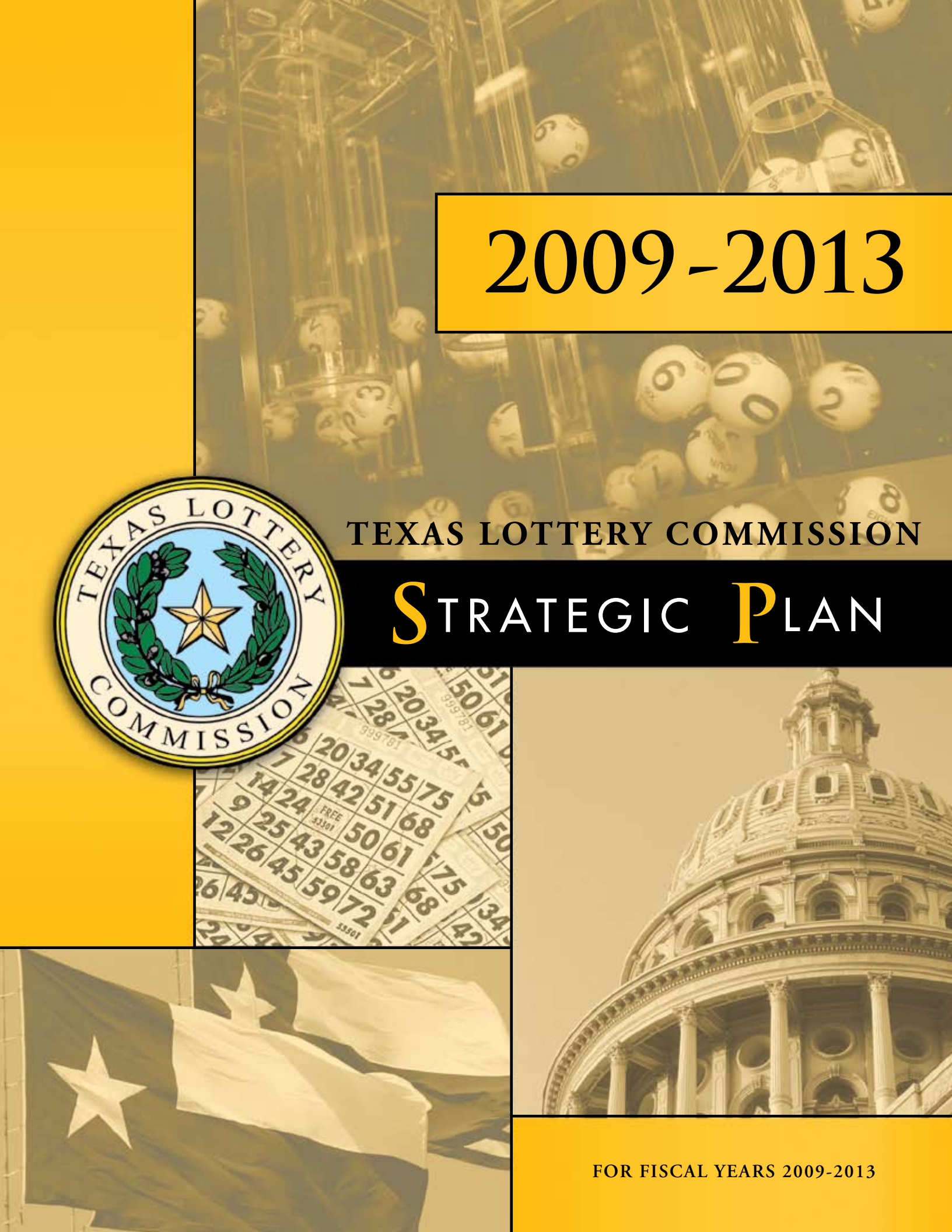


2009-2013



STRATEGIC PLAN

STRATEGIC PLAN

FOR FISCAL YEARS 2009-2013

Agency Strategic Plan

For the Fiscal Years 2009 – 2013 Period

Submitted by:

TEXAS LOTTERY COMMISSION

Commission Member

James A. Cox, Jr.
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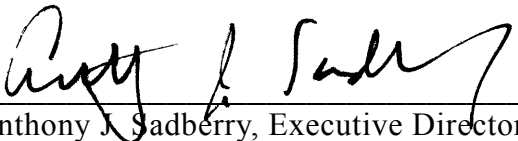
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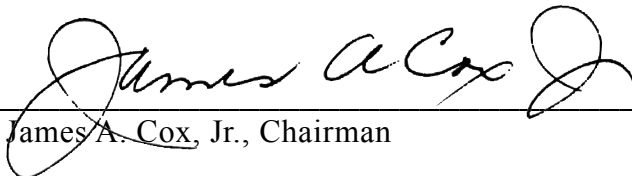
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Hometown

Austin
Dallas
San Antonio

Date of Submission:
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James A. Cox, Jr., Chairman

*This document was amended July 22, 2008, to include Appendix H: Historically Underutilized Business (HUB) Plan.

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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 & BENCHMARKS

TEXAS LOTTERY COMMISSION

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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 provide an attractive economic climate for current and emerging industries that fosters economic opportunity, job creation, capital investment, and infrastructure development by:

- Promoting a favorable and fair system to fund necessary state services;
- Addressing transportation needs;
- Promoting a favorable business climate; and
- Developing a well trained, educated and productive workforce.

Relevant Benchmarks:

- Per capita gross state product
- State and local taxes as a percent of personal income
- Texas unemployment rate
- Median household income
- Number of new non-government, non-farm jobs created
- Number of new small businesses created

REGULATORY

Priority Goal: To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- Implementing clear standards;
- Ensuring compliance;
- Establishing market-based solutions; and
- Reducing the regulatory burden on people and business.

Relevant Benchmarks:

- Percent of documented complaints to licensing agencies resolved within six months
- Percent of new and renewed licenses issued via Internet

GENERAL GOVERNMENT

Priority Goal: To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- Supporting effective, efficient, and accountable state government operations;

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RELEVANT STATEWIDE GOALS AND BENCHMARKS (CONT'D)

- Ensuring the state's bonds attain the highest possible bond rating; and
- Conservatively managing the state's debt.

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
- Total 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 acquire the knowledge and skills to be responsible and independent Texans by:

- Ensuring students graduate from high school and have the skills necessary to pursue any option including attending a university, a two-year institution, other post-secondary training, military or enter the workforce;
- Ensuring students learn English, math, science and social studies skills at the appropriate grade level through graduation; and
- Demonstrating exemplary performance in foundation subjects.

PUBLIC SAFETY AND CRIMINAL JUSTICE

Priority Goal: To protect Texans by:

- Preventing and reducing terrorism and crime
- Securing the Texas/Mexico border from all threats
- Achieving an optimum level of state wide preparedness capable of responding and recovering from all hazards
- Confining, supervising, and rehabilitating offenders.

TEXAS LOTTERY COMMISSION

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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.

TEXAS LOTTERY COMMISSION

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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

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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 administering 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 (CBOD) 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.

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 10 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. Under the Texas Sunset Act, the agency will be abolished effective September 1, 2011, unless continued in existence as provided by the Act. If abolished, the agency may continue until September 1, 2012, to close out its operations.

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 2008, six on-line games and approximately 100 instant games constitute the current FY 2008 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, “automatic win” symbols and “win

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

all” symbols provide added value to the games. Players enjoy multiple chances and multiple ways to win on each ticket.

