Lottery Commission has its main headquarters in Austin and field offices around the state to make its services more available.

The Lottery Operations Division employs staff in the Austin headquarters, the Austin Claim Center, and 15 additional claim center locations statewide. Division personnel are also stationed in the instant ticket warehouse and business office of the lottery operator.

The Texas Lottery Commission posts video of its headquarters training classes to its intranet so that claim center and other off-site personnel do not have to travel to receive or conduct required training. Certain claim center offices are also able to teleconference with headquarters for many meetings which otherwise would have required their attendance.

Claim center staff include two regional supervisors that visit sites within their region on a quarterly basis.

Security Department personnel travel to attend and ensure security at second-chance drawings.

Enforcement Division personnel travel within and outside the state to conduct investigations, including background investigations of out-of-state licensees and vendors.

The Charitable Bingo Operations Division is headquartered in Austin and maintains four regional offices throughout the state, which are staffed by auditors from the Audit Services Section and co-located with Texas Lottery claim centers. Regional offices are located in Odessa, Dallas, Houston and San Antonio. Audit staff at the headquarters in Austin also make up a fifth region consisting of the immediate area surrounding Austin. The regional offices afford the licensees greater accessibility to bingo licensing forms, and representatives are available to answer bingo-related questions and provide assistance in complet-
ing their bingo quarterly reports. The locations of the regional offices result in less travel time and travel costs for both the licensees and auditors when meetings are required. Toll-free numbers for each of the regional offices make it even easier for licensees to contact the regional office.

Auditors from the Charitable Bingo Operations Division also travel around the state to conduct investigations, inspections, reviews and audits. Auditors are sometimes required to travel out of state and/or out of country to conduct inspections of manufacturing facilities.

D. Agency Use of Historically Underutilized Businesses

The Texas Lottery Commission promotes fair and competitive opportunities for historically underutilized businesses (HUBs) and minority businesses interested in contracting with the Commission and/or its prime contractors. This is accomplished through an assertive outreach program focused on informing and educating HUB and minority businesses about the agency’s procurements and subcontracting opportunities. The agency’s use of the HUB Subcontracting Plan for contracts more than $100,000 has also had a positive effect on HUB participation.

During FY 2005, the agency saw a slight decrease in its HUB/minority utilization. However, during this report period, the agency expended more than $37.5 million with HUBs and minority businesses (see Figure B). In addition, from FY 2003 to FY 2005, the Texas Lottery Commission increased its overall spending with minority businesses (not including non-minority women) by more than $5 million.

The agency continues to develop and improve its HUB/Minority Business program. Highlights from FY 2005 include:

- Total payments to minority-owned business increased from $18.4 million in FY 2004 to more than $19 million in FY 2005.

- Seven of the agency’s prime contractors increased subcontracting payments to minority/HUB businesses.

- Subcontracting payments to minority-owned businesses increased by over $4.4 million.

- The agency conducted a successful Annual HUB Forum in June 2005, which attracted 85 minority/HUB participants from across the state.

### FIGURE B

HUB/MINORITY SPENDING
FISCAL YEAR 2003 - 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2003</td>
<td>$27.5</td>
<td>(18.52%)</td>
</tr>
<tr>
<td>FY 2004</td>
<td>$42.2</td>
<td>(27.05%)</td>
</tr>
<tr>
<td>FY 2005</td>
<td>$37.5</td>
<td>(24.19%)</td>
</tr>
</tbody>
</table>
ORGANIZATIONAL ASPECTS

Table 5 reflects the agency’s HUB Strategic Plan Progress Report for FY 2004 and 2005, based on the Texas Building and Procurement Commission’s (TBPC) unadjusted HUB goals.

The Texas Lottery Commission is proud of its achievements regarding HUB/minority business utilization in agency procurements. The TPBC FY 2005 Statewide HUB Report ranked the Texas Lottery Commission 11th of the 50 largest spending state agencies. Although the Texas Lottery Commission was not among the top ten largest spending agencies, the agency’s overall HUB percentage exceeded those of all ten agencies that outspent the agency.

The Texas Lottery Commission has continued to exceed its statutory goal of a 20-percent minority-owned retailer base. In FY 2005, the agency’s minority retailer base surpassed the previous year’s all-time highs in both the number of minority retailers licensed as sales agents and in the percentage of the total retailer base those retailers represent. During FY 2005, the agency had 6,644 licensed minority retailers, which represented 40.48 percent of the total lottery retailer base (see Figure C). In addition, from FY 2004 to 2005, the number of licensed minority retailers increased in nine of the ten Texas Lottery sales districts.

Table 5

<table>
<thead>
<tr>
<th>JOB CATEGORY</th>
<th>ACTUAL FY 2004</th>
<th>ACTUAL FY 2005</th>
<th>GOAL FY 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>HEAVY CONSTRUCTION OTHER THAN BUILDING CONTRACTS *</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>BUILDING CONSTRUCTION, INCLUDING GENERAL CONTRACTORS AND OPERATIVE BUILDERS CONTRACTS *</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>SPECIAL TRADE CONSTRUCTION CONTRACTS</td>
<td>8.67%</td>
<td>3.03%</td>
<td>57.20%</td>
</tr>
<tr>
<td>PROFESSIONAL SERVICES CONTRACTS</td>
<td>93.10%</td>
<td>54.10%</td>
<td>20.00%</td>
</tr>
<tr>
<td>OTHER SERVICES CONTRACTS</td>
<td>27.50%</td>
<td>24.60%</td>
<td>33.00%</td>
</tr>
<tr>
<td>COMMODITIES CONTRACTS</td>
<td>9.34%</td>
<td>7.47%</td>
<td>12.60%</td>
</tr>
</tbody>
</table>

*The Texas Lottery Commission does not have strategies or programs related to either “Heavy Construction” or “Building Construction.”

Source: Texas Building and Procurement Commission Statewide HUB Reports

- The agency sponsored two mentor-protégé relationships in accordance with 1 TAC §111.28.
- The agency was one of five state agencies recognized by the Texas Association of African American Chambers of Commerce for having the highest expenditure percentages with African American-owned businesses.
E. Fiscal Aspects

Size of Budget

Senate Bill 1 (SB 1), the General Appropriations Act for the 2006 – 2007 biennium, established the agency’s appropriations (available budget) and certain key performance measures. Specific provisions included the following:

- Regular appropriations from the General Revenue (GR) Dedicated Lottery Account amount to $186.4 million in FY 2006 and $186.9 million in FY 2007 to operate the Texas Lottery.

- Charitable Bingo appropriations from GR amount to $13.5 million in FY 2006 and $13.3 million in FY 2007.

- In consultation with the Legislative Budget Board and the Governor’s Office of Budget, Planning and Policy, the agency made changes to its budget structure in order to break out and provide greater transparency to the agency’s major contracts, field operations, and retailer bonuses. With the growth and increased complexity of agency operations, this increased level of budget transparency will provide more meaningful information to policy and decision makers. The total number of strategies for the Texas Lottery Commission increased by nine, for a total of 18 strategies.

- The agency’s Full Time Equivalent (FTE) cap authorized by SB 1 is 325. The cap is further reduced to 318.5 by reductions mandated in Article IX, Section 6.14.

- Contingency Rider 14 reduced the agency’s GR Dedicated Lottery Account budget level by $3,059,541 in FY 2006, and $3,124,493 in FY 2007 in certain strategies. Re-appropriation of funding is contingent upon the Comptroller of Public Accounts certifying increased lottery deposits to the Foundation School Fund Account in excess of $1,045,183,000 in FY 2006, and $1,045,931,000 in FY 2007. Also contingent upon meeting those requirements, Commission capital budget authority would be increased to fund additional capital items.

- Contingency Rider 15 provided the GR Dedicated Lottery Account with additional appropriation funding for fulfilling contractual obligations and other administrative costs if gross sales exceed $3.291 billion in each fiscal year of the biennium. If this condition is met, the Commission will receive an appropriation equal to 1.49 percent of amounts exceeding the gross sales target.

The agency’s budget is prepared with direct input from division management and is reviewed and approved by the Executive Director or Charitable Bingo Operations Director, as applicable, through a series of internal budget hearings held with each division director regarding the respective budget requests. The three-member Commission reviews the final budget requests before submission to the legislative oversight agencies and the Governor. The agency uses performance measures and goals to determine where resources are needed and adjusts priorities accordingly.
Method of Finance

The Texas Lottery Commission is funded from two distinct fund sources. Table 6 reflects the Texas Lottery Commission’s budget by fund type for FY 2006 and 2007. The operation and administration of the state lottery is funded from the GR Dedicated Lottery Account. Charitable Bingo is funded from General Revenue.

Per Capita and other States’ Comparisons

The agency presents comparative data for U.S. lotteries FY 2004 sales by game in Table 7.

<table>
<thead>
<tr>
<th>STATE LOTTERY</th>
<th>SALES</th>
<th>NET INCOME</th>
<th>POPULATION</th>
<th>CAP SALES</th>
<th>NET INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>CALIFORNIA</td>
<td>$2,924.0</td>
<td>$839.8</td>
<td>35,894</td>
<td>$81.5</td>
<td>$23.4</td>
</tr>
<tr>
<td>COLORADO</td>
<td>$401.3</td>
<td>$102.8</td>
<td>4,551</td>
<td>$88.2</td>
<td>$22.6</td>
</tr>
<tr>
<td>FLORIDA</td>
<td>$3,071.0</td>
<td>$902.3</td>
<td>17,397</td>
<td>$176.5</td>
<td>$51.9</td>
</tr>
<tr>
<td>GEORGIA</td>
<td>$2,710.5</td>
<td>$766.9</td>
<td>8,829</td>
<td>$307.0</td>
<td>$86.9</td>
</tr>
<tr>
<td>ILLINOIS</td>
<td>$1,687.6</td>
<td>$568.2</td>
<td>12,714</td>
<td>$132.7</td>
<td>$44.7</td>
</tr>
<tr>
<td>MARYLAND</td>
<td>$1,395.4</td>
<td>$458.4</td>
<td>5,558</td>
<td>$251.1</td>
<td>$82.5</td>
</tr>
<tr>
<td>MASSACHUSETTS</td>
<td>$4,368.4</td>
<td>$912.0</td>
<td>6,417</td>
<td>$680.8</td>
<td>$142.1</td>
</tr>
<tr>
<td>MICHIGAN</td>
<td>$1,973.9</td>
<td>$635.4</td>
<td>10,113</td>
<td>$195.2</td>
<td>$62.8</td>
</tr>
<tr>
<td>NEW JERSEY</td>
<td>$2,188.4</td>
<td>$798.4</td>
<td>8,699</td>
<td>$251.6</td>
<td>$91.8</td>
</tr>
<tr>
<td>NEW YORK</td>
<td>$5,825.7</td>
<td>$1,938.8</td>
<td>19,277</td>
<td>$302.2</td>
<td>$100.6</td>
</tr>
<tr>
<td>OHIO</td>
<td>$2,154.7</td>
<td>$655.6</td>
<td>11,459</td>
<td>$188.0</td>
<td>$57.2</td>
</tr>
<tr>
<td>PENNSYLVANIA</td>
<td>$2,352.1</td>
<td>$817.3</td>
<td>12,406</td>
<td>$189.6</td>
<td>$65.9</td>
</tr>
<tr>
<td>TEXAS</td>
<td>$3,485.9</td>
<td>$1,062.9</td>
<td>22,490</td>
<td>$155.0</td>
<td>$47.3</td>
</tr>
<tr>
<td>VIRGINIA</td>
<td>$1,262.4</td>
<td>$408.1</td>
<td>7,460</td>
<td>$169.2</td>
<td>$54.7</td>
</tr>
<tr>
<td>WASHINGTON</td>
<td>$481.4</td>
<td>$72.6</td>
<td>6,204</td>
<td>$77.6</td>
<td>$11.7</td>
</tr>
</tbody>
</table>

* Fiscal year ends June 30 for all U.S. states, except New York (March 31), Texas (August 31), D.C. and Michigan (Sept. 30)

1) Net income equals total sales, net of lottery's direct and indirect costs or expenses. A lottery’s annual government transfer may be higher if retained earnings are added to the net income.

Source: La Fleur's 2005 World Lottery Almanac
**Budgetary Limitations**

The sale of lottery tickets is used to pay for all costs of Texas Lottery operations. This includes the payment of prizes to the holders of winning tickets, retailer commissions, and all other costs incurred in the operation and administration of the lottery. The State Lottery Act limits the combined total of retailer compensation and agency administration to no more than 12 percent of gross ticket revenues. Of this 12 percent, the State Lottery Act mandates that no less than five percent be allocated to retailers as commissions, with the remaining seven percent of ticket sales allowed to be expended on administration of the Texas Lottery. The Commission returns any “unspent administrative funds” to the Foundation School Fund.

A major part of the agency’s budget is concentrated in the Lottery Operations Division budget, which accounts for the commission paid to the lottery operator. This commission is currently based on 2.6999 percent of gross sales as negotiated under a new nine-year contract with the lottery operator, which went into effect on September 1, 2002.

The Texas Lottery Commission is currently working with the lottery operator in an effort to more closely align the respective business goals and objectives of both parties. One aspect of this effort is the restructuring of compensation for the lottery operator to create a “shared risk” of the overall prize payout percentage. Other aspects include improving ticket distribution methods and increasing capital investments made by the lottery operator as part of the contract.

From 1992 through August 1997, Texas Lottery proceeds were deposited to the state’s General Revenue Fund. Through a statutory change made by the 75th Legislature, Regular Session, Texas Lottery proceeds are now earmarked for the Foundation School Fund in support of public education.

Statutory restrictions affect the agency’s advertising budget, which was set by the General Appropriations Act at $33 million per year for the 2006 – 07 biennium. Section 466.015(d) of the Government Code provides that if the total amount of lottery prizes awarded by the Texas Lottery Commission in any state fiscal year after the fiscal year ending August 31, 2000, exceeds an amount equal to 52 percent of the gross revenue from the sale of tickets in that fiscal year as determined by the Comptroller of Public Accounts, the advertising budget for the lottery in the next state fiscal year may not exceed an amount equal to $40 million less $1 million for each full percent by which the total amount of lottery prizes awarded by the Commission in the preceding fiscal year exceeds an amount equal to 52 percent of the gross revenue from the sale of tickets in that preceding fiscal year as determined by the Comptroller of Public Accounts. Based on this restriction, the advertising budget has been reduced to $32 million for FY 2006.

The agency’s Mass Media Advertising Contracts strategy is restricted by Rider 5 in transferability of appropriated funds. Funds appropriated to this strategy may be transferred out to other strategies, but none of the funds appropriated in other strategies may be transferred into this strategy.

The agency’s Executive Director salary is currently limited to $115,000 annually. In order to be competitive in its recruitment and retention of an Executive Director, the Commission needs the flexibility to increase the Executive Director’s salary beyond the $115,000 cap currently designated in the agency’s bill pattern. The Executive Director serves as the Chief Executive Officer for the operation and administration of an agency that generates more than $3 billion in annual sales. In comparison to several other
state lottery directors, the Texas Lottery Commission’s Executive Director is compensated at a significantly lower pay level.

The agency’s out-of-country and out-of-state travel is restricted by Rider 7 of the Texas Lottery Commission’s bill pattern. Out-of-country travel is restricted to Mexico or Canada and only if reimbursable by a third party. Out-of-state travel expended per year may not exceed an amount equal to 80 percent of travel expenditure amounts for FY 1998. The 80 percent restriction is more stringent than that which is imposed on other state agencies by Article IX, Section 5.08.

**Degree to Which Current Budget Meets Current and Expected Needs**

Staffing and funding resources appropriated for the Texas Lottery Commission for the 2006–07 biennium from the GR Dedicated Lottery Account are sufficient to implement current statutory requirements. However, future growth in Texas Lottery sales, changes to the number or type of lottery games authorized, changes to retailer commissions or vendor/contract obligations could necessitate a re-examination of resources required to administer Texas Lottery programs.

Presently, Bingo indirect overhead and administrative expenses are expensed to lottery strategies and paid from the proceeds of lottery sales, or the GR Dedicated Lottery Account, as opposed to being expensed to Bingo strategies and paid from the General Revenue Fund. This practice dates back several years following a requirement from leadership to reduce general revenue funding requests and has been identified in previous strategic plans submitted by the Texas Lottery Commission.

To provide clarity regarding this funding mechanism, the Commission plans to include a Rider request within the FY 2008-09 Legislative Appropriations Request to provide for the funding of the regulation of bingo through the sale of lottery tickets. This Rider request will be contingent upon the passage of legislation, specifically an amendment to the State Lottery Act, Chapter 466, Texas Government Code, which would clarify the authority for money in the State Lottery Account to be used to pay for costs incurred in the administration of the entire Commission, including the regulation of bingo.

As previously discussed, the State Lottery Act contains a provision that reduces the advertising budget if the overall prize payout percentage exceeds 52 percent. Given this restriction, the advertising budget may be subject to reduction on any given fiscal year, which may cause the agency to lose some flexibility in responding to marketing needs and market conditions. The agency closely monitors the effect of the prize-payout percentage and the corresponding link to the advertising budget.

**Capital and/or Leased Needs**

The Texas Lottery Commission holds 17 leased facilities and one state-owned building throughout the state. Included in the leases are office space, warehouse and parking. During this strategic plan period, three of these leases expire and will require procurement. The remaining 14 will expire, but have options to renew.

The agency’s fleet includes two vans utilized by employees for various duties required for execution of Texas Lottery Commission business. One of the two vehicles is scheduled for replacement in FY 2008.

The agency’s network infrastructure equipment lease expires on August 31, 2006, at which time a new lease will be required.
The agency’s PC Lease and Related Services contract will expire in FY 2008. A cost benefit analysis will be conducted prior to preparation of the FY 2008-2009 Legislative Appropriations Request to evaluate if capital rider authority will be requested for the purchase of new computers as opposed to continuing with a lease arrangement.

Due to the useful life of telephone equipment, no anticipated change to the agency’s telephone system will be made during this strategic plan period.

New games and/or features added to on-line products require new equipment or adjustments to existing equipment as they are implemented. Lottery drawing equipment used in the critical function of selecting numbers used in the lottery games is replaced on a regular schedule. This includes new ball machines, ball sets, additional required software and adjustments to the Random Animated Digital Draw System (RADDS®). The replacement schedule varies depending on the type of game and the equipment.

The agency performs investigations on questionable instant tickets to ensure the security and integrity of the games, and to maintain public trust as outlined in the mission and core values of the agency. The current forensic ticket testing equipment is outdated and no longer supported by software and hardware vendors. It is anticipated that this equipment will need to be replaced in FY 2008.
The Texas Lottery Commission is proud of its accomplishments in the following areas: economic development, regulation and compliance, game and product innovations, technological developments, and public awareness. Through its work in these areas, the agency has fulfilled the requirements of the State Lottery Act and Bingo Enabling Act and has initiated programmatic changes as necessary to generate revenue for the state of Texas and fulfill the agency’s vision to be the preeminent lottery and charitable bingo agency through innovative leadership.

### A. Economic Development

The Texas Lottery Commission contributes to economic development in Texas by generating revenue for the state of Texas and nonprofit organizations through the conduct of its lottery and charitable bingo operations, respectively. Gross dollars generated by these activities also result in the creation of new jobs and businesses in local communities within the Texas economy. The Texas Lottery Commission consistently ranks highest in gross sales among Texas entertainment-industry providers, as shown in Table 8.

#### TABLE 8
GROSS SALES OF THE TEXAS ENTERTAINMENT INDUSTRY (BY CALENDAR YEAR)

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005*</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMUSEMENT &amp; RECREATION</td>
<td>1,389,700,849</td>
<td>1,302,447,400</td>
<td>1,324,145,719</td>
<td>1,220,775,471</td>
<td>1,277,386,039</td>
<td>690,947,747</td>
</tr>
<tr>
<td>MOTION PICTURE THEATERS</td>
<td>619,622,439</td>
<td>644,043,919</td>
<td>723,401,271</td>
<td>739,651,515</td>
<td>755,792,003</td>
<td>366,193,127</td>
</tr>
<tr>
<td>MOTION PICTURE &amp; VIDEO PRODUCTION</td>
<td>253,947,129</td>
<td>231,999,130</td>
<td>262,872,010</td>
<td>219,265,908</td>
<td>223,779,529</td>
<td>110,140,069</td>
</tr>
<tr>
<td>RECORD &amp; PRERECORDERED TAPESTORES</td>
<td>498,371,498</td>
<td>439,881,936</td>
<td>445,300,926</td>
<td>468,278,087</td>
<td>491,943,052</td>
<td>295,409,001</td>
</tr>
<tr>
<td>VIDEO TAPE RENTAL</td>
<td>765,228,522</td>
<td>733,689,169</td>
<td>799,946,245</td>
<td>815,590,087</td>
<td>816,794,612</td>
<td>407,723,365</td>
</tr>
<tr>
<td>RACING INDUSTRY</td>
<td>81,454,637</td>
<td>89,236,238</td>
<td>76,058,396</td>
<td>121,011,062</td>
<td>81,837,293</td>
<td>42,230,953</td>
</tr>
<tr>
<td>AMUSEMENT PARKS</td>
<td>289,028,910</td>
<td>329,302,106</td>
<td>276,573,418</td>
<td>292,598,170</td>
<td>293,989,195</td>
<td>164,925,520</td>
</tr>
<tr>
<td>TEXAS LOTTERY</td>
<td>2,847,375,946</td>
<td>2,785,797,461</td>
<td>3,011,117,715</td>
<td>3,130,692,602</td>
<td>3,643,566,925</td>
<td>3,716,875,563</td>
</tr>
<tr>
<td>CHARITABLE BINGO</td>
<td>582,265,085</td>
<td>562,463,217</td>
<td>557,086,857</td>
<td>575,402,175</td>
<td>604,367,107</td>
<td>634,331,969</td>
</tr>
</tbody>
</table>

*Complete data for Calendar 2005 not yet available, numbers shown through June 2005.
Source: Texas Comptroller of Public Accounts and Texas Lottery Commission
AGENCY ACTIVITIES

Revenue and Tax Collection

The agency collects revenue from a variety of sources, primarily lottery ticket sale proceeds, licensing fees and charitable bingo taxes and prize fees. As part of this function, agency staff provide customer service and information related to licensing and accounting issues for licensed lottery retailers and bingo licensees. Collections staff work with licensees to make sure all funds due to the state are either electronically transferred or manually processed in a timely manner. When necessary, staff prepare notices and evidence required for administrative disciplinary actions against licensees and works to collect delinquent payments due the agency. Delinquent accounts are tracked and managed using all available collection tools, such as placing accounts on payee hold with the Comptroller of Public Accounts, bank account freezes, levies and property liens.

Texas Lottery Sales and Revenue

The original fiscal estimate performed in 1991 by the Comptroller of Public Accounts projected that net revenue from the Texas Lottery would be less than $2.3 billion for the first five years of operation. In fact, actual revenue for the first five years of the lottery was nearly $3.8 billion, and through FY 2005, the Texas Lottery has generated more than $12.9 billion for the state of Texas.

Prior to FY 1998, all lottery revenue was transferred to the General Revenue Fund. Effective with FY 1998, net lottery revenue has been dedicated to the Foundation School Fund. In February 2006, the agency passed another major milestone when cash transfers to the Foundation School Fund exceeded the $8 billion mark. Table 9 shows total Texas Lottery revenue transfers as of August 31, 2005.

### TABLE 9
REVENUE TRANSFERRED FROM TEXAS LOTTERY
FISCAL YEAR 1992 - 2005
(IN MILLIONS)

<table>
<thead>
<tr>
<th></th>
<th>COMPTROLLER’S ESTIMATE</th>
<th>CASH BASIS (ACTUAL)</th>
<th>ACCRUAL BASIS (ACTUAL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1992</td>
<td>$61</td>
<td>$203</td>
<td>$250</td>
</tr>
<tr>
<td>FY 1993</td>
<td>$400</td>
<td>$609</td>
<td>$657</td>
</tr>
<tr>
<td>FY 1994</td>
<td>$601</td>
<td>$869</td>
<td>$928</td>
</tr>
<tr>
<td>FY 1995</td>
<td>$611</td>
<td>$927</td>
<td>$1,015</td>
</tr>
<tr>
<td>FY 1996</td>
<td>$1,087</td>
<td>$1,158</td>
<td>$1,098</td>
</tr>
<tr>
<td>FY 1997</td>
<td>$1,112</td>
<td>$1,189</td>
<td>$1,183</td>
</tr>
<tr>
<td>FY 1998</td>
<td>$1,430</td>
<td>$1,157</td>
<td>$1,098</td>
</tr>
<tr>
<td>FY 1999</td>
<td>$1,055</td>
<td>$969</td>
<td>$953</td>
</tr>
<tr>
<td>FY 2000</td>
<td>$890</td>
<td>$918</td>
<td>$863</td>
</tr>
<tr>
<td>FY 2001</td>
<td>$816</td>
<td>$865</td>
<td>$864</td>
</tr>
<tr>
<td>FY 2002</td>
<td>$807</td>
<td>$956</td>
<td>$929</td>
</tr>
<tr>
<td>FY 2003</td>
<td>$840</td>
<td>$955</td>
<td>$949</td>
</tr>
<tr>
<td>FY 2004</td>
<td>$804</td>
<td>$1,003</td>
<td>$1,009</td>
</tr>
<tr>
<td>FY 2005</td>
<td>$781</td>
<td>$1,016</td>
<td>$1,009</td>
</tr>
</tbody>
</table>

Source: Texas Comptroller of Public Accounts and Texas Lottery Commission
Net revenue from lottery sales has increased for each of the past four fiscal years, including FY 2005, in which the Texas Lottery, for the second year in a row, transferred more than $1 billion to the Foundation School Fund. Including unclaimed prize money, total revenue transferred to the state was $1.076 billion. This represented the largest transfer to the Foundation School Fund since FY 1998.

The Texas Lottery Commission recognizes that the growth of the last several years is likely to be unsustainable and that future results may flatten or possibly decrease, in large part due to the maturity of the lottery in Texas and due to increased competition from other gambling activities, legal and illegal, both in Texas and in surrounding states.

Since the inception of the Texas Lottery through FY 2005, more than $22.6 billion has been returned to players in the form of lottery prizes. Texas Lottery licensed retailers have received more than $2 billion in commissions and $62.5 million in bonuses. In FY 2005, prize payouts to Texas Lottery winners totaled more than $2.2 billion. Retailers received more than $183 million in retailer commissions and more than $4.3 million in retailer bonuses, for a total of over $187.3 million in payouts to Texas Lottery retailers.

The Texas Lottery Commission’s transfer of more than $1 billion to the Foundation School Fund in FY 2005 was based on overall sales of $3.66 billion, a five-percent increase over FY 2004. In addition to marking the sixth consecutive year of sales growth, FY 2005 also marked the Texas Lottery’s second largest sales total since 1997’s record-setting total of $3.74 billion.

Instant game sales continued to climb to record totals as marketing strategies shifted to produce more games at higher price points ($20 and $30 tickets), and introduce popular licensed property games like Harley-Davidson® and Wheel of Fortune®, while keeping printing quantities down.

On-line game sales experienced another decline in FY 2005. In total, on-line sales decreased by $205 million, which is mostly attributable to declines in sales of both jackpot games, Lotto Texas and Mega Millions. Sales for Pick 3 in FY 2005 totaled $285 million. Pick 3 sales increased by 2.8 percent, marking the 11th consecutive year of increased sales for this game. The addition of a Pick 3 day draw, which was implemented during FY 2002, continues to produce favorable results. Other on-line games such as Cash Five and Texas Two Step were not as successful during FY 2005. These two games decreased in total by $23.8 million.

In addition to transfers to the Foundation School Fund, the Texas Lottery Commission also contributed revenue from other sources such as unclaimed prizes and collection of debts owed to the state.

During FY 2005, the Texas Lottery Commission transferred $60.8 million in unclaimed prizes to the state. This brings the total to $271 million since the first statutory change addressing

### TABLE 10
**UNCLAIMED PRIZES TRANSFERRED FROM TEXAS LOTTERY FISCAL YEAR 2000 - 2005 (IN MILLIONS)**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Cash Basis (Actual)</th>
<th>Accrual Basis (Actual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2000</td>
<td>$28</td>
<td>$36</td>
</tr>
<tr>
<td>Fiscal 2001</td>
<td>$29</td>
<td>$38</td>
</tr>
<tr>
<td>Fiscal 2002</td>
<td>$87</td>
<td>$70</td>
</tr>
<tr>
<td>Fiscal 2003</td>
<td>$67</td>
<td>$67</td>
</tr>
<tr>
<td>Fiscal 2004</td>
<td>$40</td>
<td>$41</td>
</tr>
<tr>
<td>Fiscal 2005</td>
<td>$61</td>
<td>$61</td>
</tr>
</tbody>
</table>

Source: Texas Lottery Commission
unclaimed prizes in 1999. The biggest beneficiary to date has been the Tertiary Care Facility Account, which has received $131 million in unclaimed prizes. Prior to any statutory change, unclaimed prize money was used to provide additional money for the payment of prizes, and unclaimed prize money on hand at the end of a fiscal year was then returned to the state.

As a result of legislation passed during the 79th Legislature, Regular Session, unclaimed prizes for the 2006-2007 Biennium will be allocated in a different manner. In each of the fiscal years of the biennium, the Texas Lottery Commission will transfer the first $10 million of unclaimed prizes to the Department of State Health Services (DSHS) for the credit of the Multicategorical Teaching Hospital Account (Account No. 5049). Any unclaimed prizes in excess of the amounts transferred to DSHS Account No. 5049, will be transferred to the state’s General Fund.

Finally, the Texas Lottery Commission has assisted in collecting debts owed to the state of Texas. Before the Commission pays a claimant his or her prize, agency staff check to ensure that the winner does not have certain outstanding debts to the state. This effort has garnered more than $2.7 million for the state over the past five years to satisfy debt that might have otherwise gone unpaid.

**Charitable Bingo Revenue and Business Activities**

Since the first licenses were issued in 1982, charitable bingo has had positive benefits for charities, players, and state, county and municipal governments in Texas. Gross receipts from the conduct of charitable bingo total more than $12.2 billion, bingo prizes

### TABLE 11
2004 BINGO & PULL-TAB GROSS RECEIPTS
UNITED STATES & CANADIAN JURISDICTIONS

<table>
<thead>
<tr>
<th>STATE/PROVINCE</th>
<th>BINGO GROSS</th>
<th>PULL-TAB GROSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALASKA</td>
<td>$70,741,347</td>
<td>$273,340,934</td>
</tr>
<tr>
<td>ARIZONA</td>
<td>$36,231,802</td>
<td></td>
</tr>
<tr>
<td>COLORADO</td>
<td>$62,602,594</td>
<td>$94,222,531</td>
</tr>
<tr>
<td>CONNECTICUT</td>
<td>$26,623,410</td>
<td>$10,486,188</td>
</tr>
<tr>
<td>IDAHO</td>
<td>$5,417,389</td>
<td></td>
</tr>
<tr>
<td>ILLINOIS</td>
<td>NOT AVAILABLE</td>
<td>NOT AVAILABLE</td>
</tr>
<tr>
<td>INDIANA</td>
<td>$451,680,119</td>
<td>$587,790,347</td>
</tr>
<tr>
<td>KANSAS</td>
<td>$30,300,000</td>
<td>$12,800,000</td>
</tr>
<tr>
<td>KENTUCKY</td>
<td>$109,216,017</td>
<td>$440,214,981</td>
</tr>
<tr>
<td>LOUISIANA</td>
<td>$115,925,700</td>
<td>$78,296,800</td>
</tr>
<tr>
<td>MASSACHUSETTS</td>
<td>$78,993,536</td>
<td>$29,560,765</td>
</tr>
<tr>
<td>MICHIGAN</td>
<td>$138,415,988</td>
<td>$224,269,875</td>
</tr>
<tr>
<td>MINNESOTA</td>
<td>$69,905,000</td>
<td>$1,304,923,000</td>
</tr>
<tr>
<td>MISSOURI</td>
<td>$85,505,216</td>
<td>$45,273,030</td>
</tr>
<tr>
<td>MISSISSIPPI</td>
<td>$85,594,693</td>
<td>$35,027,748</td>
</tr>
<tr>
<td>NEBRASKA</td>
<td>$15,370,116</td>
<td>$57,510,542</td>
</tr>
<tr>
<td>NEW JERSEY</td>
<td>$54,655,766</td>
<td>$18,388,615</td>
</tr>
<tr>
<td>NEW YORK</td>
<td>$115,060,518</td>
<td>$274,185,473</td>
</tr>
<tr>
<td>NORTH DAKOTA</td>
<td>$42,963,473</td>
<td>$150,480,199</td>
</tr>
<tr>
<td>OHIO</td>
<td>NOT AVAILABLE</td>
<td>NOT AVAILABLE</td>
</tr>
<tr>
<td>OREGON</td>
<td>$59,911,033</td>
<td></td>
</tr>
<tr>
<td>PENNSYLVANIA</td>
<td>NOT TRACKED</td>
<td>NOT TRACKED</td>
</tr>
<tr>
<td>SOUTH CAROLINA</td>
<td>$130,340,752</td>
<td></td>
</tr>
<tr>
<td>SOUTH DAKOTA</td>
<td>NOT TRACKED</td>
<td>NOT TRACKED</td>
</tr>
<tr>
<td>TEXAS</td>
<td>$429,702,156</td>
<td>$173,205,621</td>
</tr>
<tr>
<td>VIRGINIA</td>
<td>$108,245,100</td>
<td>$146,139,100</td>
</tr>
<tr>
<td>WASHINGTON</td>
<td>$105,115,835</td>
<td>$85,643,787</td>
</tr>
<tr>
<td>WEST VIRGINIA</td>
<td>$31,198,040</td>
<td>$115,636,717</td>
</tr>
<tr>
<td>WISCONSIN</td>
<td>$20,111,598</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$2,479,827,198</td>
<td>$4,157,396,253</td>
</tr>
</tbody>
</table>

**Source:** National Association of Fundraising Ticket Manufacturers 2004 Annual Report
awarded have been in excess of $8.9 billion, and allocations to local jurisdictions have totaled approximately $190.7 million. By the end of calendar year 2005, the total amount of charitable distributions from the conduct of bingo exceeded $804 million.

Distributions by organizations conducting charitable bingo benefit the people of Texas in many ways that include providing assistance to local libraries, veterans organizations, museums, women’s shelters, needy children, the disabled, homeless shelters, churches, schools, drug and alcohol treatment programs, medical treatment and research programs, volunteer fire departments, EMS units, police officer organizations, and senior citizen organizations, to name a few.

Table 11 shows bingo gross receipts and pull-tab gross receipts reported for 2004. In bingo gross receipts, Texas ranked third among all North American states and provinces for 2004, surpassed only by Ontario (ranked first) and Indiana (ranked second).

Local jurisdictions benefit from charitable bingo activity through allocations derived from charitable bingo prize fees.

In calendar year 2005:

- $633.6 million in gross receipts was generated from the conduct of charitable bingo in Texas;
- $471.3 million was paid in prizes to bingo players;
- $30.2 million was distributed to charitable purposes by licensed conductors;
- $24.4 million in prize fees and taxes, was collected from charitable bingo activities;
- $3 million was collected in charitable bingo license fees; and
- $27.5 million was deposited to the General Revenue Fund, of which $11 million in allocations was returned to local jurisdictions for their share of charitable bingo prize fees (see Table 12).

### TABLE 12
CHARITABLE BINGO
ALLOCATIONS TO JURISDICTIONS
1982 - 2005 (UNAUDITED)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ALLOCATIONS TO CITIES &amp; COUNTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>$657,184</td>
</tr>
<tr>
<td>1983</td>
<td>$1,193,376</td>
</tr>
<tr>
<td>1984</td>
<td>$4,047,322</td>
</tr>
<tr>
<td>1985</td>
<td>$4,103,469</td>
</tr>
<tr>
<td>1986</td>
<td>$3,745,303</td>
</tr>
<tr>
<td>1987</td>
<td>$6,042,654</td>
</tr>
<tr>
<td>1988</td>
<td>$7,935,380</td>
</tr>
<tr>
<td>1989</td>
<td>$9,390,573</td>
</tr>
<tr>
<td>1990</td>
<td>$9,560,443</td>
</tr>
<tr>
<td>1991</td>
<td>$9,825,017</td>
</tr>
<tr>
<td>1992</td>
<td>$5,961,898</td>
</tr>
<tr>
<td>1993</td>
<td>$7,278,829</td>
</tr>
<tr>
<td>1994</td>
<td>$10,812,176</td>
</tr>
<tr>
<td>1995</td>
<td>$10,882,677</td>
</tr>
<tr>
<td>1996</td>
<td>$10,583,249</td>
</tr>
<tr>
<td>1997</td>
<td>$10,071,442</td>
</tr>
<tr>
<td>1998</td>
<td>$9,895,196</td>
</tr>
<tr>
<td>1999</td>
<td>$9,910,884</td>
</tr>
<tr>
<td>2000</td>
<td>$9,474,278</td>
</tr>
<tr>
<td>2001</td>
<td>$9,163,984</td>
</tr>
<tr>
<td>2002</td>
<td>$9,182,649</td>
</tr>
<tr>
<td>2003</td>
<td>$9,653,052</td>
</tr>
<tr>
<td>2004</td>
<td>$10,349,769</td>
</tr>
<tr>
<td>2005</td>
<td>$11,006,783</td>
</tr>
</tbody>
</table>

Source: Texas Lottery Commission
Table 13 provides data on Charitable Bingo Licenses and Funding for calendar years 2002 – 2005. Charitable bingo total gross receipts increased by $29,087,196 (five percent) from 2004 to 2005. Gross receipts increased each year from 2002 through 2005. This increase is the result of increases in pull-tab sales which have been attributed to the new style of play tickets that were first approved for sale in Texas in September 2002.

B. A Culture of Compliance and Trust

The Texas Lottery Commission is charged with ensuring the integrity and fairness of lottery and charitable bingo games. The agency accomplishes this through a number of regulatory and education programs designed to “incorporate the highest standards of security and integrity” in Texas Lottery and charitable bingo games throughout the state.

<table>
<thead>
<tr>
<th>TABLE 13</th>
<th>CHARITABLE BINGO LICENSES AND FUNDING</th>
<th>CALENDAR YEAR 2002 - 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications</td>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>Applications Received</td>
<td>5,898</td>
<td>6,273</td>
</tr>
<tr>
<td>Applications Issued</td>
<td>5,739</td>
<td>5,771</td>
</tr>
<tr>
<td>Total Attendance</td>
<td>23,718,342</td>
<td>22,750,185</td>
</tr>
<tr>
<td>Gross Receipts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Card Sales</td>
<td>$319,865,576</td>
<td>$296,895,449</td>
</tr>
<tr>
<td>Electronic Sales</td>
<td>$148,241,778</td>
<td>$148,810,751</td>
</tr>
<tr>
<td>Pull-tab Sales</td>
<td>$88,979,503</td>
<td>$129,695,975</td>
</tr>
<tr>
<td>Total Gross Receipts</td>
<td>$557,086,857</td>
<td>$575,402,175</td>
</tr>
<tr>
<td>Prizes Paid</td>
<td>$397,920,227</td>
<td>$417,134,631</td>
</tr>
<tr>
<td>Charitable Distributions</td>
<td>$31,740,178</td>
<td>$29,881,043</td>
</tr>
<tr>
<td>Allocations to Local Jurisdictions</td>
<td>$9,182,649</td>
<td>$9,653,052</td>
</tr>
<tr>
<td>License Fees Collected</td>
<td>$3,171,957</td>
<td>$3,036,117</td>
</tr>
<tr>
<td>Prize Fees and Taxes</td>
<td>$20,959,393</td>
<td>$21,692,694</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>$11,454,492</td>
<td>$11,568,021</td>
</tr>
<tr>
<td>Lease Payments</td>
<td>$37,434,545</td>
<td>$36,719,856</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>$60,961,354</td>
<td>$61,859,377</td>
</tr>
</tbody>
</table>

Figures as of 02/21/06 and 02/23/06. Unaudited.

Source: Texas Lottery Commission
Licensing and Compliance Monitoring

Texas Lottery regulation

The agency’s Lottery Operations Division is the regulatory arm for Texas Lottery games. This division ensures that the lottery operator provides certain contracted services to players and retailers, and that retailers and players comply with the requirements set forth in the State Lottery Act and Title 16, Chapter 401 of the Texas Administrative Code. The Lottery Operations Division works closely with the Legal Services Division when violations in these areas are detected.

By maintaining a physical presence in both the warehouse and business-office facilities of the lottery operator, the agency is capable of monitoring the level of service received from the primary vendor to ensure contractual standards are met. This vendor oversight provides assurance that lottery players and retailers are receiving the services they expect and require from the lottery operator.

The Lottery Operations Division also licenses Texas Lottery retailers to sell lottery products to the public. In FY 2005, new licenses were issued to 1,894 Texas Lottery retailers.

Charitable Bingo regulation

The Texas Lottery Commission, through three sections of its Charitable Bingo Operations Division, works to ensure licensee compliance with the Bingo Enabling Act and Charitable Bingo Administrative Rules.

The Licensing Services Section reviews and licenses nonprofit organizations that conduct bingo games, persons who lease the locations where bingo games are conducted, entities that manufacture and distribute bingo equipment.

The Audit Services Section monitors licensees through the conduct of a variety of different audits and inspections, and also conducts Operator Training. Any licensee found not to be in compliance with the Bingo Enabling Act and Charitable Bingo Administrative Rules is subject to the assessment of administrative penalty, revocation or denial of the license.

The Accounting Services Section processes quarterly tax returns, mails out billing notices, identifies non-filers of quarterly tax returns to the Audit Services Section for collection, communicates with licensees about liabilities and tax issues, prepares bond demand notices, collects remittances on delinquent accounts, conducts testing of bingo equipment and products, publishes the Bingo Bulletin, and maintains the division’s Web site.

In calendar year 2005, the Charitable Bingo Operations Division processed a total of 7,353 bingo license applications. The types of bingo applications processed include original, renewals, amendments, and temporary licenses.

Through issuing licenses and compliance monitoring, the agency works to ensure that the organizations involved in charitable bingo and lottery operations adhere to the laws of the state and administrative rules.

Compliance Hotline

The Compliance Hotline Section of the Retailer Services Department is responsible for monitoring the life cycle of complaints and violations of the Bingo Enabling Act, State Lottery Act and respective administrative rules. The Compliance Hotline Section is a centralized intake unit for complaints and also monitors violations that are discovered internally. Compliance staff are responsible for maintaining the standards set by the Texas Lottery Commission relating to complaints.
An automated system has been developed which provides the ability to track all complaints and violations from initial intake or discovery to final disposition by allowing the Compliance Hotline Section to monitor the compliance resolution process as work flows between the Legal Services, Charitable Bingo Operations and/or Lottery Operations Divisions of the agency. The section maintains a comprehensive database on complaints, violations and dispositions to facilitate trend analysis and reporting. The information allows the agency to make informed decisions relating to licensees by reviewing compliance history when determining license issuance and/or administrative action.

**Drawings**

The Texas Lottery Commission works hard to maintain the public trust by protecting and ensuring the security of lottery games, systems, drawings and operational facilities.

Drawings to determine the winning combination(s) of the Texas Lottery’s on-line games are conducted on-site in the Texas Lottery security controlled drawings studio, supervised by the Security Department, open to the public, certified by an independent auditor and conducted in accordance with the rules.

All of the drawings for the *Games of Texas* are conducted using ball machines, with the exception of the *Mega Millions* Megaplier drawing. In FY 2004, with the addition of the multistate game *Mega Millions* to the on-line game mix, the Texas Lottery Commission implemented its first computer generated drawing for the add-on feature, the Megaplier. The Megaplier number is selected using a Random Animated Digital Draw System (RADDS) that has been certified by an independent third party to ensure that the numbers selected reflect a fair lottery drawing. All drawings are made available via satellite to television stations across the state.

Drawing results are made available to the general public on the Texas Lottery Web site via live and archived Web casts. Winning-number information is also available at retailer locations. The drawings and results are also made available via satellite to television stations. In addition, newspapers and other publications have the option of printing results.

**Product Testing Laboratories**

Three laboratories operated by the agency help to ensure the fairness of the games and support lottery and bingo functions.

*Lottery Ticket Forensic Lab*

This lab, operated by the Security Department, performs forensic testing on tickets and other questionable documents. Questionable claims are received from the Texas Lottery claim centers and examined by the agency’s forensic analysts. The analysts utilize specialized computer, photographic and chemical methods of testing to determine whether a ticket has been altered. Altered and forged tickets that require further investigation are submitted to the Enforcement Division.
In August 2004, at the direction of the Texas Lottery Commission Chairman, a team of senior management personnel was formed to review the agency’s security function and make recommendations to improve its efficiency. Based on the team’s recommendations, the agency outsourced the testing of new instant ticket games. The instant ticket testing process is a scientific examination of the games to ensure they meet established security, environmental, and durability standards.

In March 2005, the Affiliated Forensic Laboratory (AFL) was awarded the instant ticket testing contract for the Texas Lottery. AFL conducts all testing of new instant ticket games and coordinates with the Security Department in providing test results. The tests conducted by AFL are performed in addition to the quality assurance measures taken by the ticket manufacturers and serve to provide Texas Lottery players a durable and secure product of the highest quality.

**Bingo Pull-Tab and Paper Testing Lab**

This lab is operated by the Charitable Bingo Operations Division and confirms that each pull-tab game and all bingo paper submitted comply with the requirements of the Act and Rules. Samples of each proposed bingo pull-tab game and bingo paper are submitted by licensed bingo manufacturers for approval. After the initial approval of pull-tab artwork, a series of samples of each pull-tab game are analyzed by the bingo pull-tab testing lab to determine the prize accuracy, randomness, and quality of each game.

**Electronic Device Testing Lab**

This lab is operated by the Charitable Bingo Operations Division and confirms that the electronic devices submitted for testing comply with the requirements of the Act and Rules. Products such as electronic card-minding devices, pull-tab ticket dispensers, bingo ball blowers and bingo flashboards are submitted by licensed bingo manufacturers for testing and approval. Initial approval applies only to the specific device or system that is submitted. A modification to any approved device or system must be resubmitted for approval before becoming available for use at charitable bingo locations.

**Internal Audit**

The Internal Audit Division serves as an independent appraisal function within the Texas Lottery Commission. The function of the Internal Audit Division is to determine whether the agency’s network of risk management, control, and governance processes, as designed and represented by management, is adequate. The Internal Auditor reports directly to the three-member Commission. The division assists the Commission and agency management by furnishing independent analyses, appraisals, and recommendations about the adequacy and effectiveness of the agency’s systems of internal control policies and procedures, and the quality of performance in carrying out assigned responsibilities.

**EthicsPoint**

In Executive Order RP36, Governor Perry stated, “…government has a sacred trust to guard taxpayers’ dollars and maintain the highest standard of integrity, impartiality and conduct…” The order also states, “…the state of Texas is entrusted by the taxpayers of the state to provide responsible stewardship through efficient and honest governance, and all state agencies have a responsibility to prevent and eliminate fraud, and every state employee has an affirmative responsibility to report incidents of fraud.”

The Texas Lottery Commission is committed to ensuring a culture of compliance and trust. Providing employees a safe, secure, confidential, and anonymous method in which to report any concerns regarding possible misconduct is critical.
In January 2006, the Internal Audit Division launched EthicsPoint®, an Internet- and telephone-based reporting system that can be accessed from inside or outside the workplace. This system is intended to supplement the existing avenues that agency employees have to report concerns. In addition to anonymous reporting of concerns, the system also allows follow-up questions to be asked of the employee filing the report, while maintaining their anonymity. The EthicsPoint system is managed by a third party vendor, EthicsPoint, Inc. The vendor provides round-the-clock monitoring, intake and distribution of reports.

While the system is managed by the Internal Audit Division, it has been set up so that any reports of concerns related to any member of the Internal Audit Division or to any Commissioner will be routed directly to the State Auditor’s Office. All other reports are received by the Internal Audit Director.

No matter how stringent the preventative controls, all agencies must be alert to the possibility of inappropriate activity. The Texas Lottery Commission holds the trust of the public and of its employees as sacred. In addition to a robust program of ethics education and awareness, the agency believes a confidential, anonymous reporting system is vital. While other avenues for reporting concerns exist, EthicsPoint provides employees an additional channel that is accessible, clear, and easy to use.

**Enforcement Initiatives**

As part of its regulatory role, the Texas Lottery Commission, through its Enforcement Division, investigates alleged violations of the State Lottery Act, Bingo Enabling Act and the respective administrative rules. Investigations are initiated from complaints originating inside and outside the agency. During 2005, Enforcement Division investigators and background specialists conducted 1,123 investigations, including 332 investigations of violations of the State Lottery Act and 26 investigations of violations of the Charitable Bingo Act. They also conducted background investigations of 647 license applicants and 118 Texas Lottery Commission applicants. If criminal violations are found, the case is referred to the local district or county attorney. If administrative violations are found, an administrative action may be filed at the State Office of Administrative Hearings (SOAH).

Legal Services Division staff are also responsible for the administrative prosecution of Lottery and Bingo licensees for violations of the State Lottery Act, the Charitable Bingo Act, or agency administrative rules. Administrative action includes denial, revocation or suspension of a license, and possibly an administrative monetary penalty.

During 2005, enforcement attorneys and legal-support staff conducted 66 bingo hearings, 70 lottery hearings, and 297 lottery summary suspension hearings, and participated in the settlement of many other cases prior to and after the filing of cases at SOAH.

**Retailer Education Initiative**

In FY 2005, the agency launched an initiative to increase retailer knowledge of Texas Lottery games and sales terminals. The ultimate goal of the initiative is to ensure that all new retailers are properly trained on the various games offered by the Texas Lottery and the operation of the sales terminals. Ongoing training is also available for existing retailers upon request. New retailers must meet minimum training requirements in order begin selling lottery tickets at their business. In FY 2006, retailers will be provided with
a new Retailer Guide to complement the existing retailer manual that provides hands-on information about how to sell lottery tickets. The Retailer Guide provides information on policies and procedures related to lottery ticket sales.

**Bingo Operator Training Program**

Section 2001.107 of the Bingo Enabling Act established the Bingo Operator Training program as a requirement of maintaining a charitable bingo conductor’s license in Texas. Charitable Bingo Administrative Rule 402.103 sets out the requirements of the program and requires the primary operator or an alternative operator to complete eight hours of training every two years.

The program provides training in the following areas: general information about the Bingo Enabling Act and Charitable Bingo Administrative Rules; conducting a bingo game; administration and operation of charitable bingo; promotion of a bingo game; information on the Bingo Advisory Committee; and general information about the license application process.

The first Operator Training Program was held March 1, 2000. Operator Training Programs are updated regularly and held at multiple sites throughout the state each year. Since the inception of the Operator Training Program through December 31, 2005, 234 training programs have been conducted with 8,980 individuals attending. From March 1, 2000, to December 31, 2005, 7,880 attendees filled out surveys designed to assess their opinion of the Operator Training Program. Beginning with the May 8, 2000, Operator Training Program a question was added to the survey that asks, “Do you think the Operator Training Program was worthwhile?” During this period, 88 percent of those attending responded to the survey and, of those, 97 percent found the Operator Training Program to be worthwhile.

There has been a decrease in the number of audit violations cited since the inception of the Operator Training Program. In FY 2000, 81.9 percent of audits contained violations; in 2003 that number dropped to 71 percent; in 2004 the number of audit violations rose slightly to 73.6 percent; and in 2005 the number of audit violations dropped to 70.5 percent.

**Protecting Intellectual Property**

The Texas Lottery Commission recognizes that protecting its intellectual property—such as game names, logos and other identifying marks—is a critical part of protecting the integrity of the games. Consumers need to be assured that tickets appearing to be from the Texas Lottery are genuine.

To address this issue, the Texas Lottery Commission maintains a contract with outside counsel. This contract, approved by the Office of the Attorney General, provides for intellectual property legal advice and related litigation services. The Office of the Attorney General does not presently have the expertise in this area to meet the needs of the Commission.

**C. Game and Product Innovations**

The Texas Lottery Commission strives to provide the citizens of Texas with the best entertainment experience available through its products. New games and game enhancements will be recommended to keep Texas Lottery games innovative and exciting for Texas players. The agency relies heavily on marketing research to help ensure that any Commission changes to the current game mix will effectively meet the needs of Texas players, as well as assist in generating revenue to support public education.
On-line Games

One of the most significant differences between the instant and on-line game playing experience is the time that elapses between buying the ticket and the player finding out if the ticket is a winner. For example, a player who purchases a ticket for the Lotto Texas on-line game on a Monday morning must wait until the Lotto Texas drawing occurs on Wednesday night to determine if a prize may be claimed. In contrast, as soon as an instant ticket is scratched, the player immediately knows if the ticket is a winner. Most prizes can be paid immediately at a retail location, creating a potential subsequent ticket purchase or “churn” as it is described in the industry. On-line games, industry wide, have relied primarily on jackpot levels to drive sales and revenue generation.

Lotteries nationwide are attempting to increase on-line game sales to counter the issues created by rising instant game sales and the accompanying lower profit or return to the state realized from the instant game category. The lessons learned from the success of the instant category – higher price points, licensed property games and non-cash merchandise prizes – can transfer to the on-line product category, and non-jackpot games can be successful components of the overall product portfolio.

Lotto Texas

Lotto Texas has been modified three times — the first time in July 2000, when the game changed from a 6-of-50 to a 6-of-54 matrix, and the second time in May 2003, when the game changed to a bonus ball-style, 5-of-44 plus 1-of-44 matrix. Both of these changes increased the odds of winning the jackpot in an attempt to create the jackpots that cause player excitement, increased sales and positive media attention. However, with multi-state games such as Powerball® and Mega Millions that are capable of generating jackpots upwards of $300 million, jackpot fatigue is a problem faced by all jurisdictions, including Texas. “Jackpot fatigue” is the phenomenon where players become desensitized to jackpot amounts. This requires larger and larger jackpots to garner the attention and excitement of the playing public. If and when large jackpots are achieved, the on-line product category can achieve significant sales, but without jackpots driving player spending, the on-line category typically suffers overall.

TABLE 14
TEXAS LOTTERY SALES TRENDS
FISCAL YEARS 2003 - 2005

<table>
<thead>
<tr>
<th></th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instant</td>
<td>$2,129,796,368</td>
<td>$2,325,876,961</td>
<td>$2,705,410,815</td>
</tr>
<tr>
<td>Lotto</td>
<td>$526,324,482</td>
<td>$477,820,034</td>
<td>$306,657,770</td>
</tr>
<tr>
<td>Pick 3</td>
<td>$261,154,370</td>
<td>$277,253,684</td>
<td>$284,950,898</td>
</tr>
<tr>
<td>Cash 5</td>
<td>$141,021,849</td>
<td>$122,378,610</td>
<td>$102,664,699</td>
</tr>
<tr>
<td>Texas Two-Step</td>
<td>72,395,533</td>
<td>$49,163,364</td>
<td>$45,067,011</td>
</tr>
<tr>
<td>Mega Millions</td>
<td>0</td>
<td>$189,869,420</td>
<td>$177,457,928</td>
</tr>
<tr>
<td>Megaplier</td>
<td>0</td>
<td>$45,562,496</td>
<td>$40,253,717</td>
</tr>
<tr>
<td><strong>TOTAL SALES</strong></td>
<td>3,130,692,602</td>
<td>3,487,924,569</td>
<td>3,662,462,838</td>
</tr>
<tr>
<td><strong>Sales Increase/decrease from PY</strong></td>
<td>5.54%</td>
<td>11.41%</td>
<td>5.00%</td>
</tr>
<tr>
<td><strong>Instant Percentage of sales</strong></td>
<td>68%</td>
<td>67%</td>
<td>74%</td>
</tr>
<tr>
<td><strong>Online Percentage of sales</strong></td>
<td>32%</td>
<td>33%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Texas Lottery Commission
The most recent *Lotto Texas* game change was implemented in April 2006 and returned the game from a bonus ball matrix to a one-field, 6-of-54 matrix. Besides attempting to reverse the sales decrease realized after the change to the bonus ball matrix, the strategy in Texas and in many jurisdictions now calls for the multi-state games to fill the “large jackpot” niche and allow players to play for multi-million dollar jackpots, but with better chances of winning those jackpots. *Lotto Texas* and the Texas Lottery are synonymous due to the strong brand recognition *Lotto Texas* has acquired during its 13-year tenure as the state’s multi-million-dollar in-state, jackpot game. Recognizing this, the agency makes every effort to ensure the game remains popular with players. After monitoring the results of this change, staff intends to propose additional enhancements that might include the addition of a new prize level and/or an add-on game feature that will continue to keep the game fresh and provide winning experiences.

**Pick 3**

*Pick 3*, a non-jackpot game, is the only on-line game in the agency’s product portfolio that has realized a sales increase every year since its inception in October 1993. As of April 2006, *Pick 3* is the best-selling on-line game, ahead of both *Lotto Texas* and *Mega Millions*, illustrating that non-jackpot style games can be effective in reaching sales and revenue goals.

In order to capitalize on the success of this game, the agency is evaluating the implementation of an add-on game feature that will allow players additional opportunities to win prizes.

**Mega Millions**

Following the 78th Legislative Regular Session, in June 2003, Governor Rick Perry signed HB 3459, which authorized the Texas Lottery Commission to enter into an agreement with other jurisdictions to participate in a multijurisdiction lottery game. In October 2003, with the unanimous approval of Texas Lottery Commissioners, the Executive Director of the agency signed an agreement with ten other party lotteries, marking Texas’ official entry into *Mega Millions*, a multistate lottery game known for its big jackpots. The Commission also adopted emergency rule 16 TAC §401.315 relating to the *Mega Millions* on-line game. The rule established the game rules for the *Mega Millions* game in Texas.


Through FY 2005, more than $158 million in revenue from *Mega Millions* has been transferred to the Foundation School Fund since Texas joined the game in December 2003.

The largest advertised jackpot in Texas Lottery history was a $310 million *Mega Millions* jackpot in November 2005.

When California joined the Mega Millions game in June 2005, the game matrix was changed. The matrix change resulted in an increase in the guaranteed prize amounts. Of most interest was the second prize level which increased from $175,000 to $250,000. The Texas Lottery utilized that game change opportunity to promote the Texas-only Megaplier game feature. For $1 more per playboard, Megaplier provides players with the opportunity to increase their non-jackpot prize winnings by 2, 3 or 4 times. This presents an opportunity for Texas players who purchase the Megaplier® feature to win up to $1,000,000 on the second prize level. The game change was marketed using the following message: “You could win $1 million without even winning the jackpot.”
Due to the recent changes in the game, there are no further enhancements planned at this time.

**Cash Five**

The first five-digit game introduced in Texas, Cash 5, was a 5-of-39 lotto-style matrix when it was first added to the on-line game mix in October 1995. In April 2002, after seven years of existence with minimal changes, the Texas Lottery Commission approved changes that refreshed the Cash 5 game and resulted in more chances to win and better overall odds. The revised game, marketed as Cash Five, started July 28, 2002 with a 5-of-37, lotto-style matrix.

This matrix, along with a new “match 2-of-5” prize tier and overall odds of 1 in 8, helped move the game from being one of the most difficult to win (overall odds of 1 in 100) five-digit games in the country to one of the easiest.

Initially, the game change yielded positive sales results, but as is common with on-line games, over time the game has experienced sales declines. This decline appears to have stabilized. The agency continues to monitor performance of this game with regard to the need for future game changes. However, the agency believes there are other opportunities that exist with other games that will have a greater benefit on overall sales and revenue.

**Texas Two Step**

Texas Two Step realized a record setting jackpot in April 2006 when the jackpot climbed to an advertised $2.9 million. The previous record was achieved in March 2003 when the jackpot reached $1.8 million. Texas Two Step was introduced in May 2001 as a replacement for an underperforming $2 on-line game, Texas Millions. As the first bonus ball style game in Texas, Texas Two Step used its own name as an educational tool to teach players the two steps necessary to play a two-field game.

Upon the introduction of Mega Millions in Texas, Texas Two Step experienced increased sales declines. Approximately six months after Mega Millions started in Texas, the Texas Two Step draw days were changed from Tuesdays and Fridays to Mondays and Thursdays to alleviate the competition from Mega Millions, which had the same draw days. Texas Two Step has a loyal core player base and experiences consistent sales at lower jackpot levels. As with the agency’s other jackpot driven games, player interest and sales increase as the Texas Two Step jackpot climbs.

There are currently no changes planned for Texas Two Step.

The Texas Lottery continually evaluates its product mix. In addition to the initiatives identified above, the agency is exploring opportunities to address declining on-line game sales and add to the playing and winning experience. New games and game enhancements are being considered that do not solely rely on jackpots to generate sales. These initiatives include games with short-term product life cycles that can be refreshed and modified frequently similar to instant games. Additional game concept information is described in section VI of this document.

**Instant Games**

The Texas Lottery continues to follow a very aggressive game-launch strategy. In FY 2005, 100 instant games were introduced. The concept of introducing multiple instant games on a weekly basis allowed the Texas Lottery to realize more than $2.7 billion in instant ticket sales in FY 2005. This strategy was designed to allow for a more diverse product offering. More games at smaller print runs allow for an inventory optimization plan that supplies instant tickets to retailers according to market supply and demand.
Each game has different prize levels, themes, and play styles, with the ultimate goal to keep the instant product line as fresh and exciting as possible for players.

Through February, instant ticket sales for FY 2006 were more than $80 million, or almost six percent higher than in FY 2005. The increase is due in part to a sales migration to higher price point tickets, which offer more play action and larger top prizes.

**Cross-play**

The agency currently employs two specific marketing strategies to facilitate more cross-play between existing Texas Lottery games. The first is to offer a free ticket for one game with the purchase of a ticket for another game. The second is to distribute bar-coded coupons that offer a free instant ticket with the purchase of an online game ticket.

In response to changing economic conditions and competition posed by alternative forms of entertainment, the agency continues to look at new opportunities for meeting the interests of the playing public with new and different games, as authorized under current statutes.

**Product Supply Chain**

Texas Lottery products are currently available at more than 16,000 retail locations, and about three-fourths of these locations are convenience stores. The agency is focusing its efforts on the recruitment of high-traffic retail locations that currently do not sell lottery products, as well as non-traditional types of locations such as airports, drug stores and home improvement stores. The agency will also continue to explore new avenues for retailer recruitment and retention.

**Route Sales**

Reaching new markets and consumers is a key element to expanding Texas Lottery business and increasing revenue. While the traditional Lottery outlets of convenience and grocery stores have proved successful, the ever-changing retail environment provides new opportunities for providing additional player access to lottery products. The expanding variety of player-activated equipment also introduces the convenience of self-service to customers.

The standard of clerk-assisted lottery sales does not fit a growing number of retail businesses where: 1) consumers have the options of self check-out, 2) multiple entrances/exits and 3) large-space venues such as shopping malls, airports and “big box” outlets. Additional opportunities for providing easier access to lottery products exist within venues where large populations spend extended time such as factories, cafeterias, hotels and hospitals.

The route sales option would allow a contracted vendor to service and supply self-service equipment in environments where clerk assistance is limited or not available. A contracted vendor could manage sales much like a vending route with a commission paid to the vendor.

There are some major challenges to this unique sales method: the cost of lease space for equipment, the cost of contracting with a route sales vendor, providing for prize payments to players, monitoring purchase by minors, transporting ticket inventory and handling cash from the self service sales equipment. The lottery operator and the agency are exploring options for handling cash, e.g., armored car pick-up and contracting with a third-party vending agent. Purchase by minors remains a major challenge. The cost of lease space for equipment would likely be unique to each venue and the cost of contracting would be dependent on the scope of ser-
vices. The availability of a prize cashing agent in close proximity to the self-service equipment would enhance incremental sales and could provide an option for monitoring sales to minors.

If these challenges can be overcome and a cost effective model for route sales is developed, there is potential for increasing revenue by providing for lottery tickets sales in these non-traditional venues.

**Charitable Bingo**

In July 2002, Charitable Bingo Administrative Rule 302.300, Pull-tab Bingo, was amended. The amendments expanded the types of existing pull-tab tickets that could be sold in Texas to include sign-up board tickets, tip-board tickets, event tickets, multiple-part event and multiple-part instant tickets. Since that time, pull-tab sales have shown steady yearly increases even though there has been some fluctuation in pull-tab sales from quarter to quarter.