Licensed property games also have helped serve a niche by capitalizing on well-known, branded concepts such as the *World Poker Tour*®, *I Love Lucy*®, *Major League Baseball*, *National Basketball Association* and *Deal or No Deal*™. Licensed property games provide an opportunity for members of the public who might not typically purchase a lottery ticket to do so, because of their familiarity with the branded property. The agency has also developed “core” or base games, those games that are always available for sale because of their long-term, ongoing popularity with players.

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, \$30 and \$50 games offer higher top prizes. The \$20 and \$25 price point games typically offer a \$1 million top prize. The \$30 game usually offers a \$3 million top prize, and the \$50 price point offers a \$5 million top prize. There also are games that provide annuity prizes that are paid out over a period of time. As of February 2008, annuity style instant games are available at the \$1, \$2, \$5 and \$10 price points, and the agency plans to introduce a \$20 annuity style game in spring 2008.

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 noncash 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 also has added “call-outs” to faces of certain tickets. These “call-outs” communicate to consumers specific prize amounts and/or the number of prizes in a game.

The prize-payout percentage (the percentage of the total sales for the game that is allocated for prizes) for instant lottery games continues to be a key topic within the lottery industry. Higher prize payouts allow a larger prize fund, which can create more appealing prizes and better overall odds of winning any prize. Improved overall odds translate into more winning experiences for players, which typically yield higher sales. Conversely, higher prize payouts generate smaller profit margins and, therefore, an optimum percentage must be established to ensure maximum revenue generation for public education.

While significant changes to the instant and on-line game payout percentages have not occurred in recent years, the Texas Lottery has experienced an increase in the overall prize-payout percentage for all games. This can be attributed to a continued decline in overall on-line product sales and an increase in overall instant product sales. During FY 2006 and FY 2007, instant games accounted for approximately 76 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 Texas Lottery’s total sales, the result is an increase in payout overall.

Statutory restrictions result in an inverse relationship between the agency’s overall prize payout percentage and its advertising budget. The General Appropriations Act provided \$32 million per year for lottery advertising for the FY 2008-09 biennium. However, the net effect of these restrictions has lowered the agency’s advertising budget to \$31 million in FY 2008. Similar budgetary limitations are anticipated in FY 2009.

In order to strike a balance and not have the overall payout increase dramatically, on-line games continue to be produced at an approximate 50-percent payout. This limits the agency’s ability to create on-line games with higher payouts and reap the benefits realized from larger game prize pools without adversely affecting the

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

agency's advertising budget. The agency must continue to closely manage payouts given the potential impact to net revenue generated for the state of Texas.

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 top prize, the player's ticket must correctly match all five numbers drawn. 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 feature *Megaplier*®, *Lotto Texas*®, *Pick 3*™ with the add-on feature *Sum It Up*™, *Daily 4*™ with the add-on feature *Sum It Up*, *Cash Five*®, and *Texas Two Step*®.

Lotto Texas and *Mega Millions* are multimillion dollar rolling jackpot-style games. *Lotto Texas* was the first on-line game introduced in Texas in November 1992. The game has undergone three game or matrix changes since its introduction. The starting jackpot for *Lotto Texas* is currently \$4 million and the game is drawn twice

per week. In October 2003, Texas joined the multistate game *Mega Millions* and sales started on December 3, 2003.

The game matrix changed in the summer of 2005 as a result of the California Lottery's introduction into the game. Currently, the *Mega Millions* starting jackpot is \$12 million and numbers are drawn twice per week. Since joining *Mega Millions*, Texas has had seven grand/jackpot winners through February 2008. The seven advertised jackpots were:



October 2004	\$101 million
March 2005	\$112 million
May 2006	\$94 million
January 2007	\$122 million
July 2007	\$126 million
August 2007	\$330 million*
January 2008	\$33 million

* A Texas Lottery retailer sold one of four winning tickets for the advertised \$330 million jackpot. The Texas winner's share was worth \$82.5 million

In addition to Texas, the 11 other member states that participate in the *Mega Millions* game include California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia and Washington. Texas is the only state to offer an add-on game, *Megaplier*, to the *Mega Millions* game. For an extra wager, *Megaplier* allows players the chance to increase their non-jackpot prize winnings. Games like *Mega Millions* are capable of generating jackpots upwards of \$300 million that create excitement for players and retailer alike, and also drive sales. While the agency enjoys the benefits of these large jackpots and the strong sales associated with them, they can create a phenomenon known in the lottery industry as "jackpot fatigue." This phenomenon causes players to become desensitized to smaller jackpot amounts,

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

and ever-larger jackpots are required to garner the attention and excitement of players. The lottery industry, including Texas, has relied on the jackpot-style games to reach large jackpot amounts in an effort to increase sales. However, due to jackpot fatigue and the general declining interest in jackpot games, sales and revenue for this type of on-line game have generally decreased over time.



Pick 3 is a non-jackpot game and is the only game in the Texas Lottery's game

portfolio, both on-line and instant, to realize a sales increase every year since its inception in October 1993. *Pick 3* is currently the agency's best-selling on-line game, illustrating that non-jackpot style games can be effective in reaching sales and revenue goals. The only changes made to *Pick 3* in its 14-year existence have been the addition of day drawings in April 2002 and the addition of the *Sum It Up* feature in November 2007. *Sum It Up* is a new add-on game concept first introduced on the *Daily 4* game and then added to *Pick 3*. For an additional wager, players can win if the sum of their three numbers matches the sum of the three numbers drawn in the applicable drawing. This provides players a chance to win even if they don't win on the base game. *Pick 3* drawings are held twice daily every Monday through Saturday.



Cash Five is a roll-down style game that began in October 1995 and remained unchanged until July

2002. In the *Cash Five* game, when there is not a top-prize ticket sold for a drawing, the prize funds allocated to the top-prize tier "roll-down" to the second-prize tier and that prize amount increases accordingly. A matrix change in 2002 improved the overall odds of winning from 1 in

100 to 1 in 8, changing the game from one of the most difficult five-digit games to win in the country to one of the easiest. *Cash Five* is drawn six days a week.

Texas Two Step is a rolling jackpot-style game similar to *Lotto Texas*



and *Mega Millions*, but on a smaller scale, with jackpots starting at \$200,000. *Texas Two Step* began in May 2001 and was originally drawn twice per week, on Tuesdays and Fridays. However, after Texas joined *Mega Millions*, *Texas Two Step* draw days were changed to Mondays and Thursdays to avoid direct competition with *Mega Millions*, which had the same Tuesday/Friday draw schedule. *Texas Two Step* has a loyal player base and experiences consistent sales at lower-level jackpots. However, it does respond like any other jackpot game in that, as the jackpot climbs, sales increase.

Daily 4 is similar in play style to *Pick 3*. However, it also offers a new play style, pair play, which allows play-



ers to wager on the first two, middle two or last two numbers drawn. Pair play is not currently offered on *Pick 3* and this assists in differentiating the *Daily 4* and *Pick 3* games. *Sum It Up* is a new add-on game feature. If the sum of the player's numbers matches the sum of the four numbers drawn, the player wins *Sum It Up*. This provides players a chance to win even if they don't win on the base game. In an additional attempt to differentiate *Daily 4* from *Pick 3*, *Sum It Up* was only available on the *Daily 4* game during its launch. *Sum It Up* was later added to the *Pick 3* game. *Daily 4* follows the same drawing schedule as *Pick 3* and is drawn twice daily, Monday through Saturday.

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 Department of State Health Services (DSHS), 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 traditionally 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.

Prizes awarded on any style of play must be in accordance with Occupations Code, §2001.420. The following are additional styles of play and minimum standards for bingo games:

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

Player pick ‘ems. A game of bingo where a player selects his/her own numbers on a multi-part duplicated disposable bingo card/paper. One copy is retained by the player and used as a bingo card/paper, while the other copy is provided to the organization for verification purposes.

Progressive bingo. A game of bingo that either the established prize amount or number of bingo balls and/or objects may be increased from one session to the next scheduled session. If no player completes the required pattern within the specified number of bingo balls or objects drawn, the established prize amount may be increased but shall not exceed the prize amount authorized by the Bingo Enabling Act.

Warm-up or early bird. A bingo game conducted at the beginning of a bingo occasion during the authorized organization’s license times, in which prizes are awarded based upon a percentage of the sum of money received from the sale of the warm-up/early bird bingo card/paper.

Shaded/Images bingo. Bingo card/paper that incorporates images where one or more squares on a bingo card/paper face are shaded. Each shaded image conforms to a pattern that must be achieved to win a bingo game or each shaded square may be used as a free space or a pattern for a bingo game.

Bingo bonus number(s). A bingo game that has additional identified number(s) in excess of the 24 numbers that appear on the bingo card/paper face that, when called, could result in an additional prize awarded. The first player who matches the numbers shown on the bonus number(s) line within the specified number(s) called wins the additional prize.

Multilevel or multi-tier. Bingo card/paper that has one or more additional lines of number(s) aside from the normal five lines that when played could result in an additional prize. Therefore, a multilevel or multi-tiered game could be played on this bingo card/paper that provides more opportunities to win.

Multicolor bingo. A bingo game played on a bingo card/paper with a different color for each bingo card/paper face. Prizes are awarded based on the color on which the bingo card/paper face that had the bingo.

Precalled. A game of bingo where the numbers for the game have been precalled and identified prior to the start of the game.

Double number. A bingo game played on a bingo card/paper that has two numbers per square. A player has two chances to daub each square.

Break-open bingo. A type of bingo game played on sealed disposable bingo card/paper, where the bingo card/paper face is concealed, that may be folded, and where the bingo game has been precalled. The bingo game may not be precalled prior to the authorized organization’s license time.

Regular bingo. A bingo game played on the standard card face of five rows by five columns with 24 preprinted numbers between 1 and 75, symbols, or blank squares and a free space square where the winner is determined by a predetermined pattern.



OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

Bingo Paper

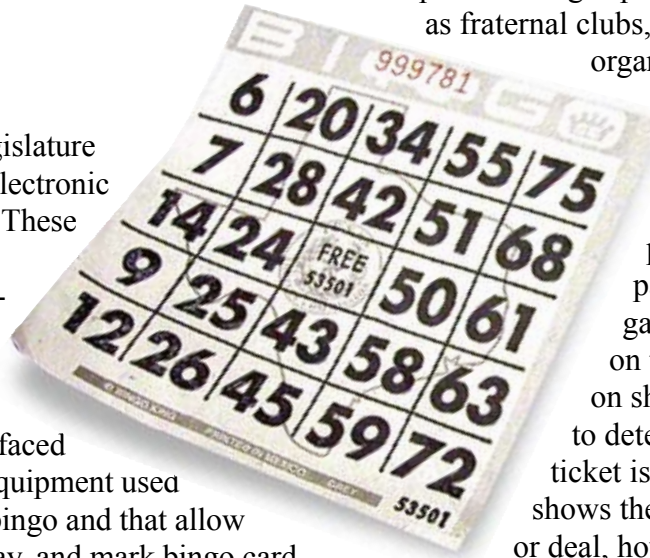
Bingo paper is usually manufactured and sold in sheets that have one or more bingo card faces on each sheet, generally referred to as “ons.” They are also manufactured and sold as single or multiple sheets, generally referred to as “ups.” The number of sheets normally corresponds with the number of games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

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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 2007 were more than \$276 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 organization’s 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, 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 26, 2008, the Texas Lottery had 16,277 licensed retailers. The two largest groups according to the Standard Industrial Code (SIC) are convenience stores and grocery stores. The agency continues to streamline the licensing processes for retailers to make it easier for businesses to meet licensing requirements and to keep their records up to date. Examples include options to submit license renewals and general information updates via the Internet and consolidating license expiration dates for multilocation retailers so that all licenses have a common renewal date. The agency has created retailer focused Web-based services to provide lottery financial and inventory data to retailers and is working with retailers and various other groups to standardize lottery financial statements.

Charitable Bingo Licensees

The CBOD licenses bingo conductors, lessors, manufacturers and distributors. In 2007, there were 1,775 bingo licensees. Of these, there were 1,312 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 432 commercial lessors, which are individuals, corporations, authorized organiza-

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tions or associations of authorized organizations that lease property where bingo is conducted. There were 16 manufacturers of bingo products and 15 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 Texas Lottery 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.

Other Direct Customers

Additional direct customers of the agency include the three-member Texas Lottery Commission and agency staff. In addition, the agency's Governmental Affairs Division serves as a resource to state leadership, other state agencies, and lawmakers considering legislation that would have an impact on the agency.

Indirect Customers

Local Jurisdictions

Local jurisdictions are indirect customers who receive as an allocation from the state a portion of the funds from prize fees collected by licensed organizations conducting 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 \$10 billion as of January 2008, 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, more than \$470 million in unclaimed Texas Lottery prize funds have reverted to the state to be appropriated for health care and other programs authorized by the state legislature.

Texas citizens benefit from 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 charitable causes licensed charitable bingo organizations support.

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

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 home safely. Since the Texas Lottery first joined the Amber Alert Network in 2003, the agency has participated in more than 20 alerts. In September 2007, the agency joined the Texas Silver Alert System. The purpose of this network is to assist in finding persons over 65 years of age who have a diagnosed impaired mental condition. As of February 2008, the agency has participated in more than 15 alerts.

The Texas Lottery's Enforcement Division and the Lottery Operations Security Department also aid law-enforcement officials in investigating and solving lottery-related crimes by providing detailed information on lottery transactions.

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2009 – 2013 Period

II. ORGANIZATIONAL ASPECTS

A. Workforce Composition

As of February 2008, the Texas Lottery Commission has 318.5 Full Time Equivalent (FTE) positions distributed among its 11 divisions, as shown in Table 1.

**TABLE 1
POSITION ALLOCATION, BY DIVISION**

DIVISION	FTE
ADMINISTRATION	68
CHARITABLE BINGO OPERATIONS	47
ENFORCEMENT	16
EXECUTIVE	4.5
GOVERNMENTAL AFFAIRS	4
HUMAN RESOURCES	7
INTERNAL AUDIT	5.5
LEGAL SERVICES	17
LOTTERY OPERATIONS	120.5
MEDIA RELATIONS	7
OFFICE OF THE CONTROLLER	22
TOTAL	318.5

Source: Texas Lottery Commission

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 during FY 2007 was: 12-percent African-American, 30-percent Hispanic, 57-percent White and 1-percent Asian. During the same time period, the agency's staff was 63-percent female and 37-percent male, and 70 percent of the workforce was more than 40 years of age.