The introduction of these new types of pull-tab games has offset a decline in regular and electronic card sales. In 2005, total bingo sales showed an increase of $29,087,196 over 2004 sales. During the same period, pull-tab sales increased $49,172,569, while electronic card sales declined $184,652, and card sales declined $19,900,721.

Based on the success to date of the new play styles in Texas, the Charitable Bingo Operations Division anticipates continued sales success with the introduction of these new play styles of pull-tab bingo games in Texas.

The Charitable Bingo Operations Division has formed a workgroup comprised of agency staff and industry representatives to explore and examine alternative forms or styles of bingo games that could be introduced in Texas. One specific area that is being explored is the development of an administrative rule regarding the play of progressive bingo games within existing statutory limitations.

**Role of Market Research**

The purpose of market research is to gather insightful and reliable information about people’s perceptions, attitudes, and behaviors as they relate (actually or potentially) to the Texas Lottery Commission and its products. The goal of market research is to provide supportive information that may be used in decision making and budget development processes.

The Texas Lottery Commission’s research program has evolved over time to better fulfill the objectives noted above. Most research initiatives focus on the following objectives:

- Learning about lottery players;
- Improving and sustaining existing games’ sales;
- Developing new games and/or game enhancements to meet or exceed customer expectations;
- Developing effective promotional opportunities;
- Enhancing product distribution channels.

The agency’s marketing research agenda includes, but is not limited to, some of the following efforts.

**Lottery Research Groups**

The Texas Lottery Commission examines player and retailer interests using research methods such as focus groups or mini-labs. Individuals are selected for such research based on spe-
Specific topical concerns that often come from the Products Department. Research groups are put together commonly, for example, to test instant ticket concepts and new on-line game matrices. These studies occur about once per quarter and include participants from different Texas cities. Research groups are managed by outside vendors. Internal reports are generated and research findings are tied to previous analyses as needed. Final research reports are distributed to appropriate agency staff.

**Demographic Study of Texas Lottery Players**

As mandated by statute, the agency’s Executive Director contracts with an independent firm to conduct a demographic study of Texas Lottery players every two years. The Earl Survey Research Laboratory of Texas Tech University published the most recent state-mandated study, the *2005 Demographic Study of Texas Lottery Players*, in March 2005. Subsequent to the publication of that report, the Commission recommended conducting the study on an annual basis and the first non-mandated study, the *Demographic Study of Texas Lottery Players: December 2005*, was conducted by the School of Urban and Public Affairs at the University of Texas at Arlington.

**Tracking and Segmentation Studies**

The agency believes that a positive public image is critical to the success of the Texas Lottery and attempts to improve its understanding of that image through monthly and annual public surveys. These surveys take the form of tracking and segmentation studies conducted by an independent vendor.

Monthly tracking studies are used to solicit from Texas residents an understanding of various issues ranging from lottery play behavior to general opinion of the Texas Lottery Commission. Other items measure player views on lottery game changes, the effects of advertising campaigns, the reasons for abandoning or beginning to play games, and other similar topics. Tracking studies have at least two objectives: provide longitudinal data on public attitudes and behaviors; and, offer an efficient means for researching agency concerns. Approximately 400 people are surveyed each month and fiscal quarterly data are rolled up into a sample of approximately 1,200 people.

Annual segmentation studies are produced each October and sample approximately 1,200 Texas residents. Segmentation studies are comparative in nature and offer a year-over-year depiction of lottery player attitudes and behavior, demographics, psychographics, and other items of interest to the Texas Lottery Commission. Segmentation and tracking reports are distributed regularly throughout the agency.

**Retailer Research Survey Project**

The Retailer Research Survey Project collects monthly information from lottery retailers to track the nature and quality of the service they receive from the agency and its lottery operator. All existing lottery retailers are surveyed over a two-year period. The survey includes questions on point-of-sale use, number of ticket dispensers, in-store promotions use, and other similar topics. Responses are compiled into an annual report that specifies general trends among retailers. Project data is collected by claim center personnel and all reports are generated internally.
D. Technological Developments

Impact of Technology on Agency Operations

The most significant impact of technology on current operations is the growth in the agency’s Internet services and the development and implementation of an internal intranet site. In FY 2004, the agency developed an e-Strategy plan establishing an agency-wide, cross-program strategy for delivery of both lottery and charitable bingo services. This process enabled the Texas Lottery Commission and management team to identify those areas that would most benefit its customers and set priorities accordingly.

The resulting agency initiatives were the Retailer Services Center, the Bingo Services Center, and an internal intranet site. The Retailer Services Center and Bingo Services Center were developed for Internet delivery, moving several customer and client business transactions from mail and telephone to high-availability Internet service. This allowed the agency to provide customer service on demand, 24 hours a day, seven days a week.

The Retailer Services Center links retailers to information specific to their operations. The three main service components are: 1) ability to change address and bank information online, 2) financial reporting, and 3) general customer service. These interactive components are incorporated into a user-friendly and informative service center that provides retailer-specific news, information, and mail subscription options.

In September 2005, the Bingo Services Center, Statewide Reports and the Bingo Hall Locator were rolled out on the Charitable Bingo Operations Division’s Web site. The Bingo Services Center provides licensees access to a variety of licensing and financial information specific to their license. The general public can access information related to charitable bingo activity in Texas on Statewide Reports. The Bingo Hall Locator provides the general public with robust search capabilities to locate a bingo playing location. Searches for a playing locations can be customized using a variety of parameters and includes a mapping feature for playing locations.

Bingo Advisory Opinions can be submitted via the Charitable Bingo Operations Division’s Web site. In addition to providing a convenient method of submitting an advisory opinion, this feature provides the capability of viewing pending requests for advisory opinions, issued advisory opinions and a mechanism to search requests for advisory opinions and issued opinions.

As the charitable distributions resulting from charitable bingo activities in Texas approach the $1 billion mark, the progress is updated quarterly on the Web site.

In 2005, approximately 60 interactive forms were added to the Web site.

Electronic filing of quarterly reports was made available to conductors, conductor/lessors, lessors, and accounting units for filing the first-quarter 2006 quarterly reports.

As part of the e-Strategy initiative to improve communication and business processes, the agency implemented an internal intranet. The intranet is flexible enough to allow for individual content decisions at the business unit level, yet robust enough to allow for centralized management of the entire site. The system provides self-service capabilities for publishing and managing large volumes of information. With user friendly tools, both business and technical users can contribute to the development, management and ongoing maintenance of the intranet. Every division in represented on the agency intranet. Forms, procedures, department information, training, reports and directories now coexist in a centralized, searchable site.
In 1993, a database was developed to support two major challenges: Issue new licenses to more than 16,000 retailers and effectively monitor and collect ticket sales revenue for all retailer accounts. The Retailer Management System (RMS) was a complicated application running on outdated equipment. In late 2005, the agency implemented a new RMS which brought automation to formerly manual communications and tracking processes, consolidated database information, and improved efficiency, allowing the agency to provide the best service possible to our retailer-licensee customers.

In FY 2005, the agency executed a three-year lease to replace all desktop computers. This technology refresh will result in less downtime for maintenance and repairs, and provide updated technology necessary to continue to implement new software that is purchased or developed by the agency.

### Automation Efforts

The Texas Lottery Commission continually reviews strategies for technology hardware and software refresh. In FY 2006, the agency will be reviewing options for a refresh of its local area network infrastructure. This equipment is currently leased through a statewide contract and is at the end of its life cycle. Replacing the equipment will keep maintenance costs down and provide more robust equipment which will allow the agency to continue to implement new business applications.

In FY 2006, the agency executed a new contract for document management and document imaging services. The agency’s current imaging initiative focuses primarily on the management of licensed-retailer files and maintenance of certain contract files, which are digitally stored and available for view by agency staff. The agency is committed to expanding the use of electronic records management where it creates operational efficiencies and value for the state. The agency recently identified several agency work processes that will benefit from the conversion to electronic file management.

### Commitment to Technological Competency

The Texas Lottery Commission recognizes the importance of staying current with technology in order to increase operational efficiency and enhance the agency’s effectiveness. The agency is committed to investing in training to provide its employees with the skills they need to work in today’s increasingly technical workplace.

### E. Public Awareness

#### Public Awareness

Public awareness of Texas Lottery Commission activities is important to the agency’s effectiveness in generating revenue for the state of Texas and to maintaining the public trust. The goal of the Texas Lottery Commission’s advertising and promotion is to responsibly increase revenue and enhance awareness of Texas Lottery games.

#### Lottery Advertising

The agency makes considerable efforts to wisely allocate its advertising dollars and meet the objectives of reaching the public to responsibly increase revenue and enhance awareness of Texas Lottery games. The agency’s Performance Measures “State Revenue Received Per Advertising Dollar Expended” and “Dollar Amount of Advertising Budget Spent on Television” are used to gauge those efforts.
The Texas Lottery Commission’s advertising is allocated between the 20 Designated Market Areas (DMAs) throughout the state, using a combination of mass media (television, radio, newspaper, billboards) and point-of-sale materials (flyers, brochures, posters, etc.).

The agency adheres to specific measures in the State Lottery Act that address the means, concepts, and venues in which the Texas Lottery can communicate its message to the public. In accordance with Government Code 466.110, advertisements or promotions sponsored by the Texas Lottery Commission or the division for the lottery may not be of a nature that unduly influences any person to purchase a lottery ticket or number. The agency’s advertising reflects the Texas Lottery’s mission and core values.

**Promotions**

**Events**

The Promotions section of the Advertising and Promotions Department conducts various Lottery promotional events and assists in facilitating retailer promotions throughout the state. In FY 2005, more than 77 promotional events and over 1,500 retailer in-store promotions were conducted. Players attending these promotions learn about the Texas Lottery in a fun and exciting way through product trial and player education efforts. The Promotions staff continually explores avenues where the Texas Lottery can sell tickets and/or educate players about its games. One of these events, the State Fair of Texas, with more than three million attendees each year, represents a significant opportunity for the Texas Lottery to meet the playing public. The Texas Lottery has had a presence at this 24-day event since 1993. Players from across the state play lottery games, enjoy a live game show that includes audience participation, and take a chance at winning additional lottery prizes. The Texas Lottery Commission continues to utilize these promotional opportunities and explore other venues that can help sustain sales, educate consumers and promote Texas Lottery products.

**Communicating with Retailers**

Communicating effectively with Texas Lottery retailers is another key promotion strategy. The agency produces a newsletter for retailers, **RoundUp**, which provides game updates, sales district highlights, retailer tips, and news about agency activities. The agency also holds a series of meetings throughout the year with “retailer links” to solicit their input and explain Lottery goals, plans, and activities.

**Retailer Links Meetings**

Because retailers are the first point of contact with lottery players, it is important for the Texas Lottery to maintain a positive working relationship with this service population.

The Texas Lottery has established a network of “retailer links,” a small group of retailers from all ten sales districts who meet with lottery staff on a regular basis. The agency attempts to meet with these retailers in one or two of the districts each quarter. The retailer links share best practices and tips for high volume sales with Texas Lottery staff, who, in turn, share this information with other retailers. At the meetings, the retailer links also discuss other issues of importance to the Texas Lottery. The input gathered from the retailer links is extremely beneficial to the agency. Whenever possible, the Texas Lottery adopts suggestions from retailer links that can increase revenue to the state and provide better service to players or retailers.
Communicating with Charitable Bingo Licensees

The Charitable Bingo Operations Division publishes a quarterly newsletter, the *Bingo Bulletin*. The newsletter is mailed to all licensees and other individuals upon request, and is available on the Charitable Bingo Web site at www.txbingo.org. The *Bingo Bulletin* is designed to educate and inform licensees about the conduct and regulation of charitable bingo activities in Texas.

Public Service Initiatives

The agency’s public service and media relations initiatives are key to promoting the Texas Lottery Commission. The Executive Director attends check presentations, gives speeches to civic organizations, is available for media interviews, and promotes the agency through regular Web messages to the public. The Media Relations Division disseminates news releases that promote the agency by providing updates about Texas Lottery issues, winners, and milestones achieved, and news from the Charitable Bingo Operations Division.

The Media Relations Division developed a Public Service Announcement (PSA) in both English and Spanish that will be made available to media across Texas. The PSA will provide information on the money generated for charitable activities in Texas as a result of nonprofit organizations conducting charitable bingo. Also included will be information on the amount of prizes won by the players and the Web site address for the Bingo Hall Locator Service.

Texas Amber Alert Network

In spring 2003, the Texas Lottery joined the Texas Amber Alert Network, bringing the more than 16,000 Texas Lottery retailers into the state’s efforts to help locate abducted or missing children. The network was established by Governor Rick Perry in August 2002 to provide rapid notification of abducted child cases to the media and the public.

On September 1, 2003, House Bill 1401 became law, thus formalizing the process that had already been put into place. The law states that on receipt of notice by the Texas Department of Public Safety that the Texas Amber Alert Network has been activated, the Texas Lottery Commission shall disseminate Amber Alert information at its retail locations through the lottery operator system.

The Texas Lottery Commission’s participation in the Network has been well covered by the state’s media and has informed the public about the important role that the more than 16,000 Texas Lottery retailers statewide have in getting out information that can bring an endangered child safely home.

Play Responsibly

The Texas Lottery is committed to educating players about important game-related information and encouraging them to play responsibly. One initiative is the agency’s *Play Responsibly* Web page (www.txlottery.org/responsible), where players can find links to outside problem gambling resources. Publication of the Texas Lottery’s player newsletter, *Winning!*, the retailer newsletter, *RoundUp*, and the backs of online game tickets and instant tickets contain the *Play Responsibly* message.

Texas Lottery Commission Web Site

The Texas Lottery Commission uses the agency’s Web site, www.txlottery.org, to communicate with Texas Lottery and charitable...
Agency Activities

Bingo players (www.txbingo.org), Texas Lottery retailers and vendors, bingo licensees, and the public at large. Online services include streaming Web casts of Texas Lottery drawings (both live and on-demand), information about Texas Lottery games and promotions, regular messages from the Executive Director of the Texas Lottery Commission, information about “where the money goes,” specific Web pages dedicated to public service campaigns, Charitable Bingo forms, applications, and reports, and links to agency administrative rules and other legal documents.

Two significant new features on the Web site are the Retailer Services Center and the Bingo Services Center. The Retailer Services Center is available to licensed sales agents who need convenient access to their lottery business and financial records. The Bingo Services Center provides similar access to bingo licensees, along with information on general bingo issues for the public at large.

Where the Money Goes

In order to inform the public about the Texas Lottery’s revenue contributions to the state’s Foundation School Fund, the Texas Lottery Commission maintains current contribution totals on its Web site home page. The agency also provides a complete breakdown of percentage of allocation for each dollar of lottery sales on the “Where the Money Goes” Web page. The agency also produces a “Where the Money Goes” brochure each year that is widely disseminated to retailers, players, and the general public. Additionally, the agency is currently working with its advertising agency (presently DDB Dallas) to develop a mass-media beneficiary campaign.
Texas Lottery Commission
Agency Strategic Plan
For the Fiscal Years 2007 – 2011 Period

IV. EXTERNAL FACTORS AFFECTING SERVICES

A. Demographic Characteristics

Texas Lottery Players

Texas Lottery players were distributed variously within and across demographic categories in 2005. Players were found in lower, middle, and upper income and educational groups and were relatively split in terms of gender. Although male and female players reported similar participation rates, females were slightly more likely to play than males. The average player age was roughly 49 years old, with females being somewhat older on average than males (50 and 48 years old, respectively).

Texas Lottery players were predominately white (67 percent). The non-white ethnic composition of players was, however, disproportionate to the state’s demographics. For example, U.S. Census Bureau\(^2\) 2004 population estimates indicated that Hispanics comprised slightly less than 32 percent of the Texas population aged 18 and above. Only 22.3 percent of Texas Lottery players identified themselves as of Hispanic origin.

Texas Lottery games were also played by individuals from varied socioeconomic backgrounds. Individuals with lower-, middle-, and upper-level incomes played the various games offered by the Texas Lottery. In fact, if income categories were approximated in this three-tiered manner, roughly 30 percent of players would be found in each income bracket ($<$30,000; $30,000-$74,999; $>$75,000).

Texas Lottery players were, moreover, represented within all educational levels. Nearly two-thirds, however, had at least some college, while just over ten percent had less than a high school education.

U.S. Census Bureau population estimates for 2004 indicated that just over 15 million Texans are age 18 and above. The 2005 Demographic Study of Texas Lottery Players demonstrated that about 50 percent of survey respondents played lottery games in the previous year. Extrapolating from these findings suggests a Texas lottery player base just below eight million.

The following demographic information profiles Texas Lottery players in 2005:

**Household Income**

Texas Lottery players were polarized in 2005 in terms of reported household income. The distribution of players across different household income brackets suggested that they were concentrated at the extremes (i.e. $<$30,000 and $>$75,000). More than 61 percent of lottery players claimed to have annual household incomes in one of these two groups. Just over 32 percent of players reported incomes below $30,000, while 29 percent reported incomes exceeding $75,000. Nearly 35 percent of all players was concentrated at the outermost extremes of $<$20,000 and $>$100,000 (17.9 percent and 17 percent, respectively), suggesting a decentralized pattern for income and lottery play. The remainder of the player sample fell out rather evenly across all other income categories (be-

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\(^1\)Texas Lottery player demographic data cited in the present section were extracted from the December 2005 Demographic Study of Texas Lottery Players.

\(^2\)U.S. Census Bureau. 2004 American Community Survey.
 tween eight and 11 percent per incremental income bracket between $30,000 and $74,999).

Compared to 2004 Census Bureau household income data for Texas, lottery players were over-represented in upper income brackets and under-represented in lower income brackets. For example, lottery players were roughly 22 percent less likely than the general population to report household incomes below $20,000, but players were nearly 20 percent more likely than the general population to report household incomes exceeding $75,000. Finally, players were roughly seven percent less likely to report household incomes below $50,000, and over nine percent more likely to report incomes above $50,000.

Education
The distribution of Texas Lottery players across educational levels contrasted to some extent with income distributions. While incomes were decentralized, reported educational levels were centralized, gravitating toward the middle categories. For example, just over 79 percent of respondents reported holding high school or college degrees, or having some college. Roughly 51.5 percent claimed “some college, no degree” or a college degree. Individuals claiming less than a high school education and those asserting post-graduate degrees combined to make up over 20 percent of the sample (10.2 percent and 10.2 percent, respectively). The largest proportions of lottery players held either a high school degree (28.1 percent) or a college degree (26.9 percent).

As with household income distributions, player education levels diverged from state patterns. Texas Lottery players had higher rates of completion at all educational levels than what was found for the general population in 2004. Players were also less likely than the general population to have left high school: nearly 22 percent of Texans aged 18 and above had not completed high school in 2004, yet 10.2 percent of lottery players reported the same. Over 28 percent of lottery players held high school diplomas, opposed to 27 percent for the general population aged 18 and above. Finally, lottery players were roughly 30 percent more likely than the general 18+ population to hold college and post-graduate degrees: 37.1 percent, opposed to 28.4 percent, respectively.

Age
The majority (60.2 percent) of Texas Lottery players were above age 45, and nearly 80 percent were older than 35. Less than five percent of players were aged 18 to 24, and about 18 percent were above aged 65.

Gender
Females were somewhat more likely than males to play lottery games in 2005 (50.8 percent versus 49.2 percent, respectively).

Ethnicity
The ethnic and racial composition of lottery players suggested a diverse player base. Although whites made up over 67 percent of players, they represented 75.5 percent of Texans aged 18 and above in 2004. Hispanics were underrepresented as players compared to the general population aged 18 and above (22.3 percent versus 31.6 percent, respectively), and African American players were overrepresented (12.5 percent versus 10.5 percent).

Texas Lottery Retailers
As of January 28, 2006, the Texas Lottery had 16,260 licensed retailers. These establishments encompassed 15 different Standard Industrial Classification (SIC) codes. The largest SIC group among Texas Lottery retailers was convenience stores with gas: 11,359 retailers. The next largest was grocery stores with 2,243 retailers and then convenience stores without gas with 1,193 retailers.
Convenience stores should continue to make up the majority of retailers in the future unless statutory changes emerge that allow ticket sales in presently prohibited locations.

**Figure D**

**Breakdown of Active Retailer Base, by Sales**

*Total Sales: $1,837,260*  

- Independent Retailer Accounts (61%)
- Corporate Key Accounts (33%)
- Corporate/Chain Accounts (6%)

---

**Figure E**

**Breakdown of Active Retailer Base, by Category**

*Total Active Retailers (as of 1/28/2006) - 16260*

- Independent Retailers: 10,089 (62%)
- Corporate Key Accounts: 99 (0.6%)
- Corporate/Chain Accounts: 1,242 (7.6%)
- Chain accounts (2+ locations): 5,169 (32%)
- Active Selling Subordinates: 1,002 (6%)

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**Figure F**

**Active Selling Retailer Base, Weekly Sales Analysis**

*Total Active Selling Retailers (as of 1/28/2006) - 16,260*

- Independent Retailers
- Key Retailers
- Corporate Chain Retailer

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*Chain Accounts are defined as single-owner, multiple-outlet chains that generate a minimum of $35,000 a week in Texas Lottery sales.*

*Corporate Accounts are multiple-outlet chains that generate at least $50,000 a week in lottery sales.*

*Key Accounts generate $100,000 or more a week in lottery sales.*
Individuals and entities must complete and submit an application for a Texas Lottery Ticket Sales License to be eligible to sell lottery tickets in Texas. The agency reviews applications and issues licenses based on whether an applicant satisfies the requirements of the State Lottery Act and Title 16, Chapter 401 of the Texas Administrative Code.

Charitable Bingo Players

Total bingo attendance at licensed locations was more than 20.1 million in calendar year 2005.

In an effort to determine who plays bingo in Texas and why they play, the Charitable Bingo Operations Division and the Bingo Advisory Committee conducted a demographic survey in 2003 to serve as a benchmark for future studies on Charitable Bingo players. No other known jurisdiction has determined the demographics of their bingo players. Out of 13,135 surveys mailed to bingo halls, 3,150 were completed and suitable for data analysis.

Although the profile of the common Texas bingo player is predominantly a Caucasian married female, over 65 years of age, a high school graduate, employed and with an average income of $10,000 to $24,900, the Texas charitable bingo players run the gamut in age, ethnicity, reason for playing, etc. The following sections provide details by demographic descriptor. For all of the data presented, it is important to note that the data should be viewed as informational in nature.

Household Income

Bingo players were divided into six household income categories. These categories ranged from less than $10,000 per year to more than $60,000 per year, with $10,000 to $24,999 being the most frequent response and $25,000 – $39,999 reported at the median income. The over $60,000 per year group was the only group to report spending more than $50 per week on bingo and playing an average of three days per week. All other groups reported spending less than $50 per week and playing an average of two days per week.

Education

The most common bingo player is a high school graduate; the second-highest group of bingo players has some college education. The players with a college degree and post-graduate education are the groups least likely to play. According to the demographics, neither bingo nor the Texas Lottery competes for the same educated player. Forty percent of bingo players are high school graduates, and 23 percent have some college education.

Age

Texas charitable bingo players come in many ages. Females represented the majority in all age groups. The most common bingo player age is over 65. The bingo players age 35 and under are the least likely to play. The 18 to 21, 22 to 25, and over 65 age groups reported an average weekly play of two days.

Gender

Bingo players are represented by more females than males, by 83 percent of the targeted population. Males reported incomes of $10,000 and greater, whereas females reported incomes of $25,000 and above. Both gender groups play approximately three days per week.

Ethnicity

Bingo players represent many different ethnic groups. However, the group with the greatest representation is Caucasian. Over 50 percent of bingo players are Caucasian, with the second-highest group being Hispanic. African American players represent 16 percent, while Asian and Native American players represent 2 percent and 1 percent, respectively. Hispanics reported an average weekly spending of less than $50, whereas the other groups reported average weekly spending of less than $100.
**Marital Status**
The majority of bingo players are married. Married bingo players reported higher incomes than did single or other marital status groups. The single group was the youngest at 46 years of age. The married group was next at 51 years of age. The other group was the oldest at an average of 56 years of age.

**Employment**
Since the common charitable bingo player’s age is over 65, the assumption was that most players are retired; however, this is not the case. The retired group had the second-largest representation. The greatest representation of bingo players is currently employed.

**Charitable Bingo Licensees**
In 2005 there were 1,835 charitable bingo licensees, including 1,363 conductors, 436 commercial lessors, 18, distributors and 18 manufacturers. Table 15 provides a breakdown of the approximate number of bingo licensees in each of the Charitable Bingo Operations Division’s five regions.

The groups conducting charitable bingo include nonprofit organizations such as fraternal organizations, veterans organizations, religious societies, volunteer fire departments, and groups supporting medical research programs. All conductors are located in Texas, as required by the Bingo Enabling Act. Figure G provides a percentage breakdown of the different types of organizations licensed in calendar year 2005.

The number of licensed conductor organizations peaked in 1989 with 2,033 organizations licensed to conduct charitable bingo. From 1989 to 2005, the total number of licensed conductor organizations declined each year, with the exception of a two percent increase from 1991 to 1992.

The following is an analysis of the decreases in licensed conductor organizations by organization type from 1989 to 2005:

- From 1989 to 2005, the number of licensed fraternal organizations decreased by 22 percent.
- From 1989 to 2005, the number of licensed veteran organizations decreased by 31 percent.
- From 1989 to 2005, the number of licensed religious organizations decreased by 48 percent.
- From 1989 to 2005, the number of licensed volunteer fire departments decreased by 53 percent.
- From 1989 to 2005, the number of licensed medical organizations decreased by 65 percent.

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<th>NO. OF LICENSEES</th>
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<td>ODESSA</td>
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<td>466</td>
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<td>AUSTIN</td>
<td>118</td>
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</table>

Source: Texas Lottery Commission
Texas Lottery and State Demographic Trends and Impacts

Texas was the second-largest state in the United States in 2000, ranked behind only California. Texas alone is expected to grow 60 percent during this period. Six of the 25 fastest growing U.S. cities are in Texas (Houston, San Antonio, Dallas, Austin, Fort Worth, and El Paso). It is therefore the case that population expansion may foster growth in the Texas Lottery player base.

Texas’s demography has also shifted toward younger, non-Anglo minority groups, and this trend is expected to continue through the early part of the 21st century. In 2004, Texas became one of the few states to be categorized a “majority-minority” state, with roughly 50.2 percent of its population being minority. Non-Hispanic whites made up less than half the state’s population in 2004, Hispanics nearly 35 percent, African Americans roughly 12 percent, Asians about 3.5 percent, and Native American Indian and “Other” just over one percent. A conservative estimate puts Hispanics at more than 44 percent of the total Texas population by 2040, Anglos at just over 41 percent and African Americans at roughly 10.5 percent.

In 2000, non-Hispanic whites were more likely than Hispanics to be over age 30, while Hispanics were disproportionately found in younger age cohorts. Furthermore, the median age for non-Hispanic whites exceeded that for both African Americans and Hispanics (38 versus 29.6 and 25.5, respectively). Furthermore, 80 percent of Texas’s population increase in the 1990s was attributed to non-Anglo populations. The Hispanic population grew nearly 54 percent, the African American population roughly 23 percent, while the non-Hispanic white population grew about 7.5 percent.

The growth of the Texas Hispanic population is significant because of its concomitant increase in earnings and purchasing power. The number of U.S. Hispanics earning more than $50,000 increased nearly 130 percent between 1994 and 2000, and Hispanic purchasing power estimates exceeded $492 billion in 2001. Also, Hispanic households earning over $50,000 increased 30 percent between 2000 and 2004.

It can be expected that Texas lottery player demographics will shift as the state’s population grows and changes in the direction of youth and minority groups. Matters of age, ethnicity, and population growth should therefore be significant to the development of Texas Lottery services and products. It seems imperative that the Texas Lottery recognize and understand the interests and needs of younger generations and minority groups.

Differences are evident in the psychographic profiles of Texans (i.e. attitudes, beliefs, personality traits, behaviors). Although most (87 percent) Texans agree it is important that money from the lottery “goes to a good cause,” for example, fewer people (38 percent) believe the lottery “makes a positive contribution” to the state. Beliefs are fractured about what the Texas Lottery should do and what Texans think it actually does. It is notable however that knowing lottery profits are dedicated to education does not necessarily have a positive effect on spending sentiments. In fact, fewer survey respondents claimed that such knowledge would affect spending positively (36 percent in 2005...
opposed to 43 percent in 2004). Texans increasingly asserted that this information made no difference to them (a shift from 42 percent in 2004 to 49 percent in 2005).

Based on the Texas Lottery’s market research, there continue to be opportunities for growth in the Texas Lottery’s player base. Players report an interest in licensed property instant games, such as the Harley-Davidson®, Corvette® Cash, Instant MONOPOLY™, I Love Lucy®, Wheel of Fortune®, World Poker Tour® $100,000 Texas Hold ‘Em™, Betty Boop, and American Idol games, which have been successful additions to the instant product game plan.

Charitable Bingo Demographic Trends and Their Impact

As the bingo player survey concluded, the typical bingo player is Caucasian, married, female, and over 65 years of age. Predominantly, bingo players are currently employed high school graduates with annual incomes of $10,000 to $24,999. Bingo is most often played on Fridays and Sundays, using paper over the other forms of bingo play. The most common reasons for playing bingo are entertainment, enjoyment of playing bingo, chance to win something playing bingo, socializing with friends, and supporting worthy causes. Texas bingo players run the gamut in age, ethnicity, reasons for playing, etc.

Knowing which demographic is the majority representation at a bingo hall, or is one that a bingo hall is trying to recruit, would be helpful in determining which aspects of bingo participation to emphasize. Better understanding of bingo players might assist bingo halls in attracting more players to their games and more frequently to bingo halls. Additionally, a better understanding of players might help the charitable bingo industry to understand the types of new games that could attract the non-predominant player.

This idea would fit with the finding that players who participate in bingo more days per week are also the players who spend more per week.

The Charitable Bingo Operations Division estimated that legislative changes in 2003 allowing conductors to conduct 12 temporary bingo games—six more than initially allowed by law—would increase the number of bingo occasions and, thus, would increase attendance. Based on 2005 reported information both occasions and attendance continued to decline.

Based on the demographic study of bingo players, it was assumed there were two distinct classes of bingo players: those who play paper and instant bingo, and those who play card-minders. The trends in sales figures indicated that when paper and instant bingo games decreased in sales, card-minder sales increased. Since bingo paper sales and instant bingo sales were decreasing at the same time, staff hypothesized that the introduction of new styles of instant bingo games in late 2002 would increase instant bingo sales and there would be a corresponding increase in paper sales as well.

This hypothesis proved to be false. The new styles of instant bingo games were approved for sale in Texas in September 2002. An analysis of quarterly reports comparing the fourth quarter of 2003 to the fourth quarter of 2002, and comparing all quarters of 2003 to all quarters of 2002, showed that paper sales declined and instant sales increased.

An analysis of paper sales by calendar year shows: sales declined $22,970,127 (seven percent) from 2002 to 2003; declined $16,503,274 (5.6 percent) from 2003 to 2004; and declined $19,900,721 (seven percent) from 2004 to 2005.

In comparing the fourth quarter of 2002 to the fourth quarter of 2003, card-minder sales declined by two percent; in comparing all quarters
of 2002 to all quarters of 2003, card-minder sales increased by less than one percent. Comparing all quarters of 2003 to all quarters of 2004, card-minder sales increased one percent and declined less than one percent from 2004 to 2005.

Attendance has shown a steady decline since 2002. Attendance declined four percent from 2002 to 2003; five percent from 2003 to 2004; and seven percent from 2004 to 2005.

Pull-tab sales have increased each year since 2002. From 2002 to 2003 pull-tab sales increased $40,716,472 (46 percent), from 2003 to 2004, pull-tab sales increased $44,012,091 (34 percent), and from 2004 to 2005 pull-tab sales increased $49,172,569 (28 percent).

It appears that the introduction of the new style of instant tickets may have altered player patterns in a environment of declining attendance, with players choosing to spend their funds on instant tickets rather than paper. Staff will continue to monitor the trends in all categories of gross receipts and attendance to access the impact of pull-tab sales.

B. Impact of Recent and Proposed Legislation

Internet Gambling

For the past six years, federal legislation has been filed to prohibit, limit, or regulate in some way the conduct of gaming activities over the Internet. Typically, these bills have taken one of three approaches – (1) prevent the use of virtually all types of financial instruments and payment systems for Internet gaming, (2) require the various Internet service providers to shut down any Web sites providing Internet gaming activities, or (3) amend the Wire Act to make it applicable to wireless types of communications and transactions. Several bills have used a combination of these approaches. While taking slightly different approaches as to enforcement actions, the intent of the bills is to prohibit the use of the Internet for any interstate gambling transaction. None of these bills has ever been passed and signed into law.

The state’s concern and involvement in monitoring and tracking these bills has been focused on preserving the right of the state of Texas to decide how to market its lottery products without any federal constraints or intervention. Most, but not all, of the bills in the past have included exemptions for state lotteries. So long as any legislation that may be enacted contains such an exemption, the state’s lottery should be unaffected.

The agency has worked closely for several years with the Texas Office of State-Federal Relations on these issues, and they have, as appropriate, coordinated communications with the Texas congressional delegation.

Additionally, during the 79th Regular Session of the Texas Legislature, legislation was considered that would have authorized the Texas Lottery Commission to sell lottery tickets through the Internet or through the use of other electronic devices. However, the legislation did not pass.

C. Other Legal Issues

Impact of State Statutory Changes

Several bills enacted during the 79th Regular Legislative Session have significant impact on the way the Texas Lottery Commission operates. Particular bills of interest include:

SB 1 General Appropriations Act

Article IX Provision, Section 6.14. Limitation on State Employment Levels - Requires state agencies and institutions of higher education appropriated funds under this Act to be
STrATEgiC PLAN FY 2007-2011

reduced by two percent. The Texas Lottery Commission FTE cap was reduced from 325 to 318.5.

HB 10 – Relating to making supplemental appropriations and reductions in appropriations. Required Fiscal Year (FY) 2005 appropriations made to Lottery Account 5025 be reduced in the A.1.5. Strategy: Central Administration by $1,690,605.

HB 1116 – Relating to governmental entities subject to the sunset review process. SB 405 and HB 1434 were two bills filed containing the agency’s Sunset recommendations. While these bills did not pass, a provision was added into HB 1116, maintaining the administrative functions and operations of the agency and extends the Sunset date to September 1, 2011.

SB 442- Relating to certain claims and civil actions against sales agents. Provides immunity from liability of certain claims and civil actions against sales agents. Sales agents are immune from civil liability for an act or omission within the course and scope of the agent’s license.

Impact of Current and Outstanding Court Cases

Attorney General Ruling on Open Records
In April 2005, the Open Records Division of the Attorney General’s office issued a letter ruling that communications between the Texas Lottery Commission and a licensed bingo manufacturer relating to settlement negotiations were public documents for purposes of the Public Information Act. The Commission had urged that the release of the documents could irreparably harm pending settlement negotiations. The Attorney General’s office reasoned that the litigation exception no longer applied to information exchanged by all parties to pending or anticipated litigation, thus the information could be disclosed. The manufacturer filed suit for declaratory judgment and injunctive relief against the Texas Lottery Commission and the Office of the Attorney General in Travis County. Motion for Summary Judgment was granted by the Travis County court in favor of the manufacturer and the Commission. The Court agreed that documents relating to settlement negotiations should be kept confidential and not open to the public. This case is pending.

Non-Smoking Ordinances
A number of local governments have implemented or are considering the implementation of non-smoking ordinances. Some organizations licensed to conduct charitable bingo have indicated that the implementation of strict non-smoking standards has the potential to negatively impact charitable bingo activities, especially when surrounding jurisdictions do not enact strict smoking ordinances. In large metropolitan areas, it is easy for players to move from one jurisdiction to another, or from a non-smoking bingo location to a location that allows smoking.

The Bingo Advisory Committee formed a work group in June 2003 to review the impact of smoking ordinances on charitable bingo activities in Texas. The work group concluded that the effects of smoking ordinances vary among playing locations. While some locations experience a decline in attendance, others are not adversely impacted by nonsmoking ordinances. The work group concluded smoking ordinances are local issues, not state issues, and should be addressed by individual organizations at the local government level.

Legalization of Bingo by Additional Local Jurisdictions
Pursuant to the Bingo Enabling Act, the conduct of charitable bingo is authorized on a local option basis. Charitable bingo can be authorized at the county, municipality or justice of the precinct level. Currently, 264 cities, 118 counties and 156 justice precincts have legalized bingo. If new jurisdictions were to vote to authorize bingo, it
could have a positive economic impact for the state by increasing gross receipts, charitable distributions, gross rental taxes and prize fees paid.

D. Economic Variables

Economic trends and fluctuations can have a considerable impact on the agency’s ability to generate revenue for the state of Texas through the conduct of the Games of Texas and charitable bingo. Alternative gaming venues can have an impact as well, by capturing the entertainment dollars of potential Texas Lottery and charitable bingo players.

Texas Lottery

As with any sales oriented business, the Texas Lottery Commission’s ability to generate revenue may be affected by myriad economic variables. These variables include, but are not limited to, changes in the cost of living, increased competition, fluctuating interest rates, the season, available discretionary dollars, economic swings, inflation, and so on.

During FY 2005, for example, the average retail price of a gallon of gasoline in Texas increased from approximately $1.78 to $2.57, a 44 percent increase. The lottery industry anticipated a drop in sales related to higher gasoline prices as people theoretically had less disposable income to spend on items such as lottery tickets. Such concerns motivated a nationwide survey of lottery players in September 2005. According to the report, 26 percent of lottery players claimed to spend less on lottery products because of higher fuel prices. However, a study conducted by the Texas Lottery Commission’s Research Department found no statistically significant correlation between rising gasoline prices and Texas Lottery sales.

According to the 2005 Player Segmentation Study, 56 percent of players claiming to spend less money on Lotto Texas agreed with the statement “I have less money available for entertainment.” The finding was consistent with 2004 results where 57 percent of respondents agreed with the statement. Players therefore associated spending less money on lottery products with having less discretionary income.

Although the Texas Lottery technically has no direct intrastate competition, there are other gaming options competing for Texans’ entertainment dollars. According to Harrah’s Survey ’04 profiling the American casino gambler, Texas ranked 7th among the top ten states in 2003 that generated casino trips in the last 12 months. Dallas/Fort Worth and Houston also ranked among the top twenty U.S. casino feeder markets with casino participation rates of 20 percent and 26 percent, respectively. They also ranked 19th and 22nd among feeder markets generating one million or more casino trips in the last year. Texas had an overall casino participation rate of 21 percent in 2003, with Lake Charles, LA, Las Vegas, NV, and Shreveport/Bossier City, LA, among top destinations. A sizeable proportion of Texans therefore finds border casino gambling alluring.

The October 2005 launch of the Oklahoma Lottery may affect Texas Lottery sales along the Texas-Oklahoma border since Oklahoma residents no longer have to cross the Texas border to purchase lottery products. Analysis of sales data suggested, however, that Oklahoma’s lottery has only minimally affected Texas Lottery sales through early January 2006 (see Figure H). Sales tracking of lottery products, as well as bingo receipts, along the Oklahoma border will continue in order to identify emergent trends.

The Texas Lottery Commission will also monitor the expansion of casino gambling in Mexico. At least four casino gambling facilities are planned along the Texas-Mexico border, and more than

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35 gaming sites exist within 50 miles of all the state’s borders presently. The potential impact of Mexican and other border casinos on the Texas Lottery is unknown.

The overall economic environment in the state also can have an impact on the Texas Lottery’s retailer licensee base. While the number of retailer licensees filing bankruptcy has declined, the agency continues to see a steady number of locations abandoned by licensees. With improvement of the economic environment and through recruitment efforts, the agency anticipates the retailer base to remain stable with potential for growth in the number of retailers in the coming years.

Finally, interest rates have a direct impact on the advertised size of Lotto Texas and Mega Millions jackpots. The advertised jackpot size is a function of sales volume and the interest rate necessary to support a stream of annuity payments, the sum of which is equal to the advertised jackpot. When interest rates are relatively lower, the size of the advertised jackpots will be smaller than when interest rates are relatively higher. Since sales are usually insufficient to support the advertised jackpots in the first few rolls of the Lotto Texas game, it is more costly for the Texas Lottery Commission to fund the advertised amounts during times of low interest rates than during times of high interest rates.

**Charitable Bingo**

Charitable Bingo attendance, gross receipts and prizes paid reached their peaks in 1991 and have been in steady decline since that period. Even with approval of the new style of play pull-tab games that increased gross receipts each year from 2002 to 2005 attendance continued to decline. Table 17 illustrates key trends in attendance, gross receipts, prizes paid, fees and taxes collected, allocations and charitable distributions for the past four years.

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Historically, the only type of demographic player information the Charitable Bingo Operations Division measured was the attendance number reported by each licensed conductor on their quarterly reports. The Division could also quantify the number of licensed conductors in Texas. The reported attendance numbers on the quarterly reports are cumulative, not individual; therefore, it can not be determined whether the same people are playing bingo or whether new people are playing bingo. What can be determined is that since charitable bingo peaked in 1991, the bingo industry has experienced a decline in attendance and a decline in licensed bingo conductors.

When card-minders were introduced to bingo in 1996, the bingo industry and the Texas Lottery Commission expected that the card-minding devices would attract younger players and, hence, increase attendance. However, since the introduction of card-minders there still has been no noticeable increase in attendance or in the number of licensed conductors.

**Table 16**

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<td>PULL-TAB SALES</td>
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Source: Texas Lottery Commission
V. INTERNAL FACTORS AFFECTING SERVICES

A. Organizational Restructuring

Agency Reorganization

In August 2004, at the direction of the Texas Lottery Commission Chairman, a team of senior management personnel was formed to review the agency’s security function, including the consideration of a restructuring. The goals of this team were:

- Defining a scope of services for the security function of the agency
- Prioritizing those services
- Allocating resources, including identifying any outsourcing opportunities
- Implementing the appropriate organizational structure

In defining the scope of services for the security function and prioritizing those services, the team gathered information from other state lotteries, as well as from other Texas state agencies that have a law-enforcement or investigative function, and other internal and external resources. After a thorough review of the gathered information, with careful consideration and adherence to statutory requirements, the team then presented its findings to the Commission in October 2004. The Commission approved those recommendations and further instructed the team to move forward on the following actions:

- Consider the need for assistance from outside resources
- Consider other opportunities for input
- Review services to determine if best suited for in-house performance or outsourcing

In the course of these activities, it became apparent that, along with the realignment of the security function, there was a timely opportunity to streamline all of the agency’s functions through the implementation of a “line of business” organizational structure to better serve the needs of the agency and the state. Therefore, with Commission approval, the team moved forward to develop a reorganization carefully designed to:

- Improve agency-wide communication
- Facilitate direct access as needed by the Executive Director to certain critical areas
- Organize the agency by “line of business” instead of functionality, with the result of better positioning the lottery for any potential changes that may occur in the future
- Address the need for improved management of enforcement functions, along with better coordination between divisions on enforcement issues
- Allow senior agency management a better opportunity to work more closely together and improve long-standing agency issues of staff and process improvement

• For those services deemed appropriate for in-house performance, determine appropriate placement of services within the agency
• Develop appropriate organizational structure to effectively and efficiently perform in-house services
• For those services deemed appropriate for outsourcing, identify and pursue appropriate placement of services outside the agency
Throughout the planning phase of the security function realignment and agency reorganization, particular attention was paid to ensuring that the changes would have no negative impact on the agency’s high standards of security and integrity. The work group met with the agency’s Internal Auditor to discuss the proposed reorganization. The Internal Auditor did not identify any material weaknesses in controls that might result from the proposed reorganization. The Commission also was kept appraised of all aspects of the reorganization plan, and the agency communicated its plans to all state leadership offices and legislators as well.

The completed reorganization plan was rolled out to Texas Lottery staff on November 19, 2004.

The first key change in the new organizational structure changed the scope of the Legal Services Division to add the area of Enforcement, one of four areas where the core components of the former Security Division were transferred. This change included both administrative and commissioned peace officer investigators, centralized all agency enforcement staff in headquarters, and eliminated field-office enforcement positions. The new department was headed by an enforcement attorney with relevant experience managing investigators and trying administrative cases. Enforcement also managed the employer and vendor background investigation processes.

Another key change in the new organizational structure created the Administration Division to include functions germane to typical state agency business functions. These functions are performed by two new areas: Purchasing and Contracts, consisting of staff skilled and knowledgeable in complex procurement and contract issues including the scheduling, development and issuance of RFPs, the evaluation of RFPs, high-level contract negotiation skills and contract exit strategy development; and Research, consisting of staff skilled and knowledgeable in studying demographics, identifying growth markets and developing new products, analyzing new gaming innovations and technologies, assessing emerging opportunities and threats, and accumulating research on gaming trends and technologies that may aid management and policymakers in evaluating the future of gaming in Texas. An additional responsibility of the Administration Division is building security, the second of the four areas which contains a core function of the former Security Division.

A final key change in the new organizational structure changed the scope of the Lottery Operations Division to include items unique to a state lottery, including:

- The addition of a Security Department to oversee the ticket validation and lottery drawings processes to meet and provide the appropriate focus on statutory requirements. This was the third of four areas containing a core function of the former Security Division.
- The addition of the Drawings function, Instant and On-line Products, and Promotion and Advertising to the Lottery Operations Division. The Drawings function was the fourth and final area containing a core function of the former Security Division.
- An increase of emphasis and resources to retailer development and recruitment.
- A transfer of the Support Services function out of the Lottery Operations Division and into the new Administration Division.
- The creation of a “Creative Coordinator” position dedicated to focusing on advertising concepts and the image of the Texas Lottery; the Creative Coordinator has direct interaction with the Executive Director as needed.

As several departments and/or positions were restructured and/or reorganized, there were 33 positions identified that were eliminated and processed under the agency’s “Reduction-in-Force” policy. The affected employees were ap-
appropriately communicated with and every effort was made to handle these situations not only according to agency policy and guidelines, but also with the utmost respect for and assistance to the employees. Although 33 positions were eliminated under this reorganization, the agency’s then full-time equivalent employee cap of 325 was not affected, as an offsetting number of new positions that will better serve the mission of the agency were created.

The implementation of the new organizational structure yielded expected savings of $296,000 in annual salary costs for the agency. In addition, potential annual field lease cost savings were identified based on lease negotiations with lessors. Most importantly, however, the agency and the state stood to benefit from an agency aligned in a more efficient and effective manner, and better positioned for any potential changes in the future.

In October 2005, the Financial Administration Department was renamed the Office of the Controller and separated from the Administration Division to become a stand-alone division, thereby increasing the checks and balances of the agency’s financial department. The qualifications for this position were also structured to include a new requirement of a certified public accountant license. The Office of the Controller is managed by a Director (Controller), who reports to the Deputy Executive Director. The Controller functions as the chief financial officer for the agency.

In February 2006, a further enhancement was made to the reporting structure which resulted in the directors of several divisions reporting directly to the Executive Director rather than the Deputy Executive Director. These divisions included:

Legal Services – To allow the Executive Director to work directly with the General Counsel to focus more closely on the legal and contractual matters, and accompanying issues facing the agency.

Governmental Affairs – To promote direct interaction between the Executive Director with agency staff on issues involving the legislature and state leadership offices.

Media Relations – To promote direct interaction between the Executive Director with staff on matters involving the media and better facilitate the agency’s public message management.

Also in February 2006, in an effort to allow executive management to be more closely and actively involved in the oversight of employment matters, the Human Resources function of the agency was separated from the Administration Division to become a stand-alone division reporting directly to the Deputy Executive Director.

In April 2006, an additional enhancement was implemented within the Legal Services Division. The key changes in the structure of the division were the creation of two new positions - the Special Counsel and General Counsel Section Chief.

The General Counsel continues to oversee the division and is responsible for providing legal advice and counsel on significant agency policy matters to Commission members, the Executive Director, the Deputy Executive Director, and, when requested, agency staff. The Special Counsel provides direction and advice to the Executive Director, Deputy Executive Director, and division directors regarding human resources, ethics, and other issues involving the integrity of the Commission. The Special Counsel also serves as liaison to all division directors on legal issues except for significant agency policy matters and general legal transactional matters. The General Counsel Section Chief provides direction and advice to division directors and agency staff regarding general legal transactional matters, including contracts and open records.

In an effort to allow executive management to be more closely and actively involved in the area of enforcement, the Enforcement Section...
of the Legal Services Division was restructured as a stand-alone division with a division director position established as the administrative head of the division in May 2006. An Acting Enforcement Division Director was appointed at that time. The Enforcement Division Director reports to the Executive Director.

B. Long-Range Business Planning

The *Texas Lottery Commission Comprehensive Business Plan* for FY 2005 – 2007 was prepared by the management of the agency, inclusive of all divisions within the agency. This report was prepared as a result of, and in accordance with, recommendations contained in the *Sunset Advisory Commission Staff Report* issued in August 2002 and restated in the report issued in April 2004.

These reports recommended that the Texas Lottery Commission’s major initiatives should be guided by a comprehensive business plan to ensure their cost effectiveness. The business plan should include a specific description of each program, key management information, accurate financial data, and a detailed financial management plan. The Commission will review the business plan at least annually to assess the overall performance and value of each project. Projects that fail to meet financial objectives will be adjusted or terminated. This recommendation will build on recent efforts by the agency and ensure that business planning continues in the future.

C. Employee Attitudes Toward the Organization

The Texas Lottery Commission’s employees rate the agency as a good place to work in all the general categories measured by the Survey of Organizational Excellence (SOE) administered by the University of Texas at Austin School of Social Work. A comparison of the 2005 results in the five SOE dimensions of Work Group, Accommodations, Organizational Features, Information, and Personal, show that the agency outperformed the benchmark scores for all other agencies taking the survey, as well as for agencies with similar missions and agencies of a similar size. In comparison to the results of previous year, the 2005 SOE results indicate that the agency has improved in 19 of the 20 constructs, with one construct remaining the same. Scores improved the most in the four SOE constructs of Fair Pay, Diversity, Team Effectiveness, and Internal Communication.

The employees’ response rate was 83 percent, an exceptionally high rate that shows positive employee involvement, in addition to denoting a high degree of confidence that the survey results accurately reflect employee attitudes.

The 2005 SOE results show that Texas Lottery Commission employees intrinsically like their jobs and the work environment. They say the agency responds well to external influences that should play a role in defining its mission, vision, services, and products, including the agency’s ability to seek out and work with relevant external entities. Employees hold positive attitudes toward the degree that quality principles such as customer service and continuous improvement are part of the organizational culture, and perceive that they have the resources to deliver quality services. They generally feel that job demands are reasonable given time and resource limitations; and that the work environment is reasonably safe and supports a balance between work and home life.

Although the agency’s ratings are higher than those of many other agencies and show significant improvement from previous surveys, and are all higher than 300 points, meaning that they are areas of relative strength, the constructs of Fair Pay, Internal Communication, Team Effectiveness, Supervisor Effectiveness, and Holographic were identified as relative areas of concern.

Last year, management made the commitment to encourage employees to join workgroups
designed to examine and make recommendations regarding certain items and to make those recommendations available to all employees on the agency’s Intranet. Management continued to work with the employee workgroups to make changes within the organization based on those recommendations. Three of the four most-improved items in the 2005 SOE – Fair Pay, Team Effectiveness, and Internal Communication – were issues that were specifically addressed by the employee workgroups.

Improvements in scores over previous years can be seen as evidence that action plans put into place in response to results of previous surveys have been effective. The Commission has adopted action plans to address the 2005 SOE results at the division level. Acknowledging the differences in scores between the different divisions, the division directors were asked to develop strategies to address the relative areas of concern identified in each division.

The Texas Lottery Commission operates in a rapidly changing environment, and employees are asked daily to meet new challenges and accept new responsibilities. The agency’s management recognizes this and supports its employees through internal and external training opportunities, promotion opportunities, advanced technology, staffing efficiency studies, and its Employee Assistance Program. Management supports its employees by fostering an environment that emphasizes teamwork and change-readiness throughout the agency.

D. Capital Asset Strengths and Weaknesses

One of the most significant capital asset strengths is the growth in the agency’s Internet services. The development of new Internet applications means services to agency customers are more timely and efficient. The Texas Lottery Commission Web site has been expanded to provide more information to the general public, the playing public, and the media with up-to-date information on the Games of Texas. Additionally, the Web site provides lottery retailers and Bingo licensees with links to information specific to their operations.

The primary capital asset issue facing the agency is the current limit on capital budget appropriations spending authority for the acquisition of information resource technologies. Capital budget authority granted for information technology needs during the 2006-2007 biennium is contingent upon the Comptroller of Public Accounts certifying increased lottery deposits to the Foundation School Fund Account in excess of certain designated amounts. In the event the agency is unable to obtain the necessary certification from the Comptroller, no capital budget authority for the acquisition of information resources technologies is granted.

During FY 2006, the agency will need to replace the local area network infrastructure. This equipment is currently leased through a statewide contract and is at the end of its life cycle. This equipment is necessary for daily business operations and replacement is required to ensure adequate resources exist to support all business applications, and minimize downtime and costly repairs on aging and obsolete equipment. Without adequate capital budget authority, the agency will enter into another operating lease even though this may not be the most cost effective solution.

The Texas Lottery Commission conducts daily drawings at the on-site studio. To ensure the integrity of the games the draw machines must operate at full efficiency. Draw machines, being mechanical, need replacing when their expected useful life expires. Historically, the Texas Lottery Commission has requested funding for the draw machines and will continue the request so that the machines ensure the integrity and reliability of the games.
EVALUATION AND OPPORTUNITIES

Texas Lottery Commission
Agency Strategic Plan
For the Fiscal Years 2007 – 2011 Period

VI. EVALUATION AND OPPORTUNITIES

A. Accomplishments

The Texas Lottery Commission can point with pride to a number of accomplishments.

Effective Economic Development

From its inception in May 1992 through the end of Fiscal Year (FY) 2005, the Texas Lottery generated more than $39.8 billion in sales and returned more than $12.9 billion in revenue to the state of Texas. Of that amount, more than $7.6 billion has gone to the Foundation School Fund. More than $22.6 billion has been returned to players in the form of lottery prizes. Licensed Texas Lottery retailers received approximately $2 billion in commissions and $62.5 million in bonuses.

Since the first licenses were issued in 1982 through calendar year 2005, gross receipts from the conduct of charitable bingo have totaled approximately $12.2 billion. Bingo prizes awarded have been in excess of $8.9 billion, and charitable distributions have totaled more than $804.1 million.

Performance Measures

During FY 2005, the Texas Lottery Commission attained within five percent or exceeded targeted performance for 11 of its 19 key performance measures, including three of its five key outcome measures and eight of its 14 output and efficiency measures, as indicated in Table 17.

Lottery Retailer Satisfaction

The retailer-satisfaction measure is higher than projected due to increased communication between retailers, the Texas Lottery Commission, and the lottery operator, as well as increased responsiveness to retailer issues. In November 2003, as a result of retailer input, the agency implemented a change to the pack settlement validation level, increasing it from 50 percent to 70 percent of low-tier tickets. This change allows retailers more time to sell tickets from a pack and collect the money before that pack is settled against their account.

At the request of retailers, in September 2004 the agency reduced the pack size for certain higher price point instant games. The $10 and $20 price point game packs were reduced from 75 tickets per pack to 50 tickets per pack. The $25 and above price points were reduced from 75 tickets per pack to 25 tickets per pack. The larger pack sizes caused large bank account sweeps which retailers stated were causing them financial difficulties. The smaller pack sizes, while reducing financial liability for high-volume retailers, has also allowed lower-volume retailers, who were hesitant to accept these games when they had larger financial responsibility associated with them, to now carry and sell these games. Another advantage to the smaller packs sizes is that it allows inventory to move through the bins faster, freeing space for newer games.

Additionally, Texas Lottery Commission and lottery operator personnel continue to resolve issues at the store level for more satisfactory results. Beginning in FY 2004, the Texas
TABLE 17
KEY PERFORMANCE MEASURES
FY 2005

<table>
<thead>
<tr>
<th>KEY PERFORMANCE MEASURES</th>
<th>TARGETED 2005 PERFORMANCE</th>
<th>ACTUAL PERFORMANCE</th>
<th>% OF TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OUTCOME MEASURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of Retailers Satisfied with the Relationship with the Texas Lottery</td>
<td>80.00%</td>
<td>94.58%</td>
<td>118.22%</td>
</tr>
<tr>
<td>State Revenue Received per Advertising Dollar Expended</td>
<td>$26.23</td>
<td>$32.92</td>
<td>125.51%</td>
</tr>
<tr>
<td>Percentage of Complaints Resulting in Disciplinary Action</td>
<td>8.00%</td>
<td>100.00%</td>
<td>1250.00%</td>
</tr>
<tr>
<td>Net Bingo Games Revenue Received by Charitable Organizations (millions)</td>
<td>$34.50</td>
<td>$29.50</td>
<td>85.51%</td>
</tr>
<tr>
<td>Percentage of Organizations Who Fail to Meet 35% Charitable Distribution Requirement</td>
<td>5.00%</td>
<td>3.00%</td>
<td>60.00%</td>
</tr>
<tr>
<td><strong>OUTPUT MEASURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Retailer Business Locations Licensed</td>
<td>16,800.00</td>
<td>16,413.00</td>
<td>97.70%</td>
</tr>
<tr>
<td>Number of Surveys Issued to Retailers</td>
<td>77,600.00</td>
<td>76,611.00</td>
<td>98.73%</td>
</tr>
<tr>
<td>Dollar Amount of Advertising Budget Spent on Television (millions)</td>
<td>$14.28</td>
<td>$16.93</td>
<td>118.59%</td>
</tr>
<tr>
<td>Number of Lottery Complaints Resolved</td>
<td>550.00</td>
<td>299.00</td>
<td>54.36%</td>
</tr>
<tr>
<td>Number of Licenses Renewed to Individuals and Organizations</td>
<td>1,750.00</td>
<td>1,753.00</td>
<td>100.17%</td>
</tr>
<tr>
<td>Number of Bingo Complaints Resolved (Security)</td>
<td>265.00</td>
<td>84.00</td>
<td>31.70%</td>
</tr>
<tr>
<td>Number of Days to Allocate Payments to Local Jurisdictions</td>
<td>38.00</td>
<td>23.00</td>
<td>60.53%</td>
</tr>
<tr>
<td><strong>EFFICIENCY MEASURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Cost per Retailer Location License Issued</td>
<td>$140.00</td>
<td>$131.90</td>
<td>94.21%</td>
</tr>
<tr>
<td>Average Cost per Survey Issued</td>
<td>$2.56</td>
<td>$2.34</td>
<td>91.41%</td>
</tr>
<tr>
<td>Percentage of Adult Texans Aware of Lottery Advertising</td>
<td>57.00%</td>
<td>73.52%</td>
<td>128.98%</td>
</tr>
<tr>
<td>Average Cost per Lottery Complaint Resolved</td>
<td>$112.00</td>
<td>$200.96</td>
<td>179.43%</td>
</tr>
<tr>
<td>Average Cost per Original License Issued</td>
<td>$800.00</td>
<td>$721.20</td>
<td>90.15%</td>
</tr>
<tr>
<td>Average Cost of Bingo Operator Training Class</td>
<td>$895.00</td>
<td>$885.52</td>
<td>98.94%</td>
</tr>
<tr>
<td>Average Cost per Bingo Complaint Resolved (Security)</td>
<td>$75.00</td>
<td>$89.92</td>
<td>119.89%</td>
</tr>
</tbody>
</table>

Source: Texas Lottery Commission
Lottery started a series of meetings called Retailer Links. These meetings bring top-selling retailers within each of the sales districts to meet with Commission staff who travel to each of those districts. Retailers view these meetings as a positive means of furthering communication between the Texas Lottery Commission, the lottery operator, and lottery retailers.

Effective December 1, 2004, a new administrative rule was approved by the Commission related to retailer and agency responsibility for instant tickets that are discovered to be stolen or missing. The new rule is TAC. 401.170 Retailer’s Financial Responsibility for Lottery Tickets Received and Subsequently Stolen or Lost. This rule modified the financial relationship between the Commission and retailers regarding stolen or missing tickets. Under the new rule, the financial responsibility for these tickets is shared between the retailer and the agency. Retailers are required to pay a $25 administrative fee for each full, unopened pack of tickets that may turn up missing or stolen from their business. For tickets that are actively being sold to the public and are subsequently stolen, the retailer is responsible only for the portion of the pack of tickets that they have sold. Retailers are not required to pay for the tickets that are stolen as long as there are no prize validations on the tickets being reported. When tickets are reported stolen or missing to the agency, they are placed in a status in the lottery management system that prevents prize-winning tickets from being validated on lottery terminals. Timely reporting is critical in order to minimize the retailer’s financial responsibility for stolen tickets and for protecting the security and integrity of the instant games.

Charitable Bingo Licensee Satisfaction

The Charitable Bingo Operations Division’s efforts to increase communication with licensees through initiatives such as the Bingo Bulletin, the Operator Training Programs, and the Assessment and Assistance Interviews, have resulted in favorable ratings in the quality of customer service provided by the division. The Division routinely surveys charitable bingo conductor licensees regarding their opinion of the quality of customer service they receive. The survey includes the question, “How would you rate the quality of services you receive from the Charitable Bingo Division?” and is given to each individual attending the Operator Training Program and participating in the Assessment and Assistance Inspections.

The following are results of the responses to the survey question rating the quality of customer service provided by the Charitable Bingo Operations Division by calendar year:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number Responding to Survey</th>
<th>% Responding “Excellent” or “Good”</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1,117</td>
<td>94%</td>
</tr>
<tr>
<td>2001</td>
<td>804</td>
<td>97%</td>
</tr>
<tr>
<td>2002</td>
<td>1,646</td>
<td>95%</td>
</tr>
<tr>
<td>2003</td>
<td>1,324</td>
<td>96%</td>
</tr>
<tr>
<td>2004</td>
<td>1,595</td>
<td>96%</td>
</tr>
<tr>
<td>2005</td>
<td>1,378</td>
<td>97%</td>
</tr>
</tbody>
</table>

The management and staff of the Charitable Bingo Operations Division strive to consistently provide and maintain high standards of customer service in all interactions with licensees.

Charitable Bingo Milestones

Since the publication of the Agency Strategic Plan FYs 2005 – 2009, the Charitable Bingo Operations attained the following milestones:

- January 1, 2005 – Texas Bingo Quarterly Report and Automated Forms Manual were revised in Adobe and Excel formats and made available on the Web site.
- January 1, 2005 – Texas Bingo Unit Members
Quarterly Report completed in Adobe and Excel formats and made available on the Web site.

March 21, 2005 – Charitable Bingo Administrative Rules were renumbered and reorganized into seven subchapters with numbers that mirror the subchapter.

April 13, 2005 – The “Headlines” feature was added to the Web site providing the public and licensees access to current news articles relating to Charitable Bingo.

May 2, 2005 – A graphic was added to the Web site tracking the progress toward $1 billion in charitable distributions.

May 4, 2005 – A Media Guide was developed and place on the Web site providing licensees with information on how to deal with the media and obtain the best coverage for their organization’s bingo games.

May 10, 2005 – The Bingo Advisory Committee work plan was adopted.

September 1, 2005 – The Bingo Services Center and Statewide Reports made available on the Web site.


December 13, 2005 – By this date, 60 interactive forms were made available on the Web site.

First Quarter 2006 – Electronic filing of quarterly reports made available for conductors, conductor/lessors, lessors and accounting units.

Public Perception

The Texas Lottery Commission works hard to foster both public awareness of and confidence in Texas Lottery and Charitable Bingo games and other Commission activities.

Public perception is important to the Texas Lottery Commission. Texas residents are surveyed monthly via tracking and annual segmentation studies conducted by the agency’s market research firm Ipsos-Reid. Several questions gauge the public’s perception of the Texas Lottery as detailed below.

The 2005 segmentation study found that of the 1,200 residents surveyed, 41 percent held a positive overall opinion of the Texas Lottery, while 36 percent responded negatively (see Table 18).