**TABLE 2
AGE OF EMPLOYEES
(AS OF SEPTEMBER 30, 2007)**

LESS THAN 30	5%
BETWEEN 30 AND 40	25%
BETWEEN 40 AND 50	40%
BETWEEN 50 AND 60	23%
MORE THAN 60	7%

Source: Uniform Statewide Payroll/Personnel System (USPS)

**TABLE 3
EMPLOYEE ETHNIC AND GENDER REPRESENTATION (AS OF AUGUST 31, 2007)**

GENDER	AFRICAN AMERICAN	HISPANIC	WHITE	ASIAN	INDIAN	TOTAL
FEMALES	9%	20%	34%	0	0	63%
MALES	3%	10%	23%	1%	0	37%
TOTAL	12%	30%	57%	1%	0	100%

Source: Uniform Statewide Payroll/Personnel System (USPS)

TABLE 4
WORKFORCE DIVERSITY DATA (AS OF AUGUST 31, 2007)

JOB CATEGORY	AFRICAN AMERICAN	HISPANIC	FEMALE
OFFICIALS AND ADMINISTRATORS	14%	14%	43%
ADMINISTRATIVE SUPPORT	17%	45%	83%
PROFESSIONALS	11%	19%	55%
PARAPROFESSIONALS	11%	34%	68%
TECHNICIANS	4%	25%	43%

Source: Uniform Statewide Payroll/Personnel System (USPS)

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 carries 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. The Administration Division is managed by a Director, who reports to the Deputy Executive Director.

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

The Support Services Department is organized into five distinct functional areas: Facilities, Research, Purchasing & Contracts, Publications & Graphics and agency Policies and Procedures.

ORGANIZATIONAL ASPECTS

The Facilities Section manages the day-to-day physical operations of the agency. These services include building security and safety, warehouse management, property 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, 16 claim center offices, four regional offices and Austin warehouse facilities.

The Research Section conducts and/or coordinates all market research enabling staff to respond to the changing market conditions in the gaming industry.

The Purchasing & Contracts Section manages all procurements for the Commission. This includes Texas 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 & Graphics Section supports the design, development, production and distribution of all agency publications for print and Web media. Additionally, the Support Services Department manages the coordination and publication of all agency policies and procedures.

Charitable Bingo Operations Division

The Charitable Bingo Operations Division (CBOD) is responsible for the regulation of all activities relating to the conduct of charitable bingo games in the state of Texas. In September 2006, the CBOD adopted the following regulatory objective:

Charitable bingo is an important fundraising activity for a variety of Texas nonprofit organizations. The Charitable Bingo Operations Division of the Texas

Lottery Commission is charged with the strict control and close supervision of bingo conducted in this state so that bingo is fairly conducted and the proceeds from bingo are used for an authorized purpose. Our goal is to achieve voluntary compliance and assist licensees through training and education.

We will strive for the highest levels of professionalism, conducting our regulatory activities fairly, competently and consistently. We will develop clear regulatory requirement in an open environment, encouraging two-way communication.

The CBOD is managed by a Director, who reports to the three-member Commission. The division is organized into two departments: Audit Services and Taxpayer Services. While each department of the CBOD 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 CBOD's regulatory objective states, "*The Charitable Bingo Operations Division of the Texas Lottery Commission is charged with the strict control and close supervision of bingo conducted in this state so that bingo is fairly conducted and the proceeds from bingo are used for an authorized purpose.*" The activities conducted by the Audit Services Department address these components of the regulatory objective.

The Audit Services Department has two components: audit and inspection. The key activities performed by the audit team include compliance audits and compliant investigations.

The inspection team has primary responsibility for conducting complaint investigations, bingo game inspections, books and records inspections, and follow-up activities for certain compliance audits.

The Audit Services Department conducts testing on pull-tabs, electronic card-minding systems and devices, video confirmation devices, bingo paper and pull-tab ticket dispensers. Only bingo products approved by the Commission can be sold, leased or used in Texas. The Audit Services Department also provides assistance to the Taxpayer Services Department in the areas of taxpayer assistance, and licensing and accounting activities.

Taxpayer Services Department

The Taxpayer Services Department has three sections: Accounting Services, Licensing 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 Accounting Services Section is responsible for collection of those fees and taxes. The collection of prize fees and rental tax may include forfeiting bonds, placing licensees on payee hold with the Comptroller of Public Accounts, or requesting and testifying in administrative hearings to revoke or deny the license.

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 Comptroller 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 Section are to review, conduct on-site Operator Training Programs and update and maintain the online Operator Training Program, coordinate and maintain the Charitable Bingo Operations Division Web site, develop and coordinate the publication and distributions of various educational material, 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, write and coordinate the publication of the Bingo Annual Report, the specific sections of the Agency Strategic Plan and Agency Business Plan that pertain to the Charitable Bingo Operations Division, and write and coordinate the publication of the Bingo Bulletin. In addition, Special Projects staff coordinates collection and maintains data related to customer satisfactions, surrendered and expired licensees, and licenses that have been placed in administrative hold status.

The Licensing Services Section 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, conducting pre-licensing interviews and site inspections. Additionally, all examiners provide assistance as necessary to applicants who call on the 1-800 information line.

Enforcement Division

The Enforcement Division conducts background investigations of Texas Lottery applicants, bingo and lottery licensees, contract vendors, and contract vendor employees. The Enforcement Division's commissioned and administrative investigators investigate allegations of administrative and criminal violations of the rules and laws governing bingo and lottery. In order to more effectively conduct their investigations, enforcement personnel work closely with state and local law enforcement agencies, as well as the CBOD and the Lottery Operations Division.

In FY 2007, investigators and background investigators conducted a total of 1,751 investigations. 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 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.

The Agency Ombuds position was created in 2007 in response to a recommendation resulting from a workforce management audit conducted by the State Auditor's Office. The Ombuds serves the agency's employees by providing independent, neutral third party assistance in resolving employment problems, concerns, and complaints. The Agency Ombuds reports directly to the Executive Director.

Governmental Affairs Division

The Governmental Affairs Division serves as the agency's primary liaison with the legislative and executive branches of state government. The division coordinates and implements legislative strategy and initiatives to further enhance the agency's goals. Its actions are designed to assist the Commissioners, the Executive Director, and the Charitable Bingo Operations Director, as well as all divisions of the agency, by providing legislative tracking analysis, representation, recommendations and information. The Governmental Affairs Division is managed by a Director, who reports to the Executive Director.

Human Resources Division

The Human Resources Division assists the agency in recruiting and hiring the best qualified workforce available. Human Resources also serves the agency by providing and coordinating the compensation, benefit, workforce management and training programs necessary to support its employees and managers.

Human Resources staff works with agency division managers to coordinate recruiting, interviewing, hiring and orienting new employees. Human Resources coordinates employee attendance and leave-keeping with the agency payroll system. Human Resources communicates and interprets provisions of insurance, deferred compensation and retirement programs available as benefits to state employees. They assist agency managers to classify jobs and develop position descriptions, evaluate and track employee job performance, and process salary actions. The Human Resource Division coordinates the agency's employee recognition programs, employee assistance program, sick leave pool, and tuition reimbursement program.

Division staff works with managers and employees to cultivate positive employee relations. Human Resources staff maintains a current technical and practical knowledge of critical employment laws including the Family and Medical Leave Act (FMLA); Fair Labor Standards Act (FLSA); Americans with Disabilities Act (ADA); and other state and federal laws relating to equal employment opportunity and military veteran rights and benefits. Human Resources also coordinates and tracks required employee training that is mandated by state statutes and regulations.

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 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 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.

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 Chapter 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 and licensee 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 the agency's cor-

respondence functions; product development and product marketing; lottery drawings; claims processing; retailer surveys and inspections; security of lottery drawings and claim validation processing; promotional events; 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 enhance the awareness of Texas Lottery games and to increase sales. Retailer development efforts focus on the enhancement and expansion of distribution channels to reach new player segments and increase sales.