**TABLE 18**

PUBLIC PERCEPTION OF THE TEXAS LOTTERY

<table>
<thead>
<tr>
<th>How would you describe your overall opinion of the Texas Lottery (Commission*)?</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>35%</td>
<td>41%</td>
</tr>
<tr>
<td>Negative</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td>Neutral</td>
<td>23%</td>
<td>23%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How much do you agree or disagree with the following statements that could be made about lotteries and gaming in Texas? The Texas Lottery is Operated Fairly and Honestly.</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>57%</td>
<td>53%</td>
</tr>
<tr>
<td>Disagree</td>
<td>24%</td>
<td>31%</td>
</tr>
<tr>
<td>Neutral</td>
<td>19%</td>
<td>16%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Where do you think profits from the Texas Lottery go?**</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>33%</td>
<td>38%</td>
</tr>
<tr>
<td>State Treasury/General Fund</td>
<td>11%</td>
<td>14%</td>
</tr>
<tr>
<td>Politician’s Pockets</td>
<td>9%</td>
<td>14%</td>
</tr>
<tr>
<td>Road Repair</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>24%</td>
<td>33%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>22%</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall, how satisfied are you with the games provided by the Texas Lottery?</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent satisfied</td>
<td>64%</td>
<td>60%</td>
</tr>
</tbody>
</table>

*The word “Commission” was removed from the question in 2005.
**Unaided responses.
Source: Ipsos Reid annual segmentation studies.
This represented an improvement over the 2004 findings in which 35 percent of respondents reported having a positive opinion and 40 percent claimed a negative opinion. When asked in 2005 whether the “Texas Lottery is operated fairly and honestly,” 53 percent of respondents agreed with the statement while 31 percent disagreed—a less affirmative response rate over 2004: 57 percent and 24 percent, respectively.

The 2005 Player Segmentation Study includes information on the agency’s public communication effort to explain “Where the Money Goes.” The 2005 report demonstrated that 38 percent of Texans thought profits from the Texas Lottery were being used for education, which was an improvement over 2004 (33 percent).

The annual segmentation studies also measure the level of player satisfaction with Texas Lottery games. In 2005, 60 percent of past-year players were satisfied with Texas Lottery games, a slight decline from 2004’s 64-percent satisfaction rate.

National and International Comparisons

Texas Lottery National Ranking

According to sales summaries provided by La Fleur’s 2005 World Lottery Almanac, the Texas Lottery was the third-ranked lottery in the United States for overall total sales in calendar year 2004, behind the Massachusetts and New York lotteries. The Texas Lottery was in fourth place in 2001 and, with rising sales, moved up to surpass the California Lottery in 2002.

Texas Lottery International Ranking

Based on calendar year 2004 sales, the Texas Lottery ranked ninth among the top ten lotteries worldwide, according to La Fleur’s 2005 World Lottery Almanac. International lotteries claim the first through fifth and the eighth positions in sales, with two U.S. lotteries—New York and Massachusetts—claiming the sixth and seventh positions, as shown in Table 19.

<table>
<thead>
<tr>
<th>RANK</th>
<th>LOTTERY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ITALY (LOTTOMATICA)</td>
</tr>
<tr>
<td>2</td>
<td>SPAIN (LAE)</td>
</tr>
<tr>
<td>3</td>
<td>FRANCE</td>
</tr>
<tr>
<td>4</td>
<td>JAPAN</td>
</tr>
<tr>
<td>5</td>
<td>UNITED KINGDOM</td>
</tr>
<tr>
<td>6</td>
<td>U.S. - NEW YORK</td>
</tr>
<tr>
<td>7</td>
<td>U.S. - MASSACHUSETTS</td>
</tr>
<tr>
<td>8</td>
<td>GREECE</td>
</tr>
<tr>
<td>9</td>
<td>U.S. - TEXAS LOTTERY</td>
</tr>
<tr>
<td>10</td>
<td>ITALY (SISAL SPORT)</td>
</tr>
</tbody>
</table>

Source: La Fleur’s 2005 World Lottery Almanac

Industry Resource

The Texas Lottery Commission staff serves as a resource to Texas and other states on issues as they relate, or may potentially relate, to the Commission or gaming in general. The Legal Services Division has developed an expertise in state and federal lottery and charitable bingo laws. As new technology emerges regarding gaming opportunities, the agency continues to develop its expertise in an industry experiencing tremendous growth.

Agency staff are frequently called upon to speak at state and national conferences concerning gaming. In addition, agency executive management hold leadership positions within their respective industry organizations.

The Charitable Bingo Operations Division hosted the North American Gaming Regulators Association (NAGRA) 2004 Conference in
San Antonio, Texas. The conference was well attended, very successful and offered many informative sessions and opportunities for the exchange of information and discussion of regulatory issues in other jurisdictions.

The Director of the Charitable Bingo Operations Division is an active member of NAGRA. He currently serves as Past President, served as President from June 2004 to June 2005, Vice President from June 2003 to June 2004 and served as Co-Chair of NAGRA’s Charitable Gaming Committee from June 2001 to June 2003.

The Assistant Director of the Charitable Bingo Operations Division is also an active member of NAGRA and has served as Co-Chair of the Charitable Gaming Committee since 2003.

B. Areas for Improvement

Ongoing Audits

Like all state agencies, the Texas Lottery Commission is subject to audit by the State Auditor’s Office (SAO). Under its audit plan for FY 2006, the SAO initiated a five-phase audit of the agency. The audit plan states that the SAO will determine whether the Texas Lottery Commission operates the Texas Lottery according to the Legislature’s intent and in accordance with Commission rules, policies, and procedures. The project is structured into five phases: Lotto Texas, Human Resources, Procurement, Lottery Security, and Financial Reporting, which includes the financial opinion audit for FY 2006. The human resources, lottery security and Lotto Texas phases were being performed at the specific request of the Commission. Each phase has a separate deliverable. When the phases are complete, it is anticipated that the SAO will prepare a summary report outlining the project’s conclusions and findings.

As of May 2006, the Human Resources, Lotto Texas and Procurement phases are in progress. The Lottery Security report was released in May 2006. Reports on Human Resources and Lotto Texas are expected to be released in June 2006, and the Procurement audit report is expected in August 2006.

The agency is working closely with the auditors to identify issues and seek effective solutions. The agency is committed to developing and taking corrective actions that ensure agency policies are in line with state requirements and best practices.

Charitable Bingo Enforcement Process

The Enforcement Process Review Team was formed to evaluate the current Bingo enforcement process and to make suggestions to eliminate administrative burdens that contribute to inefficiency. The team was asked to study the process and make recommendations for changes that will allow the agency to be more productive. Planning for the review of the bingo enforcement process began in spring 2004. The review included a cross-divisional team charged with identifying opportunities for improvement. To achieve this goal, the team reviewed current processes, procedures, and systems, and conducted interviews with agency personnel.

The recommendations made reflect the results of extensive research, interviews and surveys. Areas were identified where improvement is needed and opportunities exist to develop more effective and efficient service.

The Enforcement Process Review resulted in 32 recommendations. Implementation of the recommendations is expected to result in increased compliance with the Bingo Enabling Act and Administrative Rules. More effective and efficient enforcement will enhance the integrity of Charitable Bingo. Currently, 14 of
the recommendations have been fully implemented. The remaining recommendations are in various stages of implementation. The bingo enforcement process includes process mapping that addresses processes related to complaints, criminal background checks, administrative action letters, legal cases, and compliance audit procedures. The inclusion of internal and external stakeholders was an important component in revising the enforcement process.

C. Future Challenges and Opportunities

Through the agency’s long-range and strategic planning process, agency staff have identified several future opportunities that could have a positive impact on the agency’s key areas of activity: economic development, maintaining a culture of compliance and trust, developing innovative games and products, applying new technologies, and fostering public awareness of agency activities.

Texas Lottery Revenue Opportunities

In order to retain player interest in the Games of Texas, new games and features must be added to the on-line product and instant product mix. The Texas Lottery continues to research which on-line and instant game opportunities and enhancements hold the most promise to provide incremental revenue to the state. While some of these opportunities would require legislative authority, the Texas Lottery Commission remains neutral as to changes in legislation and presents these opportunities for purposes of information.

On-line and Instant Games

On-line Games

Texas Lottery staff are currently reviewing changes to several existing on-line games. The on-line games scheduled for modification in FY 2006 and possibly FY 2007 include Pick 3 and Lotto Texas. The enhancements under consideration include:

- **Pick 3** - options may include a later day drawing time, additional drawings and also an add-on game feature.

- **Lotto Texas** - enhancements might include the addition of a new prize level and/or an add-on game feature.

There are also games that are not a part of the Texas Lottery Commission’s current on-line product category that are under consideration which would not require statutory changes. Two options that may be introduced for consideration in FY 2007 are:

- **Pick 4** - a four-digit daily numbers on-line game that is very similar to Pick 3.

- **Raffle** - short-term promotional game with a defined start and end date. Raffle games have a pre-determined number of tickets available in the game and the number of prizes awarded at each prize level is known as there are no duplicate raffle numbers. This means that no two players can receive the same numbers on their tickets. In addition to cash prizes, raffles can award non-cash prizes such as vehicles, trips, etc.

There are many innovative and extended play add-on features in the lottery industry that could be added to a number of our current on-line games. These add-on features could be added and removed as needed, based on promotions and player participation. Examples of these features include:

- **Green Ball** - a feature involving a separate drawing that is held immediately following a drawing. If the Green Ball is
drawn, prize amounts are increased by 20 percent for the drawing.

**Double Draw** - a feature that has a separate drawing that is held immediately following a drawing to determine if a second set of winning numbers will be drawn.

**Kicker/Spiel Feature** - a feature in which additional numbers are randomly selected and printed at the bottom of a player’s on-line ticket. If the Kicker numbers match the winning numbers drawn, the player can win prizes based on how many numbers are matched.

**Combo Purchases** - a way to market existing on-line games by selling products in packages and promoting trial of less popular games.

There are also opportunities being utilized in the lottery industry that are not being pursued at the Texas Lottery Commission as they would require changes in legislation. Many states have expanded their game portfolio to include Keno and various “instant win” games to offer their players a better variety and different game experience:

**Keno** – a lottery game that involves the use of traditional lottery terminals and TV monitors. Keno drawings are held every few minutes, and the game is typically played in social setting venues, such as bars and restaurants.

**Instant Win** – a feature that can be incorporated into existing on-line games that provides players with opportunities for immediate winning experiences, just as traditional instant games currently offer.

**Instant Games**

Possible options for enhancing Texas Lottery revenue to the state through instant games include:

**Higher price-point games** – Instant ticket games that are above $30 to appeal to those players willing to spend more for a chance to win higher prizes.

**Price point variety in core games** – Core games are those that are continuously available for players. Current core games exist at the $1, $2, $3, $5 and $10 price points. Successful games at other price points could be evaluated for reintroduction as core games at new price points.

**Licensed property games** – Certain licensed property/branded games have appealed to new and lapsed players, such as World Poker Tour®, $100,000 Texas Hold ‘Em™, Betty Boop, I Love Lucy®, and Wheel of Fortune®. Other licensed property games will be evaluated for introduction.

**Pouch games** – Instant ticket games that are sold in various combinations of price points as a “package” deal.

The industry recognizes each of the concepts listed below as legal game options. The game concepts listed below all have common factors: physical tickets are purchased at licensed lottery retailer locations, the tickets must be validated (redeemed) at a licensed lottery retailer location, the tickets can be validated immediately by the retailer if the player chooses, the prize structure is pre-determined and the outcome is not generated by the skill of the player. Although the agency believes these concepts qualify as “instant” products, the agency is mindful of public
criticism that they are an expansion of gambling due to their advanced and unique play-styles. The agency would look to the Legislative leadership and state offices for guidance before considering the introduction of these games:

**Internet-based instant games/CD-ROM products** – CD-ROMs offer the opportunity for arcade style games to be played using instant ticket serial number purchased at licensed lottery retail locations. The serial numbers have predetermined prize values as set by the prize structure of the game. These games combine elements of an instant game with the interactive Internet experience of graphics and audio.

**Scratch-Tab Games** – This instant ticket design offers both the traditional latex scratch-off play action as well as incorporating popular pull-tab play action to reveal play symbols.

**Electronic Game Cards** – Electronic Game Cards are handheld devices offer extended electronic play of the instant product. These devices are purchased and validated at licensed lottery retail locations and are programmed with a pre-determined prize value in the same fashion that a paper scratch-off ticket has a predetermined value when printed.

**Push Play™** – Push Play™ is a handheld device that looks like a Blackberry. This device reads a magnetic strip embedded in the scratch-off ticket when the ticket is inserted into it. The device then offers the player the ability to play out an electronic version of the game or the player can use the device just to verify if their ticket is a winner and for what amount.

**Video Lottery Terminals**

The State Lottery Act currently requires the Texas Lottery Commission to adopt rules prohibiting the operation of any game using a video lottery machine, more commonly referred to as video lottery terminals (VLTs). As defined by the State Lottery Act, the term “video lottery machine” means any electronic video game machine that, upon insertion of cash, is available to play or simulate the play of a video game, including video poker, keno, and blackjack, using a video display and microprocessors in which the player may receive free games or credits that can be redeemed for cash, coins, or tokens, or that directly dispenses cash, coins, or tokens. Therefore, the statute and rule prohibiting VLTs have been in effect since the inception of the Texas Lottery.

**Charitable Bingo Revenue Opportunities**

The following four variations of bingo—progressive bingo games, multi-premise bingo games, electronic pull-tab bingo, and restructuring the sale of pull-tab ticket sales—would enhance revenue opportunities, not only to the state, but also to the organizations conducting charitable bingo. These types of charitable bingo are currently offered in other states and are among the most frequently requested changes made by Texas nonprofit organizations conducting charitable bingo. While some of these opportunities would require legislative authority, the Texas Lottery Commission remains neutral as to changes in legislation and presents these opportunities for purposes of information.

**Progressive Bingo Games**

A progressive bingo game is one in which the jackpot is allowed to grow until a winner achieves a winning bingo pattern within a
specific number of balls being drawn. A progressive bingo jackpot game adds tremendous excitement to long-time bingo players who are accustomed to the standard $500 to $750 per game maximum payout. A progressive bingo jackpot game could attract new people to play bingo because the prize payouts could grow well beyond the $2,500 current maximum payout per occasion. The Bingo Advisory Committee formed a work group titled the “BAC Charitable Bingo Progressive Bingo Game Rule Work Group.” The purpose of the work group was the development of a rule to allow for progressive games within the current prize limitations of the Bingo Enabling Act. This rule would primarily benefit smaller conductor organizations.

Progressive bingo games could present new opportunities to market bingo. For example, the higher-prize payout games could be featured in local newspapers or other media, bringing exposure to bingo and the charities it supports. Progressive bingo might also serve to keep gambling dollars in Texas that currently go out of state to Oklahoma and Louisiana, where high-stakes bingo halls and casinos operate. No additional equipment would be required, and a progressive bingo game could easily be introduced into any location currently conducting charitable bingo. Approximately 20 states have some form of progressive bingo.

Progressive bingo was first considered by the Texas Legislature during the 76th Legislature, Regular Session, as HB 3087, but was not passed. During the 77th Legislature, Regular Session, HB 2119, authorizing a progressive bingo game, was passed but was subsequently vetoed by the Governor. During the 78th Legislature, Regular Session, HB 1317 and SB 507, authorizing progressive bingo, were considered but did not pass. No bills related to progressive bingo were introduced in any of the 79th Legislative sessions.

### Multi-Premise Bingo Games

The introduction of multi-premise bingo games, which are variously referred to “satellite” and “linked” bingo games in other jurisdictions, would create a sense of excitement similar to that experienced by Lotto Texas players. In a multi-premise bingo game, a number of different bingo halls located around the state are connected to one another via a computer network. With this network, the players in the different halls play bingo against the players in other participating halls and not just against players in the hall where they are physically located. By having any number of halls linked, the opportunity exists to increase the size of the jackpot and, thus, generate additional excitement for the game.

Multi-premise bingo games are conducted in Washington State and Alberta, Canada. Table 26 provides information on multi-premise bingo games in these jurisdictions.

This type of game makes full use of available current technology. HB 3688, SB 575 and SB 1093 filed in the 76th Legislature, Regular Session, and HB 2443 filed in the 78th Legislature, Regular Session all addressed some form of multi-premise bingo game; however, none of these bills passed.

A question has been raised regarding a potential conflict with a multi-premise bingo game and Art. III, Sec. 47 (b)(2) of the Texas Constitution. No bills related to progressive bingo were introduced in any of the 79th Legislative sessions.

### Electronic Pull-tab Bingo

Electronic instant (pull-tab) bingo is an electronic form of pull-tab bingo where a customer purchases an electronic ticket face (instead of a ticket made of paper or paper products), some of which have been designated in advance as
prize winners from a point-of-sale station. All electronic pull-tab ticket faces come from a finite deal of tickets. Electronic pull-tab bingo has the potential to increase pull-tab sales and perhaps capture a new market because it would appeal to individuals who are technologically oriented.

HB 2792 and SB 1422, filed in the 78th Legislature, Regular Session, addressed electronic pull-tab bingo; however, the bills did not pass. Two bills that were filed in the 79th Legislature, First Called Session, addressed electronic pull-tab bingo; however, the bills did not pass.

Restructuring Pull-tab Ticket Sales

Restructuring pull-tab sales would result in the tickets being sold at times and locations other than when regular bingo is being conducted.

Minnesota is an example of a jurisdiction that offers additional opportunities for pull-tab sales. While these states still require strict record keeping measures and for the proceeds to be devoted to charitable purposes, they do not limit pull-tab sales to a regular bingo occasion. Therefore, pull-tab ticket sales in Minnesota in 2004 were over $1.3 billion, and in Texas, pull-tab ticket sales were $173.2 million. HB 3360, filed during the 77th Legislature, Regular Session, relating to the authorization to expand the time and location where bingo pull-tabs could be sold, had the potential to increase pull-tab ticket sales in Texas, but the bill did not pass.

The adoption of Charitable Bingo Administrative Rule 402.300, Pull-Tab Bingo, on July 1, 2002, had a significant impact on pull-tab ticket sales in Texas. Included in the rule were provisions authorizing new styles of play for pull-tab games that included sign-up board tickets, event tickets, coin boards, multiple part event and multiple part instant tickets in addition to the standard instant ticket games. The impact of the new style of play tickets has been positive: In comparing all quarters of 2004 to all quarters of 2005, pull-tab ticket sales increased by 28 percent.

If the Bingo Enabling Act is amended to authorize these types of charitable bingo games, the introduction of these types of games will require the adoption of administrative rules and possibly additional staff, to ensure these games are operated fairly. The Charitable Bingo Operations Division would not be able to absorb the cost for performing these additional functions from existing appropriations. It is anticipated that the additional revenue generated by these games would off-set any additional expenses.

One key policy issue that has been raised that needs to be given consideration speaks to the very nature of charitable bingo itself: Should charitable bingo in Texas be a part-time fundraising event operated by volunteers, or a fundraising activity operated by professional operators? Not all organizations conducting charitable bingo would agree these changes are needed, and opponents may view these enhancements to charitable bingo in Texas as an increase in gaming activity.

Consistency in Regulations for Charitable Gaming

In addition to charitable bingo, there are a number of games and gaming activities that are commonly used as a form of fundraising for nonprofit organizations. The two most common are raffles and “Las Vegas” types of games.

Raffles are statutorily authorized in Texas, but no form of licensing is required and there are no reporting requirements. A county attorney, district attorney, criminal district attorney, or
the Office of the Attorney General may bring an action for an injunction prohibiting conduct that violates state law relating to gambling or that is not authorized by the Charitable Raffle Enabling Act or other law. Venue for prosecution of violations of the Act is in the county where the conduct occurred. Subsequently, there is no reliable information regarding the impact of charitable raffles in Texas.

“Las Vegas” types of games conducted as fundraising events are usually played for tokens/chips instead of cash. Usually, at the end of the evening, guests can use the tokens/chips won to take part in an auction for donated prizes. Charities make their money off of these events by “selling” the tokens/chips that the guests use to take part in the games. While the legality of these games depend upon specific fact situations, without uniform regulation of these activities there is no way to calculate the benefit, if any, they provide to Texas charities or if they are being conducted fairly.

**Texas Hold ‘Em - Charitable Poker Games**

Spurred by the Texas Hold ‘Em craze, many charitable organizations in other jurisdictions are finding poker tournaments a profitable form of fundraising. As attendance at bingo games declines, many organizations in other states see charitable poker tournaments as a way to capture a new market and increase revenues. A bill was filed in the 79th Legislature, Regular Session, addressing charitable poker games; however, the bill did not pass.

In the *Charity Gaming in North America 2004 Annual Report*, 26 jurisdictions reported raffle gross receipts and 21 jurisdictions reported gross receipts from “other” gaming activities, which included Las Vegas type games. Raffle gross receipts for 2004 ranged from $2,648,000 (Louisiana) to $239,000,000 (Ontario). Gross receipts realized from “Other” gaming activities ranged from $131,792 (Newfoundland) to $662,767,000 (British Columbia).

The Charitable Bingo Operations Division routinely receives calls from individuals with questions related to the conduct of raffles and Las Vegas type games as fundraising activities. However, without jurisdiction over these games, the division is not able to respond or assist these individuals. The Division refers individuals to the Office of the Attorney General and maintains a Web link to the Office of the Attorney General’s Charitable Raffle Web section from the Charitable Bingo Web site.

By strengthening the ability to monitor charitable raffles through regulation and authorizing other forms of charitable gaming, state policy makers will have a consistent approach to the regulation of charitable gaming in Texas. In addition, state policy makers will gain a clearer picture of the actual forms of charitable gaming taking place in Texas and its impact on non-profit organizations.

Organizations that in the past have been conducting these activities with minimal or no oversight by the state may take exception to these new regulations. However, the uniform application of statutes and rules will ensure that the games are fairly conducted and that the proceeds are used for their intended purpose.

The introduction of these new games may require additional staff, particularly in the areas of audit and licensing. While these types of charitable gaming activities do not historically generate funds for the state, data from other states indicate the regulation of the games is generally self-funding through the imposition of licensing fees.

Implementing any new games to realize potential new revenue streams will require changes to the agency’s budget and FTE count. Should the
Legislature want the Texas Lottery Commission to pursue any of these revenue enhancements, a fiscal note would be developed to identify the agency’s costs to provide the new revenue streams desired.

**Lottery Product Distribution Expansion**

In order to maximize revenues, the Texas Lottery Commission plans to explore opportunities that would strengthen and open up new sales channels for Texas Lottery retailers, and strengthen the charitable bingo licensee base throughout Texas.

**Retailer Recruitment Efforts**

The more than 16,000 Texas retailers that sell lottery products represent the most significant channel through which the agency generates contributions for the Foundation School Fund. The retailer base is a dynamic business environment where business sales and acquisitions are a part of the normal operating environment. The economic climate of the state can also have a significant impact on the retailer base. The agency works to support existing retailers and to recruit new retailers to ensure a stable or growing product distribution channel.

With respect to potential recruitment efforts, the agency may also need to invest in certain technologies to tailor lottery products to meet the needs of new types of retailers. These technologies and their costs would need to be evaluated on a case-by-case basis.

**SST Expansion**

Self-service terminals (SSTs) represent an opportunity to expand existing sales and distribution channels (locations) for Texas Lottery on-line game products. The agency completed an initial installation of approximately 1,000 SSTs at selected retail locations in FY 2005. SSTs represent a unique opportunity to explore new sales and distribution channels that in non-traditional locations for Texas Lottery on-line games.

**New high-traffic sales venues**

With the amount of foot traffic in airports, “Big Box” retailers, and national chains such as drug stores throughout Texas, the agency is actively evaluating the opportunity to establish ticket sales in these areas. These locations require unique sales solutions due to floor area and customer base, and are desirable settings for lottery products.

**Reaching New Demographic Markets**

The markets for on-line and instant lottery games are considered mature given that the games have been available to Texans for many years and, without the addition of new gaming activities, market demand is not expected to grow significantly on its own. It can be a tremendous challenge for organizations in mature markets to grow revenues and profits (i.e., contributions for government organizations) at rates that satisfy stakeholders.

The Texas Lottery Commission will continue to use information gathered from its demographic marketing research over the last several years to expand existing marketing segments, develop strategies for reaching market segments that consist of individuals who are not frequent lottery players, and invest research resources into developing new products for new players across all demographics.

Exploring growth through segment-focused marketing and product development strategies will not require additional resources but, rather,
the redirecting of existing staff and agency resources within the agency’s advertising budget.

**Research and Development**

Research and development (R&D) is a critical competency for organizations operating in dynamic industries where new innovations and technologies can significantly impact the results of operations in the near term.

**R&D Pipeline**

R&D is intended to identify emerging technologies and product lines, industry trends, and issues related to vendors (and their industry competition) through broad-based industry-wide analyses. Research staff also analyze gaming products that are currently legally authorized for commercial development. R&D sources include vendors, scholarly and trade journals, industry analyses, consumer focus groups, segmentation analyses, university contracted research, and online library services.

**Resource Center**

Successful organizations must allocate resources for forward-looking activities so that managers and staff may engage in proactive and efficient planning rather than reactive and inefficient problem solving. Industry research must therefore be conducted to measure trends and technological developments that affect the Texas Lottery Commission’s revenues and net contributions to the Foundation School Fund or Charitable Bingo distributions.

The agency Resource Center serves as a foundation of material used to better understand lottery and charitable bingo trends and technologies. The Resource Center is available primarily through electronic materials posted to the Texas Lottery Commission’s intranet site. Bound materials including books, journal articles, and industry publications are also made available to staff. More than 400 research items have been posted to the intranet site to date and the resource library contains several hundred reports. The Resource Center is coordinated by Administration research staff, with cross-divisional resources and support from throughout the agency.

All research efforts are intended to improve the agency’s strategic planning capabilities and position it in such a way that it is better able to adopt new technologies and innovations. Additionally, the Texas Lottery Commission has used research that supports product development and improves the agency’s competitive advantage.

**Public Awareness**

**Making Texas Lottery Winner Information Available to the Public**

The Texas Lottery Commission embraces the importance of the public trust and makes certain that the lottery games will be administered in a secure manner to guard that trust. The Commission is committed to ensuring that the lottery games will be run in a manner that enhances public confidence in the integrity and fairness of the games. Fundamental to that premise is the ability for the public to inquire regarding who is receiving public funds in the form of Texas Lottery prize payments.

Texas Lottery prizes can be claimed by an individual or by any other properly created legal entity. It is common for individuals to claim a lottery prize as it is for non-individuals, such as a trust, partnership or other legal entity.

Before declaring a lottery ticket valid, the Texas Lottery Commission has adopted procedures in
According to Sections 466.254 and 466.409 of the State Lottery Act, the claimant is not prohibited by law from purchasing a ticket or claiming a prize. After a prize is claimed, it is the agency’s practice to make the names of the claimants public via a news release. Section 466.022 of the State Lottery Act provides that information involving lottery-prize claimants is public information, except for the claimant’s street address and phone number. Likewise, the agency’s practice has been to release information relating to a prize claimant in response to requests for information under the Public Information (Open Records) Act.

In addition, the agency will continue to evaluate the importance of its Winner Awareness campaigns and other avenues that identify for the public that “real people” play and “real people” win.

**Agency Operations**

**Organizational Culture**

Executive management, with assistance from the division directors, continually seeks opportunities to cultivate a team-oriented work environment through the development of ideas that positively impact employee morale and productivity. Innovative options for rewarding employee work performance are continually researched and evaluated. A concerted effort is also made to keep agency staff informed and involved with major agency initiatives. This is accomplished through a monthly employee newsletter, a monthly all-staff meeting and direct e-mail messages. These strategies exist with the goal being to enhance employee retention and productivity.

Executive management recognizes that improvements to the organizational culture are needed and necessary. To that end, a comprehensive review is underway of all aspects of employee relations including, but not limited to, the development of employee grievance procedures, enhanced supervisory training and revised employee disciplinary processes.

**“Paperless” Initiatives**

A significant trend in information technology solutions shows that public and private sector organizations alike are rapidly adopting e-records management solutions in response to public demands for improved enterprise governance. The technology carries the potential for significant cost-savings and improved operational efficiencies. Additionally, risk-management concerns have made e-records management solutions a necessary purchase for many organizations.

The Texas Lottery Commission successfully utilizes an e-record file management system for retailer licensee records. This program has resulted in significantly reduced file storage needs, enhanced access to file data by multiple e-records system users, and more efficient records retention. The agency’s executive management has committed to the expansion of e-records strategies as an agency priority based on the success of current initiatives. Due to both its strategic importance for cost-savings and risk management, the agency will continue to prioritize this initiative, expanding it as time and resources allow, to ensure implementation of e-records technologies, policies and processes.

**Business Continuity Planning**

In 2005, the Texas Lottery Commission developed a comprehensive enterprise availability plan. The project involved business availability planning, technology availability planning and an overall incident management plan. The development of this coordinated plan helps to meet the Texas Lottery Commission’s goals of...
improving the agency’s level of preparedness and ability to respond to a business or technology disruption. The plan that was developed is part of the agency’s ongoing business continuity program.

**D. Key Resources**

**State Employee Recruitment**

Current economic conditions are continuously monitored by the Texas Lottery Commission to determine their impact on the labor market and the agency’s ability to recruit highly skilled workers.

**Minority Businesses**

The Texas Lottery Commission is committed to ensuring that the economic development opportunities provided by the agency extend to HUB/minority businesses and their communities.

In FY 2005, the Texas Lottery Commission paid more than $37.5 million in contracts and subcontracts to HUBs and minority businesses. In addition, total payments made to minority businesses (not including non-minority women) increased by more than $5 million from FY 2003 to FY 2005.

The agency’s Mentor-Protégé Program, which was implemented in February 2002 in accordance with the adopted HUB rules, is an additional resource designed to enhance the agency’s HUB and minority business participation.

The objectives of the Mentor-Protégé Program are to foster positive long-term relationships between primary vendors (mentors) and HUBs (protégés), and to increase the ability of protégés to contract with the state. The program is designed to provide professional assistance and support to HUB vendors that will facilitate their development and growth in areas other than their current business expertise.

**Department of Information Resources**

The Texas Lottery Commission utilizes statewide contracts acquired by the Department of Information Resources (DIR) for technical goods and services.

**E. Human Resources Strengths and Weaknesses**

The Texas Lottery Commission is committed to employing qualified applicants. As was recommended to all state agencies by the State Auditor’s Office, the agency uses the full range of salary within a classification to remain competitive for employees.

To maintain its diverse employee population, the agency offers employment opportunities through a variety of resources, including the WorkInTexas online job bank; the Texas Workforce Commission; a TDD Phone Line for the hearing impaired; the agency’s 24-hour job line, Web site and intranet site; and area-specific newspapers, with particular emphasis on minority publications.

To retain skilled employees, the agency invests considerable resources into offering competitive salaries and developmental training programs. Additionally, agency staff have developed training programs for management and front-line employees to assist in their professional and personal growth.

The Texas Lottery Commission remains mindful of employee turnover and its effect on the
cost of operations. In FY 2001 and 2002, the agency’s turnover rate was below that of the state’s average, as shown in Table 20. The turnover rate rose in FY 2003 to 14.3 percent, due in part to ten employees who opted to accept the early retirement incentive offer extended by the state, and rose again in FY 2004 to 15.2 percent. In FY 2005, due in large part to the agency’s reorganization, the turnover rate increased to 22.9 percent. The agency continues to emphasize workforce and succession planning. This process involves closely monitoring staff turnover while building a talent pool within the agency that contributes to the current and future success of the agency.

Additional information regarding the agency’s workforce is provided in Appendix E.

**HR Audit**

In July 2005, the Executive Director of the Texas Lottery Commission sent a letter to the State Auditor requesting that the State Auditor’s Office conduct a comprehensive review of the following:

- The agency’s reorganization that occurred in November 2004,
- The employee separations from the agency within the prior two years,
- The agency’s Personnel Policy Handbook and any related policies relating to employee performance and disciplinary actions.

In approximately November 2005, the State Auditor’s Office (SAO) began their audit. The stated audit objectives were to:

- Determine whether the Commission’s human resources policies and practices protect the agency from business and financial risks,
- Determine the status of prior audit findings related to human resource management reported in *An Audit on Management Controls at the Texas Lottery Commission*, (SAO Report No. 97-092, August 1997),
- Determine whether the Commission is properly classifying employees in the State Classification Plan.