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 with the advertising vendor(s), currently TracyLocke and Cultura, to plan, develop, and implement lottery advertising, and is responsible for making recommendations regarding marketing initiatives, advertising concepts and campaigns, media plans and media buys. Advertising services include creative concepting, 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 \$1 million or less may be claimed at any of the 16 claim center offices. Prizes of more than \$1 million 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 and Advertising and Promotions to ensure that the necessary level of advertising and promotional support is present to make the Texas Lottery games successful. Products Department staff is 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 enters and monitors retailer information, coordinates ownership transfers and lottery terminal moves, processes license terminations, performs retailer records maintenance, and evaluates 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 vari-

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ous 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 Products, Advertising and Promotions, and the lottery operator. Staff coordinates 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 is 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 provides 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, sales terminal installation, equipment moves, retailer training and interaction with retailer licensees. Department staff is 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 Com-

munications Services Telephone Hotline. Hotline staff answers 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 communicates with retailers, game players and the general public via e-mail and written correspondence. The department is further 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 and confirm the legitimacy of on-line lottery tickets with prize payments in excess 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 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 design 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 CBOD reports to the Commissioners, and meets regularly with other division directors to review, plan and discuss projects that are cross divisional and involve and/or impact the CBOD.

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 Texas Lottery Commission 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.

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 required training. Certain claim center offices also are able to video conference with headquarters for many meetings. All claim center offices are able to teleconference with headquarters and other field offices, which allows for enhanced communications on claim matters.

Claim center staff includes two regional supervisors that routinely visit field offices.

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 CBOD is headquartered in Austin and maintains four regional offices throughout the state, which are staffed by auditors from the Audit Services Department and colocated 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.

Auditors from the CBOD also travel around the state to conduct investigations, inspections 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 outreach efforts focused on informing and educating HUB and minority businesses about the Texas Lottery Commission's procurements and subcontracting opportunities. The agency's use of the HUB Subcontracting Plan for contracts over \$100,000 has also had a positive effect on HUB participation.

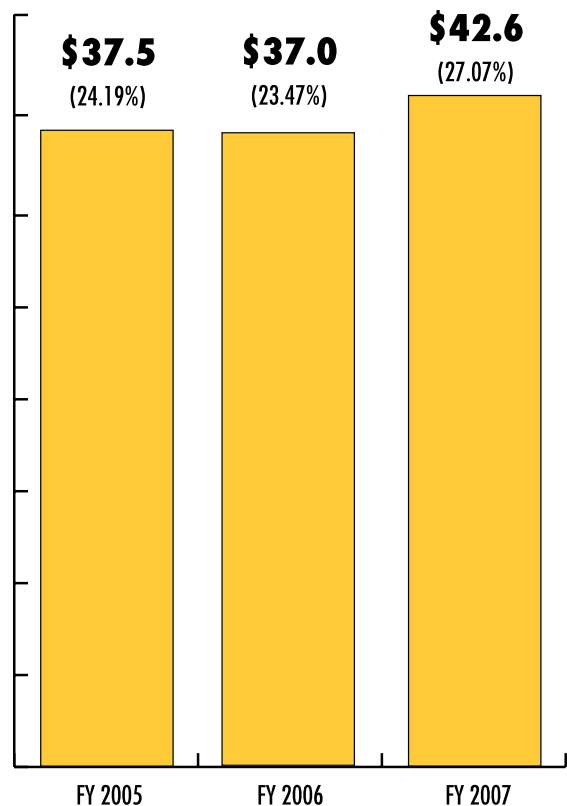
During FY 2007, the Texas Lottery Commission experienced an increase in its HUB/minority utilization. During this report period, the agency expended more than \$42.6 million with HUBs and minority businesses (see Figure A).

The Texas Lottery Commission continues to develop and improve its HUB/Minority Business program. The following are some highlights from FY 2007:

- Total payments to HUB/minority-owned businesses increased \$5.6 million.
- Six of the agency's prime contractors increased subcontracting payments to minority/HUB businesses.
- Subcontracting payments to HUB/minority-owned businesses increased by more than \$10 million.

- The agency participated in 16 economic opportunity forums and HUB-related outreach events statewide.
- The agency conducted a successful Annual HUB Forum in July 2007, which attracted minority/HUB participants from across the state.
- The agency worked to establish new mentor-protégé relationships in accordance with 34 TAC §20.28. This effort resulted in five new mentor-protégé relationships that went into effect in FY 2008.

**FIGURE A
HUB/MINORITY SPENDING
FISCAL YEAR 2005 - 2007**



ORGANIZATIONAL ASPECTS

TABLE 5
HUB STRATEGIC PLAN PROGRESS REPORT

REPORT CATEGORY	ACTUAL FY 2006	ACTUAL FY 2007	GOAL FY 2008
HEAVY CONSTRUCTION OTHER THAN BUILDING CONTRACTS*	N/A	N/A	N/A
BUILDING CONSTRUCTION, INCLUDING GENERAL CONTRACTORS AND OPERATIVE BUILDERS CONTRACTS*	N/A	N/A	N/A
SPECIAL TRADE CONSTRUCTION CONTRACTS	23.2%	27.9%	57.2%
PROFESSIONAL SERVICES CONTRACTS	94.8%	100%	20.0%
OTHER SERVICES CONTRACTS	23.6%	26.9%	33.0%
COMMODITIES CONTRACTS	12.2%	23.7%	12.6%

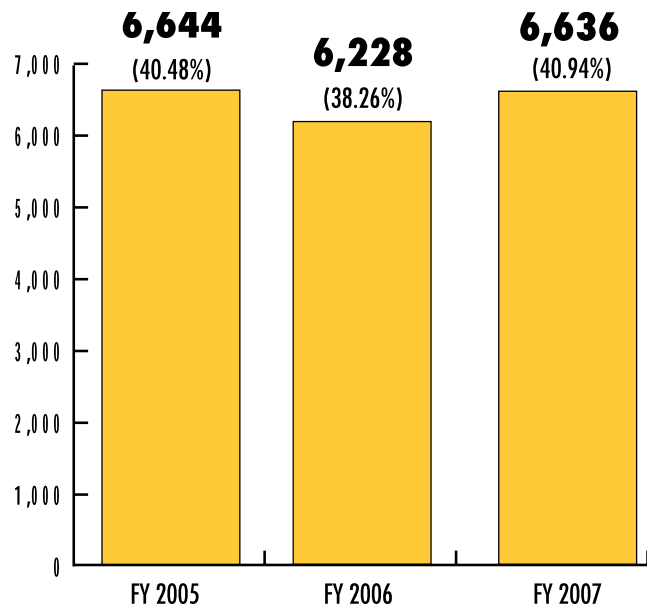
*The Texas Lottery Commission does not have strategies or programs related to either "Heavy Construction" or "Building Construction."
Source: Comptroller of Public Accounts Statewide HUB Reports

Table 5 reflects the Texas Lottery Commission's HUB Strategic Plan Progress Report for FY 2006 and 2007, based on the Comptroller of Public Accounts' (CPA) HUB goals.

The Texas Lottery Commission is proud of its achievements regarding HUB/minority business utilization in agency procurements. For FY 2007, the agency ranked 12th in terms of overall expenditures as captured by the CPA's Fiscal Year 2007 Annual Historically Underutilized Business (HUB) Report. During this report period, the Texas Lottery Commission ranked first by overall HUB percentage of the 25 largest-spending state agencies.

The Texas Lottery Commission has continued to exceed its statutory goal of a 20-percent minority-owned retailer base. During FY 2007, the agency had 6,636 minority retailers, which represented 40.94 percent of the Commission's total Texas Lottery retailer base (see Figure B). During this report period, the number of minority retailers increased in all 10 sales districts.

FIGURE B
LICENSED MINORITY RETAILERS
FISCAL YEAR 2005 - 2007



E. Fiscal Aspects

Size of Budget

HB 1, the General Appropriations Act for the 2008 – 2009 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 \$194.7 million in FY 2008 and \$195.5 million in FY 2009 to operate the Texas Lottery.
- Charitable Bingo appropriations from GR amount to \$15.2 million in FY 2008 and \$15.4 million in FY 2009.
- 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 and reduced the total number of strategies for the Texas Lottery Commission by one, for a total of 17 strategies. This decrease was the result of an organization restructuring that consolidated the Security Field Operations Department with the Security Division, thereby merging A.1.5. Strategy: Security Field Operations into A.1.4. Strategy: Security.
- The agency's Full Time Equivalent (FTE) cap authorized by HB 1 is 318.5.
- Contingency Rider 13 provided the GR Dedicated Lottery Account with additional appropriation funding

for fulfilling contractual obligations and other administrative costs if gross sales exceed \$3.935 billion in FY2008 and \$4.004 billion in FY2009. 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 2008 and FY 2009. The operation and administration of the state lottery is funded from the GR Dedicated Lottery Account. Charitable Bingo is funded from General Revenue.

TABLE 6
BUDGET FUNDS, 2008-09 BIENNIUM

	FY 2006	FY 2007
GENERAL REVENUE FUND (CHARITABLE BINGO)	\$15,160,877	\$15,431,376
GENERAL REVENUE DEDICATED FUND - LOTTERY ACCOUNT NUMBER 5025	\$194,659,173	\$195,503,860
TOTAL, METHOD OF FINANCING	\$209,820,050	\$210,935,236

Source: HB1, General Appropriations Act, 80th Legislature, Regular Session

Other States' Comparisons

The agency presents comparative data for U.S. lotteries FY 2006 sales in Table 7.

**TABLE 7
OTHER STATES' COMPARISONS**

STATE LOTTERY	SALES (\$ MIL.)
CALIFORNIA	\$3,421.47
COLORADO	\$468.76
FLORIDA	\$3,929.03
GEORGIA	\$2,905.67
ILLINOIS	\$1,964.26
MARYLAND	\$1,124.65
MASSACHUSETTS	\$3,725.99
MICHIGAN	\$1,773.71
NEW JERSEY	\$2,406.50
NEW YORK	\$5,994.09
OHIO	\$2,220.93
PENNSYLVANIA	\$3,070.27
TEXAS	\$3,774.69
VIRGINIA	\$1,365.33
WASHINGTON	\$471.20

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

Source: *La Fleur's 2007 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 5 percent be allocated to retailers as commissions, with the remaining 7 percent of ticket sales allowed to be expended on administration of the

Texas Lottery. The Texas Lottery 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. The lottery operator contract was effective October 10, 2001, and includes a compensation rate to the lottery operator of 2.6999 percent of gross sales. The contract expires August 31, 2011.

The Texas Lottery Commission is currently seeking consultant services to provide expertise and assistance in analyzing and exploring options available for the delivery of core lottery business functions and developing the resulting procurement documentation. In addition, the consultant services would assist in identifying and developing the best operational services mix, outsourced vs. state operated, to maximize revenue to the state. Specifically the consultant would assist in the development of the project work plan and implementation strategy, business operations review and assessment, business case development, and procurement assistance.

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 \$32 million per year for the 2008 – 09 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 \$31 million for FY 2008.

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 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.

Additional appropriation was granted to the agency for the printing of instant tickets per Rider 14. This funding was contingent upon the Commission adopting rules governing instant ticket games that close games after the final top advertised prize in the game has been claimed and rules that also provide procedures for ending the sale of an instant ticket game within 45 days of the game being closed. The agency is further required to provide the Legislative Budget Board a semi-annual report detailing the number of instant ticket games closed and the amount of time to end the sale of each game following closure.

Rider 15 of the General Appropriations Act prohibits the agency from spending agency funds

for the purpose of exploring, investigating, negotiating, calculating, or otherwise taking action that would result in selling the Texas Lottery.

Degree to Which Current Budget Meets Current and Expected Needs

Staffing and funding resources appropriated for the Texas Lottery Commission for the 2008 – 09 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, the agency's bingo indirect overhead and administrative expenses are expensed to lottery strategies identified in the General Appropriations Bill, 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 and legislative appropriation requests submitted by the Texas Lottery Commission.

To provide clarity regarding this funding mechanism, the Texas Lottery Commission plans to include the following items in its FY 2010 – 11 Legislative Appropriations Request to provide for the funding of certain bingo indirect overhead costs and administrative expenses:

- An Exceptional Item request for an increase in General Revenue appropriation to provide for the funding of certain bingo indirect overhead costs and admin-

istrative expenses. The Exceptional Item will include the impact to Charitable Bingo direct operations should the additional General Revenue funding not be granted. It is possible this Exceptional Item may require an increase in Charitable Bingo fees to cover the costs of the increased General Revenue appropriation.

- A Rider request to provide for the funding of the regulation of bingo through the sale of lottery tickets. The 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 Texas Lottery Commission, including the regulation of bingo.

In addition to the above items, if additional funding solutions are identified in the interim these solutions will be included in the Commission's Legislative Appropriations Request.

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 continually reviews strategies for technology hardware and software refresh. During the 2010-2011 biennium, the agency will be reviewing options for a refresh of its laptops, desktops, servers and Storage Area Network. This equipment is currently leased through a statewide contract that will expire in FY 2009 for laptops and desktops, and in FY 2010 for the servers and storage area network. A cost-benefit analysis to be conducted prior to preparation of the FY 2010 – 2011 Legislative Appropriations Request to evaluate if capital budget authority will be requested for the purchase of the equipment, as opposed to continuing with a lease arrangement.

The agency's telephone equipment and software has reached the end of its life cycle. The agency will be evaluating options such as voice-over-IP and replacing the voice mail system which also has reached the end of its life cycle. A cost-benefit analysis will be conducted prior to preparation of the FY 2010 – 2011 Legislative Appropriations Request to evaluate if capital budget authority will be requested for the purchase of a new phone system.

New games and/or features added to on-line products require new equipment or adjustments to existing equipment as they are implemented. Texas 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.

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2009 – 2013 Period

III. AGENCY ACTIVITIES

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)

INDUSTRY	2002	2003	2004	2005	2006	2007*
PERFORMING ARTS COMPANIES	\$94,386,261	\$119,946,609	\$112,050,227	\$122,318,241	\$121,795,557	\$40,211,145
SPECTATOR SPORTS	\$172,058,240	\$230,651,647	\$203,836,268	\$276,789,720	\$278,636,667	\$173,067,972
RACETRACKS	\$52,708,415	\$98,800,429	\$104,200,459	\$191,440,680	\$111,558,849	\$57,351,378
MUSEUMS, HISTORICAL SITES, AND SIMILAR INSTITUTIONS	\$46,291,090	\$51,142,047	\$51,302,018	\$57,699,345	\$64,750,304	\$35,806,253
AMUSEMENT PARKS & ARCADES	\$378,112,685	\$402,232,537	\$461,426,210	\$523,888,645	\$546,368,974	\$277,796,419
GAMBLING INDUSTRIES	\$21,642,584	\$38,440,855	\$42,259,297	\$38,319,317	\$38,890,511	\$19,355,619
OTHER AMUSEMENT & RECREATION INDUSTRIES	\$1,828,303,282	\$2,354,617,171	\$2,578,501,563	\$2,448,365,671	\$2,569,231,363	\$1,378,678,907
TEXAS LOTTERY	\$3,011,117,715	\$3,130,692,602	\$3,643,566,925	\$3,716,875,563	\$3,743,766,963	\$1,934,503,384
CHARITABLE BINGO	\$557,086,857	\$575,701,959	\$604,752,082	\$634,049,493	\$658,325,172	\$334,449,758

*Complete data for Calendar 2007 not yet available, numbers shown through June 2007.
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 provides customer service and information related to licensing and accounting issues for licensed lottery retailers and bingo licensees. Collections staff works 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 prepares 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 Commission 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 2007, the Commission has generated more than \$15.1 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 January 2008, the agency passed another major milestone when cash transfers to the Foundation School Fund exceeded the \$10 billion mark. Table 9 shows Texas Lottery Commission revenue transfers as of August 31, 2007. As noted above, transfers from FY 1992 to FY 1997 were to the General Revenue Fund and, from FY 1998 to the present, to the Foundation School Fund.