As of April 2006, the SAO has indicated the final audit report is anticipated to be issued in June 2006. The agency is working closely with the auditors in identifying issues, understanding their root causes, and seeking effective solutions. The agency is committed to developing and taking corrective actions that ensure the agency personnel practices are in line with state requirements and best practices, and afford employees fair, open, and consistent processes.
GOAL A: Operate Lottery

Generate revenue for the state of Texas through the responsible management and sale of entertaining lottery products, while incorporating the highest standards of security and integrity.

OBJECTIVE A.1: Promote and maintain an eligible, effective and productive retailer base in order to produce revenue for the state; maintain ticket sales and awareness of lottery products to produce revenue for the state; administer all games with the utmost security and integrity; and oversee major contractual obligations unique to a state lottery operation.

Outcomes:
- K Percent of retailers satisfied with Lottery Commission
- Per capita net Lottery sales
- Percentage of net Lottery sales spent on agency administration
- Percentage of bad debt to Lottery sales
- Ratio of advertising expense to net Lottery sales
- K State revenue received per advertising dollar expended
- Percent of licensees with no recent violations
- Percent of retailer surveys completed
- Percent of eligible players served

STRATEGY A.1.1.: Lottery Operations

Definition: Ensure player, vendor and retailer compliance with Title 16 T.A.C., Section 401, Texas Government Code Chapters 466 and 467. The strategy ensures the needs of the Commission and its customers are met in certain areas of vendor compliance, instant ticket warehousing/distribution, retailer services, prize payments, retailer inspections and support services.

Output Measures:
- K Number of retailer business locations licensed
- Number of denials or revocations of licenses
Dollars collected via the debt set-off program  
Number of licenses issued to individual retailers  
Number of licenses renewed to individual retailers

**Efficiency Measure:**

\[ K \] Average cost per retailer location license issued

**STRATEGY A.1.2.: Lottery Field Operations**

**Definition:** Ensure player compliance and supporting retailer licensee compliance with Title 16 T.A.C., Section 401, Texas Government Code Chapters 466 and 467. The strategy ensures the needs of the Commission and the public are met in the areas of customer service, payment of prizes and retailer support in communities throughout the State by providing customer service and educational information to players and retailers via field claim center locations.

**Output Measure:**
Number of prize checks issued from claim centers

**STRATEGY A.1.3.: Marketing and Promotion**

**Definition:** Promote Lottery product development, market research, sales and promotional functions of the Texas Lottery Commission. Determine the interests, opinions, awareness levels and purchasing behaviors of adult Texans in order to facilitate the planning, development, and implementation of effective games.

**Output Measures:**
Number of newsletters distributed to retailers
Number of retailer visits

**Efficiency Measure:**

\[ K \] Average cost per survey issued

**STRATEGY A.1.4.: Security**

**Definition:** Protect and maintain the security and integrity of lottery games, systems and drawings, assure the physical security of all commission operating sites, and investigate possible criminal and regulatory violations. Investigate complaints, conduct background investigations.
on prospective employees, conduct background investigations on bingo distributors and manufacturers and Texas Lottery vendors. Investigators also act as liaison with local law enforcement agencies.

**Output Measure:**
Number of Lottery investigations initiated
K
Number of Lottery investigations completed
Number of Lottery background investigations completed

**Efficiency Measures:**
Average time to complete lottery investigation (days)
K
Average cost per lottery investigation completed
Average time to complete lottery background investigations (days)

**STRATEGY A.1.5.: Central Administration**
Definition: Provide executive and support functions of the Texas Lottery Commission through executive management, financial services, information technology, communications, legal services, governmental affairs, internal audit and human resources.

**STRATEGY A.1.6.: Lottery Operator Contract**
Definition: Contract for vendor services for instant ticket and on-line gaming system design, operation and maintenance; lottery management system design, operation and maintenance; telecommunications network design, operation and maintenance; terminal installation, maintenance and repair; marketing research personnel and services; promotions personnel and services; field sales personnel and services; instant ticket and on-line ticket stock warehousing; instant ticket and on-line ticket stock packing; instant ticket and on-line ticket distribution; ticket order processing and telemarketing; hotline support system; and facilities.

**STRATEGY A.1.7.: Instant Ticket Production Contract**
Definition: Contract for instant ticket development and manufacturing services through an instant ticket vendor(s). Other services under this contract include production of coupons, second chance drawing sales monitoring and trends analysis of instant tickets. These functions are governed under Title 16 T.A.C., Chapter 401 and Texas Government Code Chapters 466 and 467.
STRATEGY A.1.8.: Mass Media Advertising Contracts

Definition: Provide for the production of radio, television, Internet, newspaper, magazine and print advertising, as well as the planning, buying and placement of electronic and print media across the state of Texas. Additionally this strategy provides for the production and placement of outdoor signage and point-of-sales materials, as well as related advertising services.

Output Measures:
Dollar amount of advertising budget spent on print media
Dollar amount of advertising budget spent on radio
K Dollar amount of advertising budget spent on television
Dollar amount of advertising budget spent on other advertising media

Efficiency Measure:
K Percentage of adult Texans aware of Lottery advertising

STRATEGY A.1.9.: Instant Ticket Vending Machines Contract

Definition: Provide for the acquisition and service of instant ticket vending machines. Instant ticket vending machines and self-service online lottery terminals are alternative methods of providing instant and online tickets to Texas players without the assistance of retailers’ personnel. These functions are governed under Title 16 T.A.C., Chapter 401 and Texas Government Code Chapters 466 and 467.

STRATEGY A.1.10.: Drawing and Broadcast Services Contract

Definition: Provide and supervise the broadcast and production of all Texas online game drawings. Drawing and broadcast services vendors may provide broadcast television production, animated random numbers selection and/or satellite transmission services for the broadcast of Texas Lottery on-line game draws.

STRATEGY A.1.11.: Market Research Services Contracts

Definition: Provide the Lottery Commission with market research services that may consist of various research projects in an effort to better understand player purchase behavior and assist the Commission in
developing sound marketing strategies.

STRATEGY A.1.12.: Retailer Bonus

Definition: Maximize revenue to the state of Texas by providing lottery sales agents with incentive bonuses in accordance with Commission statutes, rules and procedures.

GOAL B: Enforce Bingo Laws

Timely and fairly enforce all statutes and regulations relating to charitable bingo to determine that all proceeds derived from bingo are used for a lawful purpose and charitable bingo games are conducted fairly.

OBJECTIVE 2.1.: Process, investigate and evaluate all bingo applications efficiently; promote voluntary compliance with all applicable bingo statutes and regulations; process all quarterly reports and payments filed by licensees, and assign disciplinary action to violators of the statutes and regulations.

Outcomes: Percentage of licensees with no recent violations
Percentage of Bingo audits and inspections resulting in administrative sanctions
K Percent of complaints resulting in disciplinary action
Percentage of completed Bingo complaint investigations resulting in warning
Percent of documented complaints completed within six months
K Net Bingo games revenue received by Charitable Organizations
K Percentage of organizations who met the statutory charitable distribution requirement
Percentage of organizations receiving an audit or inspection

STRATEGY B.1.1.: Bingo Licensing

Definition: License all activities associated with the conduct of charitable bingo. These functions are governed under Texas Occupations Code Chapter 2001; Article III, Section 47 of the Texas Constitution; and Texas Government Code Chapter 467.

Output Measures:
K Number of licenses issued to individuals and organizations
Number of applications processed

**Efficiency Measures:**
- Average Bingo license processing time
- Average cost per license issued

**Explanatory Measure:**
- Number of annual license holders

**STRATEGY B.1.2.: Bingo Education and Development**

**Definition:** Provide for the education and development of all licensed organizations that conduct Charitable Bingo activities in this state through the education and development of licensees with training seminars, the publication of informational newsletters and maintaining the charitable bingo web site containing relevant information relating to regulatory requirements,

**Output Measures:**
- Number of Bingo Bulletins distributed
- Number of individuals receiving education

**Efficiency Measures:**
- Average cost of Bingo Operator Training Class

**STRATEGY B.1.3.: Bingo Law Compliance Field Operations**

**Definition:** Ensure compliance with the Bingo Enabling Act and the Charitable Bingo Administrative Rules through a system of enforcement by conducting inspections, reviews, audits, and complaint investigations.

**Output Measures:**
- Number of inspections conducted
- Number of Bingo audits and reviews completed
- Number of Bingo complaints completed
- Number of administrative actions initiated
- Number of audits and inspections with violations
- Dollar amount of adjustments to charitable distributions by audit and inspection
- Number of Bingo investigations initiated
- Number of Bingo background investigations completed
AGENCY GOALS, OBJECTIVES AND MEASURES

Efficiency Measures:
Average time for Bingo complaint completed
K Average cost per Bingo complaint completed
Average time to conduct a compliance audit
Average time to complete Bingo background investigations

STRATEGY B.1.4.: Bingo Prize Fee Collection and Accounting
Definition: Manage charitable bingo financial data regarding collections and allocations of revenue in a manner that ensures funds are disbursed to appropriate entities. These functions are governed under Texas Occupations Code Chapter 2001; Article III, Section 47 of the Texas Constitution; and Texas Government Code Chapter 467.

Output Measures:
K Number of days to allocate payments to local jurisdictions
Percentage of licensees who fail to pay
Number of Bingo reports processed

Explanatory Measures:
Number of reports mailed
Number of payments deposited

STRATEGY B.1.5.: Bingo Prize Fee Allocations
Definition: Bingo prize fee allocations to counties and municipalities are required by Texas Occupation Code, Chapter 2001.

NOTE: “K” Designates Key Performance Measure.
<table>
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<th>Section</th>
<th>Page</th>
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</thead>
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<td>B. ORGANIZATIONAL STRUCTURE</td>
<td>101</td>
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<td>C. OUTCOME PROJECTIONS FY 2007-2011</td>
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<td>D. PERFORMANCE MEASURE DEFINITIONS</td>
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<td>F. SUMMARY OF 2005 SURVEY OF ORGANIZATIONAL EXCELLENCE</td>
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</table>
The Texas Lottery Commission Fiscal Years 2007 - 2011 Strategic Plan is the culmination of a collaborative planning process that spanned several months and involved staff from all areas of the organization, including the commissioners, senior and middle management, and designated staff liaisons with responsibility for providing content from their respective divisions. This plan represents the agency’s commitment to implementing strategies and activities that support the mission, philosophy, and goals of the Texas Lottery Commission and the state of Texas.

The planning process began in January 2006 when the Deputy Executive Director designated the Media Relations Division’s External Communications Specialist as project manager for the development of the strategic plan. The project manager subsequently developed a detailed work plan and timeline, and identified a project liaison in each division, in order to launch the project agency wide.

The strategic planning process began with a review of the FY 2003 - 2007 and FY 2005 - 2009 strategic plans, in order to ensure continuity from one plan to the next and to build on the agency’s past work. While some existing sections were updated, new sections were also created under an enhanced strategic plan outline designed to highlight the agency’s strategic direction and improve the plan’s readability.

As the strategic planning process moved forward, the project liaisons contributed content from their respective divisions and reviewed numerous drafts. The Office of the Controller coordinated development of the Historically Underutilized Business Plan and managed the process of revising and submitting the agency’s performance measures through the ABEST system for purposes of budget planning. The Media Relations Division produced and submitted the Customer Service Report; the Human Resources Division provided the Workforce Plan; and the Administration Division assumed responsibility for developing and submitting the strategic plan for Information Resources Management.

At many points along the way, the strategic plan content was developed collaboratively through formal meetings that were convened as part of the long-range planning process; through smaller working groups focusing on and refining particular areas of expertise; and through the sharing of completed drafts with executive management and the agency’s Commission. The culmination of months of careful planning and work, the FY 2007 – 2011 Strategic Plan will serve as the Texas Lottery Commission’s roadmap for future plans and activities and will ensure that those activities support the vision and goals of the state of Texas.
## Lottery Outcomes

<table>
<thead>
<tr>
<th>Outcome</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Retailers Satisfied with the Texas Lottery Commission</td>
<td>94%</td>
<td>94%</td>
<td>94%</td>
<td>94%</td>
<td>94%</td>
</tr>
<tr>
<td>Per Capita Net Lottery Sales</td>
<td>$167.85</td>
<td>$164.67</td>
<td>$161.39</td>
<td>$158.26</td>
<td>$155.41</td>
</tr>
<tr>
<td>Percentage of Net Lottery Sales Spent on Agency Administration</td>
<td>7.00%</td>
<td>7.00%</td>
<td>7.00%</td>
<td>7.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Percentage of Bad Debt to Lottery Sales</td>
<td>0.02%</td>
<td>0.02%</td>
<td>0.02%</td>
<td>0.02%</td>
<td>0.02%</td>
</tr>
<tr>
<td>Ratio of Advertising Expense to Net Lottery Sales</td>
<td>0.80%</td>
<td>0.80%</td>
<td>0.80%</td>
<td>0.78%</td>
<td>0.78%</td>
</tr>
<tr>
<td>State Revenue Received per Advertising Dollar Expended</td>
<td>$34.83</td>
<td>$34.86</td>
<td>$34.87</td>
<td>$36.00</td>
<td>$36.00</td>
</tr>
<tr>
<td>Percent of Licensees with No Recent Violations</td>
<td>97%</td>
<td>97%</td>
<td>97%</td>
<td>97%</td>
<td>97%</td>
</tr>
<tr>
<td>Percent of Retailer Surveys Completed</td>
<td>71%</td>
<td>71%</td>
<td>71%</td>
<td>71%</td>
<td>71%</td>
</tr>
<tr>
<td>Percent of Eligible Players Served</td>
<td>37%</td>
<td>37%</td>
<td>37%</td>
<td>37%</td>
<td>37%</td>
</tr>
<tr>
<td>Charitable Bingo Outcomes</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>---------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Percentage of Licensees with No Recent Violations</td>
<td>70%</td>
<td>72%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>Percentage of Bingo Audits and Inspections Resulting in Administrative Sanctions</td>
<td>42%</td>
<td>40%</td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>Percentage of Complaints Resulting in Disciplinary Action</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Percentage of Completed Bingo Complaint Investigations Resulting in Warning</td>
<td>10%</td>
<td>8%</td>
<td>8%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Percent of Documented Complaints Completed Within Six Months</td>
<td>96.00%</td>
<td>97.00%</td>
<td>97.50%</td>
<td>98.00%</td>
<td>98.00%</td>
</tr>
<tr>
<td>Net Bingo Games Revenue Received by Charitable Organizations (Millions)</td>
<td>$31.50</td>
<td>$31.50</td>
<td>$31.50</td>
<td>$31.50</td>
<td>$31.50</td>
</tr>
<tr>
<td>Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement</td>
<td>97.50%</td>
<td>97.50%</td>
<td>97.50%</td>
<td>97.50%</td>
<td>97.50%</td>
</tr>
<tr>
<td>Percentage of Organizations Receiving an Audit or Inspection</td>
<td>60%</td>
<td>62%</td>
<td>62%</td>
<td>65%</td>
<td>65%</td>
</tr>
</tbody>
</table>
Goal A: Lottery

Outcome Measure A.1.a: Percent of Retailers Satisfied with Lottery Commission

Short Definition:
This performance measure is intended to determine whether the Texas Lottery Commission is providing adequate service to retailers.

Purpose/Importance:
This key measure demonstrates whether the Texas Lottery Commission is responsive to retailer needs.

Source/Collection of Data:
Retailers are surveyed, focusing on satisfaction of Lottery services.

Method of Calculation:
All survey responses are noted by the interviewers, coded by data entry, entered into a statistical program used for survey tabulation, results tabulated, and a report written. The percentage is calculated by taking the number of retailers responding positively to the questions regarding satisfaction divided by the total number of retailers asked the questions for the monthly retailer surveys. Responses for “do not know” are not included in the tabulation.

Data Limitations:
The percentage is based on self-report data.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal A: Lottery

Outcome Measure A.1.b: Per Capita Net Lottery Sales

Short Definition:
This measure reflects the per capita annual Lottery net ticket sales, which is adjusted for returned tickets, stolen tickets, ticket corrections and promotional ticket credits.

Purpose/Importance
This measure is important because it relates changes in annual Lottery ticket sales to changes in total state population.

Source/Collection of Data:
The annual ticket sales amount is reported in the Lottery’s internal reporting system. Population estimates are provided by the Comptroller of Public Accounts.

Method of Calculation:
This measure is calculated by taking the annual net ticket sales, which is adjusted for returned tickets, stolen tickets, ticket corrections and promotional ticket credits, and dividing by total state population (as reported or estimated by the Comptroller of Public Accounts).

Data Limitations:
The per capita total is dependent upon the level of sales for the fiscal year.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal A: Lottery

Outcome Measure A.1.c: Percentage of Net Lottery Sales Spent on Agency Administration

Short Definition:
This measure calculates the percentage of net lottery sales spent on agency administration by taking the cost of operating the Lottery, including payments to the Lottery’s primary vendors and payments to vendors for marketing and promotional activities, divided by the annual revenue from the net sale of lottery tickets which is adjusted for returned tickets, stolen tickets, ticket corrections and promotional ticket credits.

Purpose/Importance:
This measure reflects part of the Agency’s mission which is to “administer and market state Lottery games in an efficient and secure manner using appropriate marketing tools to maximize revenue for the state of Texas while enhancing public confidence in the integrity and fairness of the game.”

Source/Collection of Data:
The annual ticket revenue and the operating cost amounts are obtained from the Lottery’s internal reporting system.

Method of Calculation:
Costs associated with operating the Lottery divided by annual revenue from the net sale of Lottery tickets, which is adjusted for returned tickets, stolen tickets, ticket corrections and promotional ticket credits.

Data Limitations:
The amount of funds available for the administration of the Lottery is dependent upon the level of sales for the fiscal year.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal A: Lottery

Outcome Measure A.1.d.: Percentage of Bad Debt to Lottery Sales

Short Definition:
This measure calculates the ratio (in percent) of bad debt deemed to be uncollectible after twelve months of collection efforts and/or bankruptcy to total ticket sales at the end of the fiscal year.

Purpose/Importance:
This measure provides an indication of the effectiveness of the Commission’s systems and procedures for collecting the proceeds from the sale of lottery tickets. The measure also provides an indication of the effectiveness of the collection and enforcement tools used by the Commission to collect on delinquent accounts. This measure is important because it reflects the Commission’s performance as it attempts to keep bad debt related to retailer balances to a minimum.

Source/Collection of Data:
The data is obtained from the Commission’s internal reporting systems. Retailer Accounting staff review reports generated by the Automated Collection System. Retailer accounts that have been deemed uncollectible after 12 months and/or are in bankruptcy are identified and total dollar value of the accounts is determined. Retailer Accounting staff acquire the total for ticket sales for the fiscal year for which the measure is being reported. Ticket sales are tracked on the Lottery’s internal reporting system.

Method of Calculation:
The method of calculation uses the bad debt described in the definition and total ticket sales at the end of the fiscal year for which the output is being reported to determine the ratio. A percentage is obtained by dividing the total value of the bad debt by the total value of the ticket sales for the fiscal year.

Data Limitations:
The reports relating to ticket sales and unpaid balances have well defined parameters. Retailer Services staff manually calculate the dollar value of the bad debt accounts and the dependability of that figure is a function of the experience and skill of the staff involved.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal A: Lottery

Outcome Measure A.1.e: Ratio of Advertising Expense to Net Lottery Sales

Short Definition:
This measure reflects the amount spent on advertising (including point-of-sale materials, and electronic and print media), compared to the annual net sale of Lottery tickets, which is adjusted for returned tickets, stolen tickets, ticket corrections and promotional ticket credits.

Purpose/Importance:
This measure is intended to demonstrate the correlation between gross lottery sales for the State and advertising dollars spent by the Texas Lottery Commission.

Source/Collection of Data:
The amounts of gross lottery sales and advertising are obtained from the Lottery’s internal reporting system.

Method of Calculation:
This measure is calculated by dividing the amount spent on advertising by the annual revenue from the net sale of Lottery tickets, which is adjusted for returned tickets, stolen tickets, ticket corrections and promotional ticket credits.

Data Limitations:
The ratio is dependent on the level of sales and amount spent for Advertising during the year.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal A: Lottery

Outcome Measure A.1.f: State Revenue Received Per Advertising Dollar Expended

Short Definition:
This measure reflects the annual accrued transfers to the state of Texas from all Lottery proceeds (including unspent administrative funds and unclaimed prizes) compared to the annual accrued amount of advertising dollars expended.

Purpose/Importance:
This performance measure is intended to demonstrate the correlation between net revenue to the State and advertising dollars spent by the Texas Lottery Commission.

Source/Collection of Data:
The net revenue to the State and advertising expenditures are obtained from the Lottery’s internal reporting system.

Method of Calculation:
This measure is calculated by dividing state revenue by the amount spent on advertising.

Data Limitations:
The final amount of revenue to the State is dependent upon the level of sales for the fiscal year.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal A: Lottery

Outcome Measure A.1.g: Percent of Licensees with No Recent Violations

Short Definition:
This measure reports the ratio (in percent) of currently licensed and active lottery retailer locations that have not incurred a violation within the current fiscal year to the total number of licensed and active lottery retailer locations at the end of the reporting period. A violation is defined as any violation of the State Lottery Act or Lottery Rules by a lottery retailer that results in the suspension or revocation of the retailer’s license.

Purpose/Importance:
This measure is an indicator of licensed lottery retailers’ adherence to state laws and administrative guidelines. This measure is important because it reflects (1) how effectively the Commission is communicating with retailers regarding statutes and rules, and (2) how effectively the Commission’s activities are in deterring these violations.

Source/Collection of Data:
The number of active and licensed retailer locations licensed at the end of the reporting period is taken from an automated report generated at the beginning of each fiscal quarter which shows all active and licensed retailer locations as of the last day of the previous quarter. The number of licensed and active lottery retailer locations that incurred violations during the current fiscal year is tracked on databases maintained by Lottery Operations Division staff and obtained from reports produced from lottery retailer tracking systems.

Method of Calculation:
This measure is determined by dividing the total number of active and licensed retailer locations that have not incurred a violation within the current fiscal year by the total number of active and licensed retailer locations at the end of the reporting period. The result is multiplied by 100 to achieve a percentage.

Data Limitations:
The reports used to calculate this measure have well defined parameters. However, activity that would lead to suspension or revocation of a retailer’s license is in many cases beyond the Commission’s control. This activity will influence performance in this measure.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal A: Lottery

Outcome Measure A.1.h: Percent of Retailer Surveys Completed

Short Definition:
This measure shows the Lottery’s intent to solicit meaningful feedback from retailers.

Purpose/Importance:
Surveys assist the agency in assessing the levels of satisfaction with the Texas Lottery Commission.

Source/Collection of Data:
Retailer surveys are conducted by Claim Center staff under the supervision of the Lottery’s Marketing Division.

Method of Calculation:
Retailer surveys conducted by Claim Center staff are totaled for the number of attempted surveys and the number of completed surveys for each quarter. The number of completed surveys is divided by the number of attempted surveys for a percentage of retailer survey responses.

Data Limitations:
The surveying process is a voluntary one for the retailers.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal A: Lottery

Outcome Measure A.1.i: Percent of Eligible Players Served

Short Definition:
This measure reflects the percent of eligible players served by the Texas Lottery Commission and its vendors.

Purpose/Importance:
This performance measure is intended to show the Lottery’s commitment to serve the entire eligible player base within a fiscal year.

Source/Collection of Data:
Percentages of players served are measured as part of the monthly tracking surveys conducted by the Market Research Services vendor.

Method of Calculation:
The number of people per month responding that they have participated in a lottery game in the past month is combined for a three-month total. The number of people per month responding to the monthly tracking survey is combined for a three-month total. The total number of respondents reporting past month play is divided by the total number of survey respondents for a percentage of players served.

Data Limitations:
Responses are based on surveyed individuals only, but can be generalized state-wide based on the survey methodology. It is assumed that eligible players served are equitable to eligible players participating in lottery games.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal A: Lottery  

Strategy A.1.1. Lottery Operations  

Output Measure A.1.1.a: Number of Retailer Business Locations Licensed  

Short Definition:  
This measure reports the number of retailer business locations licensed and active at the end of each quarter. An active retailer is licensed, approved to sell tickets, shows current sales activity and is in good financial standing with the Lottery Commission.  

Purpose/Importance:  
This measure provides an indication of the Commission’s concerted effort to license and maintain a base of retailer businesses adequate to serve the public and generate revenue for the State.  

Source/Collection of Data:  
The number of retailer business locations is taken from a report generated at the beginning of each quarter which shows all retailer business locations licensed and active on the last day of the previous quarter. The report is generated from the Lottery Operator’s retailer tracking database. This report includes a total of the number of active retailers listed on the report.  

Method of Calculation:  
The total number of active retailer locations is taken from the report for the last month in each quarter.  

Data Limitations:  
The report used to calculate this data has well defined parameters.  

Calculation Type:  
Non-cumulative.  

New Measure:  
No.  

Desired Performance:  
Higher than target.
Goal A: Lottery

Strategy A.1.1. Lottery Operations

Output Measure A.1.1.b: Number of Denials or Revocations of Licenses

Short Definition:
The number of denials or revocations of licenses reflects businesses that do not comply with the Lottery Act or an applicable rule. Revocations of licenses are defined as orders received from a hearing on licensees that do not comply with the Lottery Act or an applicable rule. The Retailer Services section within the Lottery Operations Division refers cases to the Legal Division for revocation of licenses from information tracked on the Lottery Operations database systems.

Purpose/Importance:
This measure provides an indication of the Commission’s due diligence in processing applications and ensuring businesses meet all requirements to sell tickets or be licensed.

Source/Collection of Data:
Application denials are tracked within the Retailer Services section of the Lottery Operations Division on their database and within the Legal Division. License revocations are tracked in various databases and spreadsheets maintained by the Retailer Services section. The Legal Division tracks the orders for revocation and maintains the number of orders in logs. Data related to this activity is compiled as it occurs during the quarter.

Method of Calculation:
At the end of each quarter in the fiscal year, the activity is reviewed related to denials and revocations. A total for the number of license application denials and license revocations for the quarter is compiled from data files maintained by Retailer Services staff.

Data Limitations:
The report used to calculate this data has well defined parameters.

Calculation Type:
Cumulative.

New Measure:
No.

 Desired Performance:
Lower than target.
Goal A: Lottery

Strategy A.1.1. Lottery Operations

Output Measure A.1.1.c: Dollars Collected Via the Debt Set-off Program (Thousands)

Short Definition:
This measure reports the amount of money collected for the state of Texas via the Commission’s prize payment debt set-off system. The Commission is required by statute to withhold from prize payments certain monies owed to the State by prize winners.

Purpose/Importance:
This measure represents the positive impact of that portion of the State Lottery Act which requires the Texas Lottery to ensure delinquent debts to the state of Texas are satisfied prior to the awarding of prize payments to prize winners.

Source/Collection of Data:
Various state agencies provide either to the Commission or to the Comptroller of Public Accounts the taxpayer identification numbers of those individuals with outstanding debts. The information is placed in a database within the Commission’s prize payment system. One of the pieces of information provided by prize winners on a completed Texas Lottery Winner Claim Form is his/her taxpayer identification number. Upon entry into ProSys, the number provided by the winner is checked against the database for a match. If a match is found, an error message is returned and the prize payment is reduced appropriately by the amount owed after the information received is verified. A daily report of any set-offs is automatically generated by ProSys and provides the Office of the Controller with the information needed to forward the appropriate funds to the various agencies owed. A spreadsheet maintained by the Office of the Controller tracks the various payments and receiving agencies.

Method of Calculation:
On a quarterly basis, the Office of the Controller provides the necessary report to the Claim Center Section in order to report this measure.

Data Limitations:
The report used to calculate this data has well defined parameters.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal A: Lottery

Output Measure A.1.1.d: Number of Licenses Issued to Individual Retailers

Short Definition:
This measure reports the number of new retailer licenses issued during the reporting period. A license is issued to a retailer when a license application is submitted and approved for the applicant(s) and retailer location.

Purpose/Importance:
This measure provides an indication of the Commission’s concerted effort to generate revenue by issuing licenses to qualified businesses interested in selling lottery tickets. This data is useful in identifying trends and developing goals and strategies for the Commission.

Source/Collection of Data:
The number of new licenses issued to retailers within each quarter is taken from a report generated at the end of the reporting period from the Security Licensing database.

Method of Calculation:
The total number of new licenses issued to retailers is taken from a report listing the retailers that were issued new licenses during the reporting period.

Data Limitations:
The report used to calculate this data has well-defined parameters. The number of new licenses issued during a given reporting period will be impacted by the number of license applications submitted during the period.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal A: Lottery  

Output Measure A.1.1.e: Number of Licenses Renewed to Individual Retailers

Short Definition:  
This measure reports the number of renewed licenses issued during the reporting period to retailers who previously held permanent retailer licenses.

Purpose/Importance:  
Licensure renewal is intended to ensure that individuals or entities currently licensed to sell lottery tickets satisfy current statutory and rule requirements. This measure is an indicator of the level of activity that occurs during a reporting period related to retailer license renewals and is intended to show the number of permanent licenses renewed in the reporting period. It is useful in identifying trends that may impact the administration of the Commission’s license renewal program and is helpful in developing goals and strategies for the Commission.

Source/Collection of Data:  
The data for this measure is compiled in databases that are maintained by Lottery Operations Division staff and from reports produced from the lottery retailer tracking systems.

Method of Calculation:  
The number of permanent retailer licenses renewed is compiled from data in files maintained by Lottery Operations staff and in reports produced from the Lottery Security/Licensing system, which tracks retailer license activity.

Data Limitations:  
The reports used to calculate this measure have well defined parameters. The number of permanent retailer licenses renewed is dependent upon the number of permanent retailer licenses expiring in the reporting period along with the number of permanently licensed retailers who timely submit and complete the renewal application.

Calculation Type:  
Cumulative.

New Measure:  
No.

Desired Performance:  
Higher than target.
Goal A: Lottery

Strategy A.1.1. Lottery Operations

Efficiency Measure A.1.1.a: Average Cost Per Retailer Location License Issued

Short Definition:
This measure reports the average cost per new retailer location licensed within the quarter.

Purpose/Importance:
This measure is an indicator of efficient use of staff resources and is needed to determine appropriate license application fee amounts. State law requires that the fees collected be sufficient to cover the expense of processing license applications.

Source/Collection of Data:
The number of new active licensees processed within the quarter is taken from a report generated at the end of the quarter from the Lottery Operator’s retailer licensing database. The cost to process new license applications is compiled from salary information for Retailer Services staff responsible for processing new license applications and the expense the Lottery incurs for conducting criminal history investigations and credit history reviews.

Method of Calculation:
The average expense is determined by total cost to process a new license application divided by the number of new active licensees processed within the quarter. Total cost to process a new license is salary expense during the quarter for select personnel assigned to process new licenses within the Retailer Services section of the Lottery Operations Division, combined with the expenses charged to the Lottery for criminal history investigations and credit history reviews on the new license applicants. This cost excludes salary benefit costs, 50% of supervisory salaries, 100% of salaries of others assigned only routine license maintenance responsibilities, and any other direct or indirect costs.

Data Limitations:
The reports used to calculate this data have well defined parameters.

Calculation Type:
Non-cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.
Goal A: Lottery  

Strategy A.1.2. Lottery Field Operations

Output Measure A.1.2.a: Number of Prize Checks Issued from Claim Centers (Thousands)

Short Definition:
This measure reports the total number of Prize Payment Checks issued by the Commission claim centers located throughout the state. Due to tax reporting requirements, prizes in excess of $599.00 must be claimed at a claim center either in person or via mail. Prizes of lesser amounts may be claimed at licensed Texas Lottery retailers but may also be claimed in claim centers as well.

Purpose/Importance:
This measure is intended to reflect an important aspect of the volume of work performed by the claim centers as related to the issuance of prize payment checks.

Source/Collection of Data:
Prize Payment checks are created after a player submits a winning ticket and completed Texas Lottery Winner Claim Form. A validation is performed on the ticket and the player’s personal information indicated on the claim form is entered into the ProSys validation system. The successful validation and entry of the personal information results in the creation of a uniquely numbered prize check drawn on the Commission’s Prize Payment account. Unique check number ranges are assigned to each claim center and change with each claim in a numerically ascending order in each office according to the assigned range. The ticket, player, and check information are all posted to databases within the ProSys system. Weekly summary reports are generated from this information sorted by each of the claim centers.