**TABLE 9
REVENUE TRANSFERRED FROM TEXAS LOTTERY
FISCAL YEAR 1992 - 2007 (IN MILLIONS)**

	COMPTROLLER'S ESTIMATE	CASH BASIS (ACTUAL)	ACCRUAL BASIS (ACTUAL)
FY 1992	\$61	\$203	\$250
FY 1993	\$400	\$609	\$657
FY 1994	\$601	\$869	\$928
FY 1995	\$611	\$927	\$1,015
FY 1996	\$1,087	\$1,158	\$1,098
FY 1997	\$1,112	\$1,189	\$1,183
FY 1998	\$1,430	\$1,157	\$1,098
FY 1999	\$1,055	\$969	\$953
FY 2000	\$890	\$918	\$863
FY 2001	\$816	\$865	\$864
FY 2002	\$807	\$956	\$929
FY 2003	\$840	\$955	\$949
FY 2004	\$804	\$1,003	\$1,009
FY 2005	\$781	\$1,016	\$1,009
FY 2006	\$1,011	\$1,030	\$1,036
FY 2007	\$1,044	\$1,032	\$1,034

In FY 2007, The Texas Lottery Commission transferred more than \$1 billion to the Foundation School Fund for the fourth year in a row. Including unclaimed prize money, total revenue transferred to the state was \$1.09 billion, with \$1.03 billion going to the Foundation School Fund. 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

Source: Texas Comptroller of Public Accounts and Texas Lottery Commission

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 Commission through FY 2007, more than \$27.1 billion has been returned to players in the form of lottery prizes. The Texas Lottery Commission's licensed retailers have received nearly \$2.4 billion in commissions and \$69.7 million in bonuses. In FY 2007, prizes paid to Texas Lottery winners totaled more than \$2.3 billion. Retailers received more than \$188.7 million in retailer commissions and more than \$4.4 million in retailer bonuses, for a total of more than \$193.1 million in payments to Texas Lottery retailers.

The Texas Lottery Commission's transfer of more than \$1 billion to the Foundation School Fund in FY 2007 was based on overall sales of \$3.77 billion. The Texas Lottery recorded its second-highest level of total sales in its 15-plus year history during this fiscal year.

A highlight for instant ticket sales in FY 2007 was the introduction of the first \$50 instant ticket game, *\$130 Million Spectacular*. Instant game sales in FY 2007 totaled \$2.9 billion, a decrease of 0.1 percent from FY 2006.

On-line game sales experienced an increase in FY 2007. In total, on-line sales increased by \$3.39 million from the prior year sales total. The increase is attributable to growth in *Texas Two Step*, *Mega Millions* and *Pick 3*. *Mega Millions* sales for FY 2007 reflect the highest sales level since Texas joined the game in December 2003 with sales of \$192.5 million. *Pick 3* sales increased by 5.9 percent, marking the 13th consecutive year of increased sales. Sales for *Pick 3*, as of August 31, 2007, totaled \$312.7 million. Other on-line games such as *Cash Five* and *Lot-to-Texas* were not as successful during FY 2007. These games decreased in total by \$13.2 million as of August 31, 2007.

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 2007, the Texas Lottery Commission transferred \$58.9 million in unclaimed prizes to the state. This brings the total to \$426.6 million since the first statutory change addressing unclaimed prizes in 1999. The biggest beneficiary to date has been the General Revenue Fund, which has received \$135.5 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.

In each of the fiscal years of the biennium, the Texas Lottery Commission transfers 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, is transferred to the state's General Revenue Fund.

TABLE 10
UNCLAIMED PRIZES TRANSFERRED
FROM TEXAS LOTTERY
FISCAL YEAR 2000 - 2007 (IN MILLIONS)

	CASH BASIS (ACTUAL)	ACCRUAL BASIS (ACTUAL)
FISCAL 2000	\$28	\$36
FISCAL 2001	\$29	\$38
FISCAL 2002	\$87	\$70
FISCAL 2003	\$67	\$67
FISCAL 2004	\$40	\$41
FISCAL 2005	\$61	\$61
FISCAL 2006	\$55	\$54
FISCAL 2007	\$59	\$59

Source: Texas Lottery Commission

AGENCY ACTIVITIES

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 checks to ensure that the winner does not have certain outstanding debts to the state. This effort has garnered more than \$2.9 million for the state over the past five years to satisfy debt that might have otherwise gone unpaid.

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 \$13.5 billion,

bingo prizes awarded have been in excess of \$9.9 billion, and allocations to local jurisdictions have totaled approximately \$214 million. By the end of calendar year 2007, the total amount of charitable distributions from the conduct of bingo exceeded \$868 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
CHARITABLE BINGO FOR CALENDAR YEARS 1982 - 2007

YEAR	CARD SALES	ELECTRONIC CARD SALES	PULL-TAB SALES	TOTAL GROSS RECEIPTS	PRIZES PAID TO PLAYERS	CHARITABLE DISTRIBUTIONS	ALLOCATIONS
1982	\$66,488,368	-	-	\$66,488,368	\$45,102,756	\$3,536	\$657,184
1983	\$163,172,680	-	\$87	\$163,172,767	\$117,391,473	\$3,646,181	\$1,193,376
1984	\$217,137,488	-	\$4,676,582	\$221,814,070	\$161,408,850	\$17,993,595	\$4,047,322
1985	\$243,420,805	-	\$11,872,941	\$255,293,746	\$186,271,397	\$27,731,430	\$4,103,469
1986	\$289,108,477	-	\$13,548,709	\$302,657,186	\$220,241,691	\$18,814,743	\$3,745,303
1987	\$331,938,566	-	\$36,086,789	\$368,025,355	\$270,745,207	\$20,464,169	\$6,042,654
1988	\$365,110,091	-	\$101,901,561	\$467,011,652	\$346,054,120	\$28,082,676	\$7,935,380
1989	\$419,677,774	-	\$130,997,997	\$550,675,771	\$407,309,715	\$35,774,683	\$9,390,573
1990	\$467,113,452	-	\$154,335,596	\$621,449,048	\$447,567,333	\$47,668,061	\$9,560,443
1991	\$499,971,275	-	\$173,501,233	\$673,472,508	\$482,773,824	\$54,587,709	\$9,825,017
1992	\$503,400,917	-	\$164,719,328	\$668,120,245	\$484,992,347	\$48,192,980	\$5,961,898
1993	\$500,434,638	-	\$151,592,343	\$652,026,981	\$481,514,701	\$51,427,711	\$7,278,829
1994	\$496,971,984	-	\$141,599,698	\$638,571,682	\$476,049,785	\$48,933,529	\$10,812,176
1995	\$498,377,085	-	\$139,807,479	\$638,184,564	\$481,835,221	\$46,454,694	\$10,882,677
1996	\$485,532,608	\$3,806,301	\$121,926,846	\$611,265,755	\$460,964,655	\$40,482,002	\$10,583,249
1997	\$449,141,019	\$42,783,034	\$104,888,564	\$596,812,617	\$439,824,455	\$38,401,962	\$10,071,442
1998	\$431,161,924	\$75,687,551	\$99,177,810	\$606,027,285	\$432,876,694	\$42,588,280	\$9,895,196
1999	\$390,254,799	\$120,060,166	\$96,753,377	\$607,068,342	\$430,763,078	\$39,995,805	\$9,910,962
2000	\$356,410,441	\$137,005,668	\$89,353,141	\$582,769,250	\$413,801,679	\$36,805,043	\$9,474,278
2001	\$334,606,017	\$143,791,528	\$85,122,819	\$563,520,364	\$399,983,036	\$34,123,897	\$9,163,984
2002	\$319,865,576	\$148,241,778	\$88,979,503	\$557,086,857	\$397,920,228	\$31,745,178	\$9,182,649
2003	\$296,955,280	\$148,921,116	\$129,825,563	\$575,701,959	\$417,410,006	\$29,885,101	\$9,653,052
2004	\$280,367,439	\$150,549,106	\$173,835,537	\$604,752,082	\$444,853,052	\$30,044,665	\$10,349,769
2005	\$260,840,747	\$150,000,823	\$223,207,923	\$634,049,493	\$471,510,066	\$30,384,530	\$11,006,783
2006	\$251,273,670	\$153,498,545	\$253,552,957	\$658,325,172	\$492,181,753	\$31,999,876	\$11,760,444
2007	\$229,166,570	\$155,760,202	\$276,930,329	\$661,857,101	\$493,304,446	\$32,042,475	\$11,669,680
TOTAL	\$9,147,899,690	\$1,430,105,818	\$2,968,194,712	\$13,546,200,220	\$9,904,651,567	\$868,274,511	\$214,157,789