Method of Calculation:
Quarterly statewide totals are obtained by totaling all prize payment checks processed for all claim centers during the reported quarter.

Data Limitations:
The weekly summary reports used to calculate this data have well defined parameters. The number of prize checks issued could be affected by matrix revisions changing prize structure claim requirements.

Calculation Type:
Cumulative.

New Measure:
Revised.

Desired Performance:
Higher than target.
Goal A: Lottery  

Strategy A.1.3. Marketing and Promotions

Output Measure A.1.3.a: Number of Newsletters Distributed to Retailers

**Short Definition:**
This performance measure is intended to show that the Texas Lottery Commission makes a concerted effort to maintain formal communication with its entire retailer network.

**Purpose/Importance:**
This measure educates retailers about current games and game closings, new game introductions, practical sales techniques, security issues, field staff information, and other related topics necessary to market lottery products.

**Source/Collection of Data:**
The newsletters are distributed to retailers by the Lottery Operator during a typical sales cycle. Counts of distributed newsletters are taken and reported to the Lottery.

**Method of Calculation:**
The Lottery Operator provides the number of newsletters distributed by sales district during the quarter, via an email report. Numbers are combined to provide a quarterly count of all newsletters distributed in a given quarter.

**Data Limitations:**
The number of newsletters distributed is dependent upon the number of active retail locations and corporate account headquarters offices.

**Calculation Type:**
Cumulative.

**New Measure:**
No.

**Desired Performance:**
Higher than target.
Goal A: Lottery  

Output Measure A.1.3.b: Number of Retailer Visits

Short Definition:
This performance measure reflects the number of retailers visited by the Lottery Operator’s sales representatives.

Purpose/Importance:
The measure indicates that retailers are visited on a regular basis by Lottery Operator sales representatives who provide service and assistance from a marketing and sales standpoint.

Source/Collection of Data:
Each Lottery retail location is assigned to a Lottery operator sales representative who visits that retailer once each sales cycle (each sales cycle being a two-week period). The number of retailer visits is dependent upon the number of individual retailer locations selling Lottery products, plus the number of corporate account headquarter offices visited.

Method of Calculation:
Lottery Sales Representatives (LSRs) automatically record retailer visits using a card with a magnetic strip swiped on the on-line terminal, numbers which are then required to be submitted to the Texas Lottery Commission. The number of visits is recorded on a monthly basis by Games Compliance. These monthly numbers are added to the total number of corporate headquarter offices for three months. This provides the total number of retailers visited for the quarter.

Data Limitations:
The number of retailer visits is dependent upon the number of active retail locations and corporate account headquarters offices visited.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal A: Lottery

Strategy A.1.3. Marketing and Promotions

Efficiency Measure A.1.3.a: Average Cost per Survey Issued

Short Definition: This performance measure provides the cost incurred in producing, distributing, and analyzing surveys to Lottery retailers.

Purpose/Importance: It demonstrates the Texas Lottery Commission’s intent to solicit meaningful feedback from retailers in a cost-effective manner.

Source/Collection of Data: Retailer surveys are conducted by Lottery Claim Center staff, under the supervision of the Lottery Marketing Division. Once collected, the information is then tabulated and a written report is issued. Retailer newsletter surveys are composed, conducted and reported in subsequent issues of the newsletter by the Lottery Marketing Division.

Method of Calculation: Cost per survey issued is determined by taking the total dollar amount incurred for conducting retailer surveys during the course of the quarter and dividing that amount by the number of surveys distributed for retailer response during that same period. Marketing division labor costs will be considered in overall costs only if a substantial portion of working time (over 5%) is dedicated to handling retailer survey related work. The cost per survey is calculated by adding together the Claim Center administration cost, Claim Center travel cost, Marketing Administration cost, data tabulation cost, printing cost and press costs, and dividing by the number of surveys issued.

Data Limitations: Costs may vary due to changes in salaries, travel, printing, and data tabulation.

Calculation Type: Non-cumulative.

New Measure: No.

Desired Performance: Lower than target.
Goal A: Lottery

Output Measure A.1.4.a: Number of Lottery Investigations Initiated

Short Definition:
This measure reports the total number of administrative and criminal lottery investigations initiated by the Security Division during the quarter.

Purpose/Importance:
This is important because it serves as an accurate measure of the total number of investigations initiated, which in turn provides key information regarding resource allocation.

Source/Collection of Data:
The opening dates of an investigation are recorded in the Compliance Activity Monitoring Process (CAMP) case management tracking system. Only those investigations opened within the quarter are reported in this measure.

Method of Calculation:
This measure is calculated by recording the number of investigations initiated within the quarter and dividing that number into the projected investigations for the year. Dates are recorded in the case management tracking system in the Security Division.

Data Limitations:
Lottery priorities and other mandates may directly impact the initiation of some investigations.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal A: Lottery

Output Measure A.1.4.b: Number of Lottery Investigations Completed

Short Definition:
This measure reports the number of lottery investigations that are completed by the Enforcement Division. Lottery investigations include but are not limited to external complaints received from the public and referred by the Lottery Operations Division, referrals received internally on questionable lottery claims, or investigations referred by the agency.

Purpose/Importance:
This measure allows the Enforcement Division the ability to identify problem areas on lottery investigations completed. This measure provides the Enforcement Division specific data to help identify patterns of activity, develop pro-active measures and or allocate staffing and resources appropriately.

Source/Collection of Data:
A completed lottery investigation is noted on the investigative report under the case heading as approved. The number of completed investigations with approval dates is recorded in the Enforcement Case Management system.

Method of Calculation:
This measure is calculated by recording the number of lottery complaints received from the public and internal agency referrals that are requested for investigation and are closed by approval from the Enforcement Division Director or designee regardless of when the case was actually opened. The approval dates of the investigation are recorded in the Enforcement Case Management System.

Data Limitations:
Delay in the receipt of information and documents from outside sources and the availability of the complainant, suspect, or witness cooperation may affect the number of investigations completed.

Calculation Type:
Cumulative.

New Measure:
Revised.

Desired Performance:
Higher than target.
Goal A: Lottery

Output Measure A.1.4.c: Number of Lottery Background Investigations Completed

Short Definition:
This measure reports the number of lottery background investigations completed by the Enforcement Division. Lottery background investigations include investigations on lottery retailers, lottery vendors, lottery operator employees, potential commission employees and or other individuals as assigned. Lottery background investigations are conducted in order to determine the eligibility requirements of the requested party.

Purpose/Importance:
This measure assists in determining the total number of background investigations completed by the Enforcement Division.

Source/Collection of Data:
A completed lottery background investigation is noted on the investigative report case heading as approved. The number of completed background investigations with approval dates is recorded in the Enforcement Case Management system.

Method of Calculation:
This measure is calculated by recording the number of completed background investigations on lottery retailers, lottery vendors, and potential commission employees as closed by the approval by the Enforcement Division Director regardless of when the case was actually opened. The approval date of an investigation is recorded in the Enforcement Case Management System.

Data Limitations:
Delay in the receipt of information and the request and receipt of documents from outside sources may affect the time and number of investigations completed.

Calculation Type:
Cumulative.

New Measure:
Yes.

Desired Performance:
Higher than target.
Goal A: Lottery

Strategy A.1.4. Security

Efficiency Measure A.1.4.a: Average Time to Complete Lottery Investigations (Days)

Short Definition:
This measure reports the average time for each Lottery investigations to be completed by the Enforcement Division.

Purpose/Importance:
This measure allows the Enforcement Division the ability to identify problem areas on the efficiency and timely completion of lottery investigations. It also provides specific data to help identify patterns of activity, develop pro-active measures and or allocate staffing and resources appropriately.

Source/Collection of Data:
A completed lottery investigation is noted on the investigative report as approved. The number of days to complete an investigation from the date assigned until approved is recorded in the Enforcement Case Management system.

Method of Calculation:
This measure is calculated by recording the number of days from the date each lottery investigation is assigned to an investigator until closed for approval by the Enforcement Division Director or designee divided by the total number of lottery investigations completed within the time period. The date a lottery investigation is assigned to an investigator and approved by the Enforcement Division Director is recorded in the Enforcement Case Management System.

Data Limitations:
Delay in the receipt of information and documents from outside sources and the availability of the complainant, suspect, or witness cooperation may affect the number of investigations completed.

Calculation Type:
Non-cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.
Goal A: Lottery

Efficiency Measure A.1.4.b: Average Cost Per Lottery Investigation Completed

Short Definition:
This measure reports the average cost per Lottery investigation completed by the Enforcement Division within the quarter.

Purpose/Importance:
This measure allows division management to better allocate and monitor the division’s funds.

Source/Collection of Data:
The number of completed Lottery investigations is captured by the Compliance Activity Monitoring Process (CAMP) case management tracking system. The Enforcement Division’s cost for investigator salary and travel expenses are obtained from records maintained in the Office of the Controller.

Method of Calculation:
The average cost is determined from the total salary expense and travel costs during the quarter for the enforcement investigators assigned to lottery investigation completion (excluding supervisory salaries and salary benefits costs) divided by the number of approved completed Lottery investigations completed within the quarter.

Data Limitations:
Costs per completed investigation are difficult to project based on current economical fluctuations and legislative changes. Additionally, the location of the investigation, suspect or witnesses may, in some cases, impact the costs of performing investigations.

Calculation Type:
Non-cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.
Goal A: Lottery

Efficiency Measure A.1.4.c: Average Time to Complete Lottery Background Investigations (Days)

**Short Definition:**
This measure reports the average time for each Lottery Background investigations to be completed by the Enforcement Division within the quarter.

**Purpose/Importance:**
This measure allows the Enforcement Division the ability to identify problem areas on the efficiency and timely completion of lottery background investigations. It also provides specific data to help identify patterns of activity, develop pro-active measures and or allocate staffing and resources appropriately.

**Source/Collection of Data:**
A completed lottery background investigation is noted on the investigative report as approved. The number of days to complete an investigation from the date assigned until approved is recorded in the Enforcement Case Management system.

**Method of Calculation:**
This measure is calculated by recording the number of days from the date each lottery background investigation is assigned to an investigator until closed for approval by the Enforcement Division Director or designee divided by the total number of lottery background investigations completed for the quarter. The date a lottery background investigation is assigned to an investigator and approved by the Enforcement Division Director is recorded in the Enforcement Case Management System.

**Data Limitations:**
Delay in the receipt of information and the request and receipt of documents from internal and outside sources may affect the time and number of investigations completed.

**Calculation Type:**
Non-cumulative.

**New Measure:**
Yes.

**Desired Performance:**
Lower than target.
Goal A: Lottery  

Strategy A.1.8. Mass Media Advertising Contracts

Output Measure A.1.8.a: Dollar Amount of Advertising Budget Spent on Print Media (Millions)

Short Definition:  
This performance measure reflects the number of dollars the Texas Lottery Commission spends on print media.

Purpose/Importance:  
Texas Lottery Commission advertising creates awareness and impacts sales of all Texas Lottery products.

Source/Collection of Data:  
Signed and approved cost estimates for print media jobs.

Method of Calculation:  
This measure is calculated by taking the total approved amounts for spending on print media and adding them together for a quarterly total.

Data Limitations:  
Amounts are based on signed and approved media cost estimates. Estimated targets are based on annual media plan depicting campaigns that are subject to change, based on adding or changing products and adding new media opportunities. Targets are also estimated using current year appropriations which can vary each fiscal year under Government Code 466.015(d).

Calculation Type:  
Cumulative.

New Measure:  
Revised.

Desired Performance:  
Lower than target.
Goal A: Lottery  

Strategy A.1.8. Mass Media Advertising Contracts

Output Measure A.1.8.b: Dollar Amount of Advertising Budget Spent on Radio (Millions)

Short Definition:  
This performance measure reflects the number of dollars the Texas Lottery Commission spends on radio media.

Purpose/Importance:  
Texas Lottery Commission advertising creates awareness and impacts sales of all Texas Lottery products.

Source/Collection of Data:  
Signed and approved cost estimates for radio media jobs.

Method of Calculation:  
This measure is calculated by taking the total approved amounts for spending on radio media and adding them together for a quarterly total.

Data Limitations:  
Amounts are based on signed and approved media cost estimates. Estimated targets are based on annual media plan depicting campaigns that are subject to change, based on adding or changing products and adding new media opportunities. Targets are also estimated using current year appropriations which can vary each fiscal year under Government Code 466.015(d).

Calculation Type:  
Cumulative.

New Measure:  
Revised.

Desired Performance:  
Lower than target.
Goal A: Lottery  

Strategy A.1.8. Mass Media Advertising Contracts

Output Measure A.1.8.c: Dollar Amount of Advertising Budget Spent On Television (Millions)

Short Definition:  
This performance measure reflects the number of dollars the Texas Lottery Commission spends on television media.

Purpose/Importance:  
Texas Lottery Commission advertising creates awareness and impacts sales of all Texas Lottery products.

Source/Collection of Data:  
Signed and approved cost estimates for television media jobs.

Method of Calculation:  
This measure is calculated by taking the total approved amounts for spending on television media and adding them together for a quarterly total.

Data Limitations:  
Amounts are based on signed and approved media cost estimates. Estimated targets are based on annual media plan depicting campaigns that are subject to change, based on adding or changing products and adding new media opportunities. Targets are also estimated using current year appropriations which can vary each fiscal year under Government Code 466.015(d).

Calculation Type:  
Cumulative.

New Measure:  
Revised.

Desired Performance:  
Lower than target.
Goal A: Lottery

Strategy A.1.8. Mass Media Advertising Contracts

Output Measure A.1.8.d: Dollar Amount of Advertising Budget Spent in Other Advertising Media (Millions)

Short Definition:
This performance measure shows the number of dollars the Texas Lottery Commission spends on all advertising-associated costs not included in the print, radio or television categories.

Purpose/Importance:
Texas Lottery Commission advertising creates awareness and impacts sales of all Texas Lottery products.

Source/Collection of Data:
Signed and approved cost estimates for jobs, related to but not included in the print, radio or television categories, as specified in the Marketing Budget Guidelines.

Method of Calculation:
This measure is calculated by taking the total approved amounts for spending on other media and adding them together for a quarterly total.

Data Limitations:
Amounts are based on signed and approved media cost estimates. Estimated targets are based on annual media plan depicting campaigns that are subject to change, based on adding or changing products and adding new media opportunities. Targets are also estimated using current year appropriations which can vary each fiscal year under Government Code 466.015(d).

Calculation Type:
Cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.

Efficiency Measure A.1.8.a: Percentage of Adult Texans Aware of Lottery Advertising

Short Definition:
This performance measure is intended to show that the Lottery makes a concerted effort to track the awareness of Texas Lottery game advertising.

Purpose/Importance:
It is important to monitor advertising awareness as a measure of efficient spending the advertising budget.

Source/Collection of Data:
Monthly telephone surveys of a random sample of adult Texans.

Method of Calculation:
To determine this percentage, surveys are conducted by contracted vendors. This information is collected, tabulated and stored by the vendor, although the Texas Lottery Commission is provided copies of data tables. Throughout the fiscal year, a quarterly tracking report shows awareness of Texas Lottery games. The number of persons reporting on awareness of Lottery advertising is divided by the total number of persons asked about Lottery advertising.

Data Limitations:
The percentage is based on self-report data.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo

Outcome Measure B.1.a: Percentage of Licensees with No Recent Violations

Short Definition:
This measure reports the ratio (in percent) of Bingo organizations that have not incurred an audit violation for the fiscal year to the total number of Bingo organizations that were licensed. An audit violation is defined as any violation of the Bingo Enabling Act and/or the Charitable Bingo Administrative Rules noted during a Books and Records Inspection, Tax Review, Bingo Game Observation Assessment & Assistance Inspection, Compliance Review, Compliance Audit and financial audit. A bingo organization is considered licensed if it is in an active status during the fiscal year.

Purpose/Importance:
This measure provides an indication of the effectiveness of taxpayer education through audits and inspection of the taxpayer’s books and records.

Source/Collection of Data:
This data will be captured from the Automated Charitable Bingo system.

Method of Calculation:
This measure reports the ratio (in percent) of currently licensed Bingo organizations that have not incurred an audit violation for the fiscal year to the total number of Bingo organizations currently licensed.

Data Limitations:
None.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo

Outcome Measure B.1.b: Percentage of Bingo Audits and Inspections Resulting in Administrative Sanctions

Short Definition: This measure reports the ratio (in percent) of Bingo Audits and Inspections resulting in administrative sanctions to the total number of Bingo Audits and Inspections performed for the fiscal year. A Bingo Audit and Inspection can be a Bingo Books and Records Inspection, Tax Review, Bingo Game Observation, Assistance & Assessment Inspection, Complaint Investigation, Compliance Review, Compliance Audit, or Financial Audit.

Purpose/Importance: To ensure a licensed authorized organization is in compliance with the Bingo Enabling Act and Charitable Administrative Rules.

Source/Collection of Data: This data will be captured from the Automated Charitable Bingo system.

Method of Calculation: Total number of Bingo Audits and Inspections resulting in administrative sanctions divided by the total number of Bingo Audits and Inspections performed for the fiscal year.

Data Limitations: None.

Calculation Type: Non-cumulative.

New Measure: No.

Desired Performance: Lower than target.
Goal B: Charitable Bingo

Outcome Measure B.1.c: Percentage of Complaints Resulting in Disciplinary Action

Short Definition:
Disciplinary actions are defined as agreed orders, suspensions, revocations and/or administrative penalties.

Purpose/Importance:
This measure reflects the disciplinary action taken on substantiated complaints that violate the Bingo Enabling Act or an applicable rule.

Source/Collection of Data:
This data is captured in the Compliance Activity Monitoring Process (CAMP) case management tracking system for those investigated by the Enforcement Division and in the Automated Charitable Bingo System (ACBS) for those assigned to the Charitable Bingo Operations Division based on the Completed Date of the investigation.

Method of Calculation:
The ratio (in percentage) of Bingo complaint investigations referred to Legal Division for some form of disciplinary action divided by the total number of complaints completed for the fiscal year.

Data Limitations:
This measure will be limited based on the actual number of complaints where the investigation actually identifies possible violation of the Bingo Act. If the allegations are not supported by sufficient evidence then there will be no action.

Calculation Type:
Non-cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo

Outcome Measure B.1.d: Percentage of Completed Bingo Complaint Investigations Resulting in Warning

Short Definition:
This measure is intended to determine whether licensees are complying with the Bingo Enabling Act and applicable rules. A warning is a written or verbal notice calling to the licensee’s attention an infraction of the Bingo Enabling Act or an applicable rule.

Purpose/Importance:
The purpose is to measure compliance by licensees.

Source/Collection of Data:
This data is captured in the Compliance Activity Monitoring Process (CAMP) case management tracking system for those investigated by the Enforcement Division and in the Automated Charitable Bingo System (ACBS) for those assigned to the Charitable Bingo Operations Division based on the Completed Date of the investigation.

Method of Calculation:
The ratio (in percentage) of completed Bingo complaint investigations resulting in a written or verbal warning divided by the total number of Bingo complaint investigations completed in the fiscal year.

Data Limitations:
Mandatory training of new Conductors may reduce the amount of sustained allegations being made against the Charities.

Calculation Type:
Non-cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo

Outcome Measure B.1.e: Percent of Documented Complaints Completed Within Six Months

Short Definition:
This measure reports the percentage of Bingo complaint investigations completed within six months, by the Charitable Bingo Operations Division and Enforcement Division.

Purpose/Importance:
The purpose of this measure is to assure that complaints are quickly and efficiently addressed.

Source/Collection of Data:
This data is captured in the Compliance Activity Monitoring Process (CAMP) case management tracking system for those investigated by the Enforcement Division and in the Automated Charitable Bingo System (ACBS) for those assigned to the Charitable Bingo Operations Division and begins with the Assigned Date and ends with the Completed Date.

Method of Calculation:
The measure is calculated by dividing the number of Bingo complaint investigations completed within six months or less by the total number of Bingo complaint investigations completed for the fiscal year.

Data Limitations:
The complexity of the allegations(s) made may affect the number of days it takes to resolve an investigation. Additionally, the availability of the complainant, suspect or witnesses may also affect the number of investigations resolved.

Calculation Type:
Non-cumulative.

New Measure:
Revised.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo

Outcome Measure B.1.f: Net Bingo Games Revenue Received by Charitable Organizations (Millions)

Short Definition: This measure captures the amount of dollars (expressed in millions) reported as distributed by licensed conductors of bingo games for their bingo bank account for charitable purpose.

Purpose/Importance: This measure provides the amount of dollars used by licensed conductors for charitable purposes in Texas, which is the purpose of charitable bingo.

Source/Collection of Data: The data is reported by the licensee to the Commission on the quarterly report and is noted as “Charitable distributions”. The ultimate amount distributed is dependent on the licensee’s ability to efficiently operate its Bingo games, control expenses and comply with the provisions of the Bingo Enabling Act and Rules.

Method of Calculation: Currently, bingo licensees report on a calendar quarter basis. As such, the third and fourth quarters from the preceding year, as well as the first and second calendar quarters of the current year will be utilized for this measure. The data for this measure is obtained from the division’s Automated Charitable Bingo system (ACBS) computer application system. The data reported will be rounded to the nearest hundred thousand and reported in the following format: $XX.X.

Data Limitations: The ability of the licensee to report correct information.

Calculation Type: Non-cumulative.

New Measure: No.

Desired Performance: Higher than target.
Goal B: Charitable Bingo

Outcome Measure B.1.g: Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement

Short Definition:
This measure reports the ratio (in percent) of organizations who met their 35% minimum charitable distribution requirement.

Purpose/Importance:
This measure will help determine the percentage of organizations in compliance with the Bingo Enabling Act, Section 2001.457.

Source/Collection of Data:
The data is captured from the Automated Charitable Bingo System – 4 Quarter Distribution.

Method of Calculation:
This measure is calculated by dividing the number of organizations meeting the required minimum charitable distribution by the number of authorized organizations licensed during the fiscal year.

Data Limitations:
Number of organizations required to file quarterly reports.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo

Outcome Measure B.1.h: Percentage of Organizations Receiving an Audit or Inspection

Short Definition:
This measure reports the ratio (in percent) of organizations on which an Audit or Inspection is performed during the fiscal year. An Audit or Inspection can be a Bingo Books and Records Inspection, Tax Review, Bingo Game Observation, Assistance & Assessment Inspection, Complaint Investigation, Compliance Review, Compliance Audit, or Financial Audit. An organization is a licensed authorized organization or licensed commercial lessor.

Purpose/Importance:
This measure will help determine the percentage of organizations receiving compliance visits, help assess the extent of compliance with the Bingo Enabling Act and Administrative Rules, and help to assess organization training needs.

Source/Collection of Data:
The data will be captured from the Automated Charitable Bingo System.

Method of Calculation:
This measure is calculated by dividing the number of organizations receiving audits or inspections by the total number of organizations licensed during the fiscal year.

Data Limitations:
None.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo

Output Measure B.1.1.a: Number of Licenses Issued to Individuals and Organizations

Short Definition:
This measure reports the number of licenses issued to individuals and organizations for a Charitable Bingo activity in this state.

Purpose/Importance:
This measure reflects the responsiveness of the Licensing Section staff to our customers’ needs and is an indicator of our efficiency.

Source/Collection of Data:
The Commission’s Automated Charitable Bingo System (ACBS) provides the licensing information through the Application Processing Statistics report.

Method of Calculation:
Total of all renewal licenses issued to Conductors, Lessors, Manufacturers, Distributors and System Service Providers.

Data Limitations:
The ultimate number of renewal licenses issued is dependent on the number of individuals and organizations requesting to renew their license as well as the completeness of the application, outstanding tax liability, etc.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo  

Output Measure B.1.1.b: Number of Applications Processed

**Short Definition:**
This measure reports the number of applications processed for all Bingo licenses. This includes applications for original, renewal, amended and temporary licenses for System Service Providers, Manufacturers, Distributors, Lessors and Conductors of Bingo operations. An application is considered processed when a license is issued or the application is denied, withdrawn, or discontinued.

**Purpose/Importance:**
This measure reflects the responsiveness of the Licensing Section staff to our customers’ needs and is an indicator of our efficiency.

**Source/Collection of Data:**
Application Issued, Denied, Withdrawn, or Discontinued Report from the ACBS.

**Method of Calculation:**
The Commission’s Automated Charitable Bingo System (ACBS) provides the licensing information, through the Applications Issued, Denied, Withdrawn, or Discontinued report. The number of applications for original, renewal, amended and temporary licenses for System Service Providers, Manufacturers, Distributors, Lessors and Conductors of Bingo operations is totaled and those that have been denied are added to the total.

**Data Limitations:**
The ultimate number of applications processed is dependent on the number of organizations requesting a license.

**Calculation Type:**
Cumulative.

**New Measure:**
No.

**Desired Performance:**
Higher than target.
Goal B: Charitable Bingo

Strategy B.1.1. Bingo Licensing

Efficiency Measure B.1.1.a: Average Bingo License Processing Time (Days)

Short Definition:
Reports the weighted average length of time, in days, that it takes the Charitable Bingo Division to issue a license.

Purpose/Importance:
This measure reflects the responsiveness of the Licensing Section staff to our customers’ needs. It is an indicator of our efficiency.

Source/Collection of Data:
The data for this measure is obtained from the division’s Automated Charitable Bingo System (ACBS) computer application system.

Method of Calculation:
The total number of records for each taxpayer type (conductor, lessor, etc.) multiplied by the average number of days for each application type (amendment, original, renewal, etc.) equals the total number of days to process each application type. Add the total number of records and the total average number of days to process each application type. The total number of days to process each application type divided by the total number of records equals the average processing time in days.

Data Limitations:
Factors that can influence this figure include: completeness of the application, outstanding tax liabilities, etc.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo

Strategy B.1.1. Bingo Licensing

Efficiency Measure B.1.1.b: Average Cost Per License Issued

Short Definition:
This measure reports the cost of issuing a license or an amendment to a license.

Purpose/Importance:
This measure reflects the responsiveness of the Licensing Section staff to our customers’ needs and is an indicator of our efficiency.

Source/Collection of Data:
Automated Charitable Bingo System.

Method of Calculation:
It is calculated by dividing the number of licenses and amendments to licenses issued into the total estimated costs associated with processing licenses and amendments within the Charitable Bingo Division. Calculate the percentage of time spent by licensing examiners entering, reviewing and processing applications. Multiply that percentage by the licensing examiner’s salary. Calculate the number of hours spent by the Auditors on pre-licensing interviews and site verifications for the quarter. Multiply that time by the average of the Auditors’ hourly salaries. Total the percentage of monthly salaries for the Data Entry Clerk, Administrative Technician, Licensing Examiners, and the Auditors. Multiply the sum by three for the three months in the quarter. Add the total cost of travel due to site inspections. Divide the sum by the total number of original licenses issued for the quarter. This figure represents the average cost per license issued for the current quarter.

Data Limitations:
None.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo

Explanatory Measure B.1.1.a: Number of Annual License Holders

Short Definition:
This measure reports the number of organizations that held an active bingo license each quarter.

Purpose/Importance:
This measure identifies the number of licensees who can renew.

Source/Collection of Data:
The Automated Charitable Bingo System provides a report of organizations that were licensed during a particular period.

Method of Calculation:
The total number of conductors, lessors, manufacturers, distributors, and system service providers that are licensed.

Data Limitations:
None.

Calculation Type:
Non-cumulative

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo

Strategy B.1.2. Bingo Education and Development

Output Measure B.1.2.a: Number of Bingo Bulletins Distributed

Short Definition:
This measure reports the total number of Bingo-related informational and educational newsletters, known as Bingo Bulletins, distributed to Bingo licensees. This figure is obtained from the Mail Center Expenditures-Bingo Report.

Purpose/Importance:
This measure is a reflection of the effort made to disseminate informational and educational materials to assist licensed organizations in complying the Bingo Enabling Act and the Charitable Bingo Administrative Rules.

Source/Collection of Data:
Mail Center Expenditures – Bingo Report.

Method of Calculation:
The total number of Bingo Bulletins mailed out.

Data Limitations:
None.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo

Strategy B.1.2. Bingo Education and Development

Output Measure B.1.2.b: Number of Individuals Receiving Education

Short Definition:
This measure reports the number of individuals completing the Operator Training Program via in person, video, Web site, or other interactive modes.

Purpose/Importance:
The number and frequency of administrative actions and compliance actions as a result of violations of the Bingo Enabling Act and Administrative Rules should be positively impacted as more individuals complete the Operator Training program.

Source/Collection of Data:
Information maintained in the Automated Charitable Bingo System (ACBS).

Method of Calculation:
The number of individuals recorded as completing the Operator Training Program (OTP).

Data Limitations:
Yes; information timely submitted by individuals that complete the OTP training via means other than seminars provided by staff members.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo          Strategy B.1.2. Bingo Education and Development

Efficiency Measure B.1.2.a: Average Cost of Bingo Operator Training Class

Short Definition:
This measure reports the costs associated with presenting a Bingo Operator Training class which include but is not limited to staff hours, travel expenses, supplies, materials, postage and equipment.

Purpose/Importance:
The average cost of each class must be identified to determine the impact on Charitable Bingo Operations Division’s budget.

Source/Collection of Data:
The Audit Section’s LAN based Operator Training Program database.

Method of Calculation:
Cumulative cost of Bingo Operator Training Program (staff hours, travel expenses, supplies, materials, postage and equipment) divided by the total number of Bingo Operator Training Programs conducted, in dollars.

Data Limitations:
None.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo  Strategy B.1.3. Bingo Law Compliance Field Operations

Output Measure B.1.3.a: Number of Inspections Conducted

Short Definition:
This measure reports the total number of Bingo inspections, including Site Verification Inspections, Pre-Licensing Interviews, Book and Records inspections, Bingo Game Observation Assessment & Assistance Inspections, and Complaint Investigations conducted and reported to headquarters by Audit staff for the fiscal year.

Purpose/Importance:
This measure provides education to taxpayers with the goal of training them in the proper method of establishing and maintaining bingo related accounting records.

Source/Collection of Data:
This data will be captured from the Audit Section’s LAN-based Audit History database system.

Method of Calculation:
The total number of inspections conducted and reported to headquarters by Audit Section staff for the fiscal year.

Data Limitations:
None.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo  Strategy B.1.3. Bingo Law Compliance Field Operations

Output Measure B.1.3.b: Number of Bingo Audits and Reviews Completed

**Short Definition:**
This measure reports the total number of Bingo audits and reviews conducted for the period. A Bingo audit is an audit of a Bingo licensee in which the auditor determines if the Bingo licensee is in compliance with the Bingo Enabling Act and/or Charitable Bingo Administrative Rules. A Bingo audit can be either a compliance review or financial audit.

**Purpose/Importance:**
An audit is a more detailed audit of a Bingo licensee in which the auditor determines if the Bingo licensee is in compliance with the Bingo Enabling Act and/or Charitable Bingo Administrative Rules and all Bingo proceeds and expenses are adequately accounted for.

**Source/Collection of Data:**
This data will be captured from the Audit Section’s LAN-based Audit History database system.

**Method of Calculation:**
The total number of audits conducted and reported to headquarters by Audit staff for the fiscal year.

**Data Limitations:**
None.

**Calculation Type:**
Cumulative.

**New Measure:**
No.

**Desired Performance:**
Higher than target.
Goal B: Charitable Bingo  

Strategy B.1.3. Bingo Law Compliance Field Operations

Output Measure B.1.3.c: Number of Bingo Complaints Completed

**Short Definition:**
This measure reports the number of Bingo complaints completed by the Charitable Bingo Operations Division and the Enforcement Division.

**Purpose/Importance:**
This measure is important because it allows the Charitable Bingo Operations Division the ability to identify problem areas and allocate resources.

**Source/Collection of Data:**
The number of investigations completed by the Charitable Bingo Operations Division is stored in the Automated Charitable Bingo System (ACBS). The number of investigations completed by the Enforcement Division is stored in the Enforcement section of CAMP.

**Method of Calculation:**
This measure is calculated by recording the number of Bingo complaints completed during the fiscal year and is based on the Completed Date in ACBS and the Case Report Closed Date in CAMP. Only those investigations completed within the quarter are reported in this measure.

**Data Limitations:**
The complexity of the allegation(s) made may affect the number of investigations resolved within the quarter. Additionally, the availability of the complainant, suspect or witnesses may also affect the number of investigations resolved.

**Calculation Type:**
Cumulative.

**New Measure:**
Revised.

**Desired Performance:**
Higher than target.
Goal B: Charitable Bingo  

Strategy B.1.3. Bingo Law Compliance Field Operations

Output Measure B.1.3.d:  Number of Organizations Receiving Administrative Actions

Short Definition:
This measure reports the number of organizations and individuals for which administrative actions (Agreed Orders, Application Denials, License Revocations) are approved by the Commissioners.

Purpose/Importance:
This measure reflects the effectiveness and result of compliance and training activities performed by the Charitable Bingo Operations Division and is an indicator of our customers’ compliance with the Charitable Bingo Enabling Act and Administrative Rules.

Source/Collection of Data:
Automated Charitable Bingo System until CAMP is implemented.

Method of Calculation:
Total of all administrative actions taken against Conductors, Lessors, Manufacturers, Distributors, System Service Providers, Registered Bingo Workers, as well as prospective organizations and Bingo Workers.

Data Limitations:
None

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo          Strategy B.1.3. Bingo Law Compliance Field Operations

Output Measure B.1.3.e: Number of Administrative Actions Initiated

Short Definition:
This measure reports the number of Show Compliance and Denial/Revocation actions initiated against licensed organizations as a result of Accounting, Licensing, or Audit activities for non compliance with the Charitable Bingo Enabling Act or Administrative Rules.

Purpose/Importance:
This measure reflects the level of compliance by licensed organizations and the effectiveness of enforcement activities.

Source/Collection of Data:
Automated Charitable Bingo System Compliance Action Report until CAMP is implemented.

Method of Calculation:
Total number of show compliance, denial, and revocation letters mailed to licensed organizations.

Data Limitations:
None

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo  Strategy B.1.3. Bingo Law Compliance Field Operations

Output Measure B.1.3.f: Number of Audits and Inspections with Violations

**Short Definition:**
This measure reports the number audits (Compliance and Financial Audits and Compliance Reviews) and inspections (Bingo Books and Records Inspections, Tax Reviews, Bingo Game Observation Assistance & Assessment Inspections, and Complaint Investigations) that identify and report violations with the Bingo Enabling Act or the Administrative Rules.

**Purpose/Importance:**
This measure reflects the extent of compliance by licensed organizations.

**Source/Collection of Data:**
This data will be captured from the Automated Charitable Bingo System (ACBS)

**Method of Calculation:**
Bingo Books and Records Inspections, Tax Reviews, Bingo Game Observation Assistance & Assessment Inspections, and Complaint Investigations completed during the reporting period that contained a violation of the Bingo Enabling Act or Administrative Rules.

**Data Limitations:**
None

**Calculation Type:**
Cumulative.

**New Measure:**
No.

**Desired Performance:**
Lower than target.
Goal B: Charitable Bingo  Strategy B.1.3. Bingo Law Compliance Field Operations

Output Measure B.1.3.g: Dollar Amount of Adjustments to Charitable Distributions by Audit and Inspection

Short Definition:
This measure reports the dollar amount of adjustments made to the Charitable Distribution as reported on the Conductor Quarterly Report as a result of an Audit or Inspection.

Purpose/Importance:
This measure reflects effectiveness of inspection activities and impacts the extent of compliance by the licensed organizations.

Source/Collection of Data:
This data will be captured from the Automated Charitable Bingo System – ACBS

Method of Calculation:
Total dollar amount of adjustments to the amount of Charitable Distributions reported by licensed organizations identified as a result of audits (compliance review, compliance audits, and financial audits), Bingo Books and Records Inspections, and Complaint Investigations completed during the reporting period.

Data Limitations:
The reporting accuracy by licensed authorized organizations, and the allowable uses of proceeds from the conduct of bingo for a charitable purpose.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo

Output Measure B.1.3.h: Number of Bingo Investigations Initiated

Short Definition:
This measure reports the number of Bingo complaints initiated by the Charitable Bingo Operations Division and the Enforcement Division.

Purpose/Importance:
This is important because it serves as an accurate measure of the total number of investigations initiated, which in turn provides key information regarding resource allocation.

Source/Collection of Data:
The assigned dates of an investigation are recorded in the Compliance Activity Monitoring Process (CAMP) case management tracking system for those investigated by the Enforcement Division and in the Automated Charitable Bingo System (ACBS) for those assigned to the Charitable Bingo Operations Division. Only those investigations assigned within the quarter are reported in this measure.

Method of Calculation:
This measure is calculated by recording the number of investigations assigned within the quarter.

Data Limitations:
Agency priorities and other mandates may directly impact the initiation of some investigations.

Calculation Type:
Cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo

Strategy B.1.3. Bingo Law Compliance Field Operations

Output Measure B.1.3.i: Number of Bingo Background Investigations Completed

**Short Definition:**
This measure reports the number of bingo background investigations completed by the Enforcement Division. Bingo background investigations are conducted on licensees and others identified in the Bingo Enabling Act. Bingo background investigations are referred by the Charitable Bingo Division in order to determine the eligibility requirements for licensing or placement in the Bingo Worker Registry as indicated by the BEA.

**Purpose/Importance:**
This measure assists in determining the total number of background investigations completed by the Enforcement Division.

**Source/Collection of Data:**
A completed bingo investigation is noted on the investigative report as approved. The number of completed investigations with the approval dates is recorded in the Enforcement Case Management system.

**Method of Calculation:**
This measure is calculated by recording the number of completed bingo background checks that are closed by approval by the Enforcement Division Director or designee regardless of when the case was actually opened. The approval dates of the investigation are recorded in the Enforcement Case Management System.

**Data Limitations:**
Delay in receiving required information from the Bingo Division to complete background checks may delay the investigation.

**Calculation Type:**
Cumulative.

**New Measure:**
Yes.

**Desired Performance:**
Higher than target.
Goal B: Charitable Bingo  Strategy B.1.3. Bingo Law Compliance Field Operations

Efficiency Measure B.1.3.a: Average Time for Bingo Complaint Completed (Days)

Short Definition:
This measure reports the average time for Bingo complaints completed by the Charitable Bingo Operations Division and the Enforcement Division.

Purpose/Importance:
This measure is important because it serves as a gauge to measure the efficiency and timeliness of complaint investigation and completion.

Source/Collection of Data:
A resolved investigation is noted in the Automated Charitable Bingo System (ACBS) and Compliance Activity Monitoring Process (CAMP) case management tracking system when completed.

Method of Calculation:
The average time is measured by the number of days from the date each Bingo complaint case is assigned to an individual until the investigation is completed, divided by the total number of complaint investigations completed for the quarter.

Data Limitations:
The complexity of the allegation(s) made may impact the number of days it may take to resolve an investigation. Additionally, the availability of complainant, suspect and witness may also affect the length of time it takes to resolve an investigation.

Complainant, suspect and witness availability may also affect the length of time it takes to resolve the complaint.

Calculation Type:
Non-cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo  

Strategy B.1.3. Bingo Law Compliance Field Operations

Efficiency Measure B.1.3.b: Average Cost per Bingo Complaint Completed

Short Definition:
This measure reports the average cost per Bingo complaint completed by the Charitable Bingo Operations Division and the Enforcement Division.

Purpose/Importance:
This measure allows division management to better allocate and monitor the division’s funds.

Source/Collection of Data:
The number of investigations completed by the Charitable Bingo Operations Division is stored in the Automated Charitable Bingo System (ACBS). The number of investigations completed by the Enforcement Division is stored in the Enforcement section of CAMP. The travel cost per investigation is stored in the Automated Charitable Bingo System (ACBS).

Method of Calculation:
The average cost is determined from the total salary expense and travel costs during the quarter, for the individuals assigned to bingo complaints, divided by the number of completed Bingo complaint investigations within the quarter.

Data Limitations:
Costs per completed investigations are difficult to project based on current economical fluctuations and legislative changes. Additionally, the location of the investigation, suspect or witnesses may in some cases, impact the costs of performing investigations.

Calculation Type:
Non-cumulative.

New Measure:
Revised.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo  Strategy B.1.3. Bingo Law Compliance Field Operations

Efficiency Measure B.1.3.c: Average Time to Conduct Compliance Audit (Hours)

Short Definition:
This measure reports the average number of hours spent by an auditor preparing, conducting and finalizing a compliance audit.

Purpose/Importance:
The average number of hours spent on verifying taxpayer compliance with the Bingo Enabling Act and/or Charitable Bingo Administrative Rules.

Source/Collection of Data:
This data will be collected from the Audit Section’s LAN based Audit History database.

Method of Calculation:
The total number of hours spent to complete a compliance audit divided by the total number of compliance audits completed.

Data Limitations:
None.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo          Strategy B.1.3. Bingo Law Compliance Field Operations

Efficiency Measure B.1.3.d: Average Time to Complete Bingo Background Investigations (Days)

Short Definition:
This measure reports the average time for each Bingo Background investigations to be completed by the Enforcement Division within the quarter.

Purpose/Importance:
This measure assists in determining the efficiency and timely completion of bingo background investigations completed by the Enforcement Division.

Source/Collection of Data:
A completed bingo investigation is noted on the investigative report as approved. The number of days to complete an investigation from the date assigned until the approval date is recorded in the Enforcement Case Management system.

Method of Calculation:
This measure is calculated by recording the number of days from the date each bingo background investigations is assigned to an investigator until the investigations is closed by approval by the Enforcement Division Director or designee divided by the total number of bingo background investigations completed for the quarter. The date a bingo background investigation is assigned to an investigator and approved by the Enforcement Division Director is recorded in the Enforcement Case Management System.

Data Limitations:
Delay in receiving required information from the Bingo Division may impact the number of days to complete background checks.

Calculation Type:
Non-cumulative.

New Measure:
Yes.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo  

Strategy B.1.4. Bingo Prize Fee Collection and Accounting

Output Measure B.1.4.a: Number of Days to Allocate Payments to Local Jurisdictions

Short Definition:
This measure determines the actual number of days between the Texas Bingo Conductors Quarterly return due date and the date the allocation payments are released to local jurisdictions.

Purpose/Importance:
Prize fee allocation is one of the primary functions performed in this division. We have a responsibility to local jurisdictions to return local prize fees collected in the most efficient and effective manner possible. This measure provides an indicator of how timely the allocation is returned.

Source/Collection:
The division utilizes a calendar to determine the number of days from the return due date to the date the payments are released.

Method of Calculation:
Each quarter, the actual number of days is counted between the Texas Bingo Conductor’s Quarterly return due date to the date the allocation payments are released to local jurisdictions.

Data Limitations:
None.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo

Strategy B.1.4. Bingo Prize Fee Collection and Accounting

Output Measure B.1.4.b: Percentage of Licensees Who Fail to Pay

Short Definition:
This measure reports the ratio (in percent) of lessors and conductors who fail to pay prize fees and taxes by the due date.

Purpose/Importance:
This measure will help the Accounting Services Section determine those licensees that do not comply with the Bingo Enabling Act.

Source/Collection of Data:
The data is captured from billing notices mailed to conductors and lessors and maintained in a billing spreadsheet.

Method of Calculation:
This measure is calculated by dividing the number of billings generated by the number of original reports processed.

Data Limitations:
Number of licensees required to file quarterly reports.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Lower than target.
Goal B: Charitable Bingo

Strategy B.1.4. Bingo Prize Fee Collection and Accounting

Output Measure B.1.4.c: Number of Bingo Reports Processed

Short Definition:
This measure reports the number of Bingo quarterly reports processed. Data includes all quarterly reports and any estimated, amended or adjusted reports for the quarter.

Purpose/Importance:
This measure is used as a gage to determine the efficiency of the Accounting Services staff. Management to determine staffing needs during the filing period also uses it.

Source/Collection of Data:
Total Returns Processed.

Method of Calculation:
This measure is calculated by dividing the number of reports processed by the projected figure to derive the variance.

Data Limitations:
None.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo Strategy B.1.4. Bingo Prize Fee Collection and Accounting

Explanatory Measure B.1.4.a: Number of Reports Mailed

Short Definition:
This measure reports the number of quarterly reports mailed to manufacturers, distributors, system service providers, lessors and conductors.

Purpose/Importance:
This measure determines the number of returns expected to be processed in the quarter.

Source/Collection of Data:
The number is captured from the Automated Charitable Bingo System.

Method of Calculation:
This measure is calculated by adding the number of Operator Quarterly Reports, Manu/Dist Quarterly Report, Manu/Dist Quarterly Report Supplement and Lessor Quarterly Reports mailed.

Data Limitations:
Number of licensees required to file quarterly reports.

Calculation Type:
Non-cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
Goal B: Charitable Bingo  Strategy B.1.4. Bingo Prize Fee Collection and Accounting

Explanatory Measure B.1.4.b: Number of Payments Deposited

Short Definition:
This measure reports the total number of checks and cash remittances deposited to the State Treasury by the division. All payments processed in the division have a transaction code, which is captured at the source of entry or capture. This code is maintained in a database along with the associated taxpayer information.

Purpose/Importance:
This measure provides information as to the effectiveness of the division in processing payments and maximizing interest to the state.

Source/Collection:
The number of payments processed is captured off a mainframe entry program, CBS.

Method of Calculation:
A computer generated register of transaction codes of documents identified as payments received from the taxpayer is compiled on the division mainframe computer on a daily basis. This register identifies all payments entered on a daily basis.

Data Limitations:
This measure allows for collection of data of payments processed through the system and is checked periodically for accuracy.

Calculation Type:
Cumulative.

New Measure:
No.

Desired Performance:
Higher than target.
I. OVERVIEW

AGENCY VISION

To be the preeminent Lottery and Charitable Bingo agency through innovative leadership.

AGENCY MISSION

Texas Lottery: The Texas Lottery is committed to generating revenue for the state of Texas through the responsible management and sale of entertaining lottery products. The Texas Lottery will incorporate the highest standards of security and integrity, set and achieve challenging goals, provide quality customer service and utilize a TEAM approach.

Charitable Bingo: Provide authorized organizations the opportunity to raise funds for their charitable purposes by conducting bingo. Determine that all charitable bingo funds are used for a lawful purpose. Promote and maintain the integrity of the charitable bingo industry throughout Texas.

AGENCY CORE VALUES

Integrity and Responsibility - The Commission works hard to maintain the public trust by protecting and ensuring the security of our lottery games, systems, drawings and operational facilities. We value and require ethical behavior by our employees, licensees and vendors. We promote the integrity of charitable bingo in Texas for the benefit of charitable organizations.

Innovation - We strive to incorporate innovation into our products to provide the citizens of Texas with the best entertainment experience available through our products. We pursue the use of technology that enhances the services that we provide to our customers and reduces our operating expenses.

Fiscal Accountability - We emphasize fiscal accountability by ensuring that all expenditures directly or indirectly generate revenue, enhance security, fulfill regulatory requirements, improve customer service and/or boost productivity. We recognize our responsibility in generating revenue for the state of Texas without unduly influencing players to participate in our games. We maximize benefits to charities through the continual examination and review of charitable bingo operations.

Customer Responsiveness - The Commission takes pride in providing exemplary service to the people of Texas through the courteous dissemination of clear and accurate information about our
products, services and regulatory functions. We seek and respond to feedback expressed by our employees, retailers, licensees and the playing and non-playing public. We apply this feedback in the development of our products and in the services that we provide.

**Teamwork** - We are committed to creating an environment of mutual respect where open, honest communication is our cornerstone. We embrace the diversity of our team and individual perspectives in working together to achieve our common goals.

**Excellence** - We strive for excellence by taking a position of leadership on issues that impact the Commission and achieve challenging goals by focusing on our core values.

**STRATEGIC GOALS AND OBJECTIVES:**

**A. GOAL:** Operate Lottery. Generate revenue for the state of Texas through the responsible management and sale of entertaining lottery products, while incorporating the highest standards of security and integrity.

**OBJECTIVE:** Promote and maintain an eligible, effective and productive retailer base in order to produce revenue for the state; maintain ticket sales and awareness of lottery products to produce revenue for the state; administer all games with the utmost security and integrity; and oversee major contractual obligations unique to a state lottery operation.

**B. GOAL:** Enforce Bingo Laws. Timely and fairly enforce all statutes and regulations relating to charitable bingo to determine that all proceeds derived from bingo are used for a lawful purpose and charitable bingo games are conducted fairly.

**OBJECTIVE:** Process, investigate and evaluate all bingo applications efficiently; promote voluntary compliance with all applicable bingo statutes and regulations; process all quarterly reports and payments filed by licensees, and assign disciplinary action to violators of the statutes and regulations.

**FUNCTIONS**

The Texas Lottery Commission has two main functions:

The Texas Lottery Commission is charged under the State Lottery Act with administrating Texas Lottery games in an efficient and secure manner using appropriate marketing tools and innovative technology to generate revenue for the state of Texas while enhancing public confidence in the integrity and fairness of the games.

The Charitable Bingo Operations Division is charged under the Bingo Enabling Act with the regulation and administration of all charitable bingo-related activities in the state of Texas and contributes to the regulatory and tax and revenue collection functions of the agency. The division
licenses all bingo-related activities; collects taxes and prize fees generated from the conduct of charitable bingo; audits bingo licensees; conducts tests on bingo products intended for use in Texas, such as bingo paper, pull-tabs and electronic equipment; and makes quarterly allocations to local units of government for their share of the prize fees collected.

**STRUCTURE**

The three-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by law. The Governor appoints Commission members, with the advice and consent of the state Senate, to staggered six-year terms. One member must have experience in the bingo industry.

Commission members serve without salary, but are entitled to reimbursement for actual and necessary expenses incurred in performing commission member duties, subject to any applicable limitation in the General Appropriations Act.

The Executive Director, the Charitable Bingo Operations Division Director, and the Internal Audit Director are appointed by and report to the three-member Commission. The Texas Lottery Commission Executive Director provides leadership to nine divisions within the agency, ensuring that staff carry out applicable state law and Commission policies. The Charitable Bingo Operations Director is responsible for the day-to-day operations relating to the regulation of charitable bingo, ensuring that the staff carries out applicable state law and Commission policies. The Internal Audit Director works to ensure that internal and external controls are adequate to improve the efficiency and effectiveness of the Texas Lottery Commission.

The agency is divided into 11 divisions: Administration, Charitable Bingo Operations, Enforcement, Executive, Governmental Affairs, Human Resources, Internal Audit, Legal Services, Lottery Operations, Media Relations and the Office of the Controller.

**ANTICIPATED CHANGES TO THE MISSION, STRATEGIES, AND GOALS**

The Texas Lottery Commission anticipates no major changes to its mission, strategies and goals over the next five years. However, the agency stands ready to adapt to any changes that may be required by legislation.
II. Current Workforce Profile (Supply Analysis)

A. Critical Workforce Skills

The Texas Lottery Commission has 318.5 full-time equivalent (FTE) positions allocated to accomplish the functions performed in each of its divisions. Although the agency has many talented and qualified employees, there are a number of critical skills that are important to the agency’s ability to operate. These skills enable staff to effectively perform key business functions and are critical to the missions of the agency. These skills are listed below:

- Leadership and management skills
- Ability to effectively communicate
- Sense of teamwork
- Innovative thinking
- Strategic planning expertise
- Ability to analyze and solve problems
- Interpersonal sensitivity
- Customer service orientation
- Proficiency in negotiation strategies and techniques
- Contract management skills
- Financial management, financial analysis and accounting theory expertise
- Competency in state purchasing and procurement
- General and state agency auditing capabilities
- Expertise in regulation and enforcement of licensees, including processing of licensee applications and fees
- Ability to monitor legislation and serve as a resource to the Texas Legislature
- Computer literacy
- Software proficiency
- Web development and maintenance expertise
- Application development capabilities
- Business continuity planning expertise
- Facility operations and security skills
- Advertising and promotions expertise
- Proficiency in research and analysis
- General and administrative law expertise
- Investigative skills
- Ability to interpret and enforce statutes, administrative rules, policies and procedures
B. Workforce Demographics

The Texas Lottery Commission takes pride in the diversity of its workforce, which is illustrated in Tables E-2, E-3 and E-4. The agency’s average workforce composition over Fiscal Year (FY) 2005 was: 13 percent African American, 28 percent Hispanic, 57 percent White and 2 percent Asian. During the same time period, the agency’s staff was 59 percent female and 41 percent male, and 70 percent of the workforce was more than 40 years of age.

### TABLE E-2
**AGE OF EMPLOYEES (AVG. OVER FY 2005)**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 30</td>
<td>3%</td>
</tr>
<tr>
<td>Between 30 and 40</td>
<td>27%</td>
</tr>
<tr>
<td>Between 40 and 50</td>
<td>42%</td>
</tr>
<tr>
<td>Between 50 and 60</td>
<td>23%</td>
</tr>
<tr>
<td>More than 60</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: SAO Electronic Classification Analysis System

### TABLE E-3
**EMPLOYEE ETHNIC AND GENDER REPRESENTATION (AVG. OVER FY 2005)**

<table>
<thead>
<tr>
<th>Gender</th>
<th>African American</th>
<th>Hispanic</th>
<th>White</th>
<th>Asian</th>
<th>Indian</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Females</td>
<td>16%</td>
<td>30%</td>
<td>53%</td>
<td>1%</td>
<td>0</td>
<td>59%</td>
</tr>
<tr>
<td>Males</td>
<td>10%</td>
<td>25%</td>
<td>61%</td>
<td>3%</td>
<td>1%</td>
<td>41%</td>
</tr>
<tr>
<td>Total</td>
<td>13%</td>
<td>28%</td>
<td>57%</td>
<td>2%</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: SAO Electronic Classification Analysis System

### TABLE E-4
**WORKFORCE DIVERSITY DATA (AVG. OVER FY 2005)**

<table>
<thead>
<tr>
<th>Job Category</th>
<th>African American</th>
<th>Hispanic</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officials and Administrators (14)</td>
<td>0%</td>
<td>14%</td>
<td>29%</td>
</tr>
<tr>
<td>Administrative Support (34.5)</td>
<td>20%</td>
<td>44%</td>
<td>72%</td>
</tr>
<tr>
<td>Professionals (96)</td>
<td>12%</td>
<td>18%</td>
<td>54%</td>
</tr>
<tr>
<td>Paraprofessionals (143)</td>
<td>15%</td>
<td>32%</td>
<td>69%</td>
</tr>
<tr>
<td>Protective Services (10)</td>
<td>20%</td>
<td>38%</td>
<td>5%</td>
</tr>
<tr>
<td>Technicians (25.75)</td>
<td>5%</td>
<td>20%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: SAO Electronic Classification Analysis System
C. Employee Turnover

The Texas Lottery Commission remains mindful of employee turnover and its effect on the cost of operations. Until recently, the agency’s turnover rate has been below that of the state’s average. The turnover rate rose to 22.9 percent in FY 2005, partly as a result of a reduction in force associated with a reorganization of the agency. Table E-6 compares the agency’s turnover rates with that of the state average turnover rate for the past six years.

<table>
<thead>
<tr>
<th>YEARS</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEXAS LOTTERY</td>
<td>14.6%</td>
<td>11.2%</td>
<td>14.3%</td>
<td>15.2%</td>
<td>22.9%</td>
</tr>
<tr>
<td>STATEWIDE</td>
<td>18.5%</td>
<td>15.3%</td>
<td>17.9%</td>
<td>41.8%</td>
<td>18.9%</td>
</tr>
</tbody>
</table>

Source: SAO Electronic Classification Analysis System

D. Retirement Eligible Employees

State employees with at least five years of service are eligible to retire at age 60. In FY 2006 through 2011, approximately 16 Texas Lottery employees are projected to fall into that category, while approximately 41 employees are projected to be eligible to retire based on years of state service or the Rule of 80.

III. FUTURE WORKFORCE PROFILE (DEMAND ANALYSIS)

A. Expected Workforce Changes

With technological advances, the information needs and expectations of the public continue to expand. The agency must continue to develop the skills of current workers and identify future workforce skill sets necessary to serve these needs. In addition, the agency will continue to use technology to revise and streamline work processes and provide Web-related services.

Any additional legislative changes could expand or modify the workforce needs and FTE requirements of the agency.

B. Future Critical Functions

The Texas Lottery Commission does not currently anticipate changes to the current critical functions needed to achieve the goals of the 2007 – 2011 Strategic Plan. However, legislative changes could affect agency functions by having an impact on lottery game offerings or charitable bingo initiatives. As new technology is applied to agency processes, certain job functions may be performed differently.
C. Future Workforce Skills Needed

All of the current critical skills listed in Section II will continue to be needed and, as technology moves ahead, advanced competencies in these skills will need to be obtained and maintained.

D. Anticipated Increase in Number of Employees to Do the Work

If additional programs or responsibilities are added to the functions of the agency, then additional staffing levels and workforce composition might need to be considered. For example, three charitable-bingo related proposals have been discussed during recent legislative sessions: Multi-Hall Bingo, Instant Bingo Card Minding Devices, and the authorization of the conduct of charity poker tournaments. If passed, these initiatives would require additional skills and staff.

Similarly, if Keno, video lottery, or other legalized gaming is approved and the Texas Lottery Commission is the implementing/regulatory agency, there may be a need for additional staff. If the number of lottery game drawings is increased, additional staff might be needed as well.

IV. GAP ANALYSIS

The Texas Lottery Commission has sufficient staff and expertise to accomplish the agency’s current mission, goals and objectives. Any legislative changes to the current programs of the Texas Lottery Commission would require a reexamination of the agency’s workforce to identify gaps in knowledge, experience and resources. The Texas Lottery Commission does not anticipate any changes occurring that would require reduction in current skill sets.

V. STRATEGY DEVELOPMENT

It is the policy of the Texas Lottery Commission to encourage all employees to continually improve their job skills; to be more productive and knowledgeable within their current job assignment; and to prepare for the possibility of future assignments.

The Texas Lottery Commission trains its workforce to acquire and implement the skills outlined in Section II of this appendix. Additional competency gaps identified for existing staff will be addressed through internal and external training, e-training initiatives, and continuing education programs offered through colleges and mentoring programs.

Employee retention is of equal importance. The agency maintains a number of programs to retain qualified employees, including tuition reimbursement, one-time merit increases and continuing education programs. The agency’s Tuition Reimbursement Program provides financial assistance to employees who wish to improve or supplement their knowledge and skills by attending classes at colleges, community colleges, universities or technical schools.
The expertise of retiring employees may be preserved through succession planning that incorporates mentoring programs and informal or formal training sessions for potential management candidates or technically critical positions.

Recruitment programs, such as employee referrals, job recruitment fairs, World Wide Web recruitment campaigns, participation in intern programs, and intra-governmental agency networking opportunities may be used to fill identified gaps where current staff capabilities are deficient, and for unique positions.

**Conclusion:**

The Texas Lottery Commission evaluates and attempts to forecast future shortages and surpluses in agency skills requirements. Whenever possible, the agency’s management adjusts to these skill requirement changes in an appropriate and timely manner to ensure that staff and skills are appropriately matched to agency needs.
The response rate and overall scores have continued to rise as the Texas Lottery Commission participated in the Survey of Organizational Excellence (SOE) in 2005. The response rate for the 2005 SOE was an exceptional 83 percent, and overall scores in all statistical dimensions analyzed by the SOE were improved from the previous year’s survey.

A high response rate shows positive employee involvement, and means that the results of the survey accurately reflect employee attitudes with a high degree of confidence. The Texas Lottery Commission has been participating in the SOE since 1994, and the response rate has risen each time the survey has been taken. The data collected show that employees have positive attitudes about all the statistical categories measured in the survey, with some areas scoring higher than others.

The SOE measures employee attitudes toward the workplace through a series of questions about employee attitudes that are grouped into 20 statistical constructs. Agency-wide results show that employees perceived all the issues measured more positively than negatively, and 19 of the 20 constructs showed an improved score over the previous year, with one construct remaining at the same score as last year.

The SOE further groups the 20 constructs into five workplace dimensions: Work Group, Accommodations, Organizational Features, Information, and Personal. For each of these dimensions, the Texas Lottery Commission scored higher than the benchmark scores for all other agencies as well as higher than the benchmark scores for agencies of a similar size and higher than the benchmark scores for agencies with a similar mission. The Texas Lottery Commission’s response rate (83 percent) was also significantly higher than the benchmark scores for all agencies and for all agencies of a similar size and mission.

In particular, agency-wide scores indicate that employees intrinsically like their jobs and their work environment. They feel the agency responds well to external influences that play a role in defining its mission, vision, services, and products. Employees hold positive attitudes toward the degree that quality principles such as customer service and continuous improvement are part of the organizational culture; and generally feel that job demands are reasonable given time and resource limitations.

Management has applied a proactive approach in responding to the results of the survey. This year, as in the past year, the results of the SOE were made available to all employees and posted on the Agency’s Intranet. All levels of staff are invited to discuss and comment on the survey results during an all-agency staff meeting. Employees are also encouraged to participate in employee workgroups and recommend improvements to the agency. Management has consistently shown a willingness to make changes intended to improve operations and the working environment at the agency.
A. GOAL: To promote fair and competitive opportunities which maximize the inclusion of HUB and minority businesses in contracts with the Commission and its primary vendors.

A.1. OBJECTIVE: To meet or exceed the State’s annual procurement utilization goals in the categories related to the Commission’s current strategies and programs:

<table>
<thead>
<tr>
<th>Procurement Categories</th>
<th>Unadjusted HUB Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Trade Construction</td>
<td>57.2%</td>
</tr>
<tr>
<td>Professional Services Contracts</td>
<td>20.0%</td>
</tr>
<tr>
<td>Other Services Contracts</td>
<td>33.0%</td>
</tr>
<tr>
<td>Commodity Contracts</td>
<td>12.6%</td>
</tr>
</tbody>
</table>

Note: The Commission does not have any strategies or programs relating to “Heavy Construction” or “Building Construction.”

OUTCOME MEASURE: Total percentage of direct and subcontracting expenditures paid to HUB and minority businesses for the procurement categories that apply to the Commission.

A.1.1. STRATEGY: Implement and maintain policies and procedures, in accordance with the HUB Rules, to guide the agency in increasing the use of HUB and minority businesses through direct contracting and/or subcontracting.

OUTPUT MEASURES:
1. The total amount of direct HUB expenditures
2. The total amount of HUB subcontracting
3. The total number of contracts awarded to HUBs
4. The total number of bids received from HUBs

A.1.2. EXTERNAL AND INTERNAL ASSESSMENT: The Texas Lottery Commission steadily increased its HUB/minority utilization each year from FY 2000 through FY 2004. During FY 2005, the Commission experienced a slight decrease in its HUB/minority utilization. However, during this report period, the Commission expended more than $37.5 million with HUBs and minority businesses. The agency has developed an effective outreach program, focused on informing HUB and minority businesses about the Commission’s procurement processes and opportunities to provide goods and services to the agency. In addition, the Commission’s implementation of the HUB Subcontracting Plan has had a positive impact on HUB subcontracting. The Texas Building and Procurement Commission’s FY 2005 Statewide HUB Report ranked the Texas Lottery Commission 11th in the state in terms of overall expenditures. Although the agency did not rank among the top ten largest spending state agencies, the Texas Lottery Commission achieved a higher overall HUB
percentage than all ten of the top ten largest spending agencies.

**B. GOAL:** To take positive steps to license minority businesses as sales agents, and to monitor efforts to increase the number of minority retailers.

**B.1. OBJECTIVE:** To ensure that at least twenty percent of the Texas Lottery’s licensed sales agents are minority businesses.

**OUTCOME MEASURE:** Percentage of the Texas Lottery’s total licensed retailer base that are minority businesses.

**B.1.1. STRATEGY:** Maintain retailer retention policies and procedures within the agency, to ensure that the Commission is working to meet or exceed the twenty percent minority retailer goal, as set out in the State Lottery Act.

**OUTPUT MEASURES:** A minimum of twenty percent of the total number of licensed sales agents/retailers will be minority businesses.

**B.1.2. EXTERNAL AND INTERNAL ASSESSMENT:** The Commission has consistently exceeded its statutory goal of a twenty percent minority business retailer base. In FY 2005, the Commission’s minority retailer surpassed the previous year’s all-time highs in both the number of minority businesses licensed as sales agents and in the percentage of the total retailer base those retailers represent. During FY 2005, minority retailers numbered 6,644, which represented 40.48 percent of the Commission’s total Lottery retailer base.