Source: Texas Lottery Commission

Figures as of 2/28/2009. Unaudited

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

Table 11 provides data related to gross receipts, prizes paid to players, charitable distributions, and allocations to cities and counties from 1982 through 2007.

In calendar year 2007:

- \$661.6 million in gross receipts was generated from the conduct of charitable bingo in Texas;
- Almost \$492.3 million was paid in prizes to bingo players;
- Almost \$30.2 million was distributed to charitable purposes by licensed conductors;
- \$25.9 million in prize fees and taxes, was collected from charitable bingo activities;
- \$2.9 million was collected in charitable bingo license fees; and
- \$28.7 million was deposited to the General Revenue Fund, of which \$11.7 million in allocations was returned to local jurisdictions for their share of charitable bingo prize fees.

**TABLE 12
CHARITABLE BINGO LICENSES AND FUNDING
CALENDAR YEARS 2002-2007**

	2002	2003	2004	2005	2006	2007
APPLICATIONS						
APPLICATIONS RECEIVED	5,872	6,350	7,933	7,852	7,206	7,501
APPLICATIONS ISSUED	5,717	5,839	7,696	7,457	6,918	7,245
TOTAL ATTENDANCE	23,718,342	22,749,669	21,594,956	20,114,037	19,365,514	18,166,171
GROSS RECEIPTS						
CARD SALES	\$319,865,576	\$296,955,280	\$280,367,439	\$260,840,747	\$251,273,670	\$229,166,570
ELECTRONIC SALES	\$148,241,778	\$148,921,116	\$150,549,106	\$150,000,823	\$153,498,545	\$155,760,202
PULL-TAB SALES	\$88,979,503	\$129,825,563	\$173,835,537	\$223,207,923	\$253,552,957	\$276,930,329
TOTAL GROSS RECEIPTS	\$557,086,857	\$575,701,959	\$604,752,082	\$634,049,493	\$658,325,172	\$661,857,101
PRIZES PAID	\$397,920,228	\$417,410,006	\$444,853,052	\$471,510,066	\$492,181,753	\$493,304,446
CHARITABLE DISTRIBUTIONS	\$31,745,178	\$29,885,101	\$30,044,665	\$30,384,530	\$31,999,876	\$32,042,475
ALLOCATIONS	\$9,182,649	\$9,653,052	\$10,349,769	\$11,006,783	\$11,760,444	\$11,669,680
LICENSE FEES COLLECTED	\$3,171,783	\$3,035,837	\$3,077,368	\$3,014,506	\$3,295,759	\$2,853,532
PRIZE FEES AND TAXES	\$20,959,391	\$21,692,096	\$23,182,408	\$24,442,069	\$25,761,347	\$25,878,623
COST OF GOODS SOLD	\$11,454,493	\$11,568,438	\$11,210,343	\$11,564,609	\$11,973,134	\$11,950,953
LEASE PAYMENTS	\$37,434,545	\$36,722,896	\$39,144,428	\$39,146,332	\$39,091,930	\$38,819,089
OTHER EXPENSES	\$61,392,117	\$61,916,253	\$62,447,388	\$63,312,832	\$65,800,842	\$64,996,537

Source: Texas Lottery Commission

Figures as of 2/28/2009. Unaudited

**TABLE 13
NAFTM ANNUAL REPORT 2006
CHARITY GAMING RECEIPTS BY GAMES**

STATE/PROVINCE	BINGO GROSS	PULL-TAB GROSS	RAFFLE GROSS	OTHER GROSS	TOTAL GROSS RECEIPTS
ALASKA	\$67,691,449	\$268,925,145	\$9,886,258	\$2,926,796	\$349,429,648
ARIZONA	\$36,097,563	NO PULL-TABS			\$36,097,563
COLORADO	\$52,805,952	\$72,050,589	\$8,036,421	\$3,043,729	\$135,936,690
CONNECTICUT	\$23,742,079	\$9,975,390	\$14,598,838	\$330,195	\$48,646,502
DIST. OF COLUMBIA	\$715,092	\$352,465	\$2,519,490	\$1,136,133	\$4,723,180
IDAHO	\$5,243,266	NO PULL-TABS	\$2,721,084		\$7,964,350
INDIANA	\$101,464,930	\$403,016,314	\$17,125,715	\$4,141,933	\$525,748,892
KENTUCKY	\$103,058,280	\$404,946,349	\$9,801,992	\$10,135,811	\$527,262,973
LOUISIANA	\$95,852,300	\$93,328,300	\$3,124,800	\$3,197,300	\$195,502,700
MAINE	\$22,694,480	NOT REPORTED		\$54,381,087	\$77,075,567
MASSACHUSETTS	\$58,947,507	\$22,920,291	\$17,570,152	\$2,450,141	\$101,888,091
MICHIGAN	\$127,421,208	\$214,411,691	\$62,434,973	\$8,864,080	\$413,131,952
MINNESOTA	\$64,493,000	\$1,194,116,000	\$6,331,000	\$23,175,000	\$1,288,115,000
MISSOURI	\$74,620,609	\$39,695,524			\$114,316,133
MISSISSIPPI	\$77,898,838	\$38,200,642		\$427,669	\$116,527,149
NEBRASKA	\$14,051,926	\$45,943,737	\$5,432,488	\$185,340,795	\$250,768,946
NEW JERSEY	\$47,789,441	\$35,420,617	\$39,505,368		\$122,715,426
NEW MEXICO	NOT BROKEN DOWN	NOT BROKEN DOWN		\$28,145,335	\$28,145,335
NEW YORK	\$86,713,865	\$260,874,233	\$5,588,228	\$973,028	\$353,149,354
NORTH CAROLINA	\$25,981,436	NO PULL-TABS	NOT TRACKED		\$25,981,436
NORTH DAKOTA	\$35,836,086	\$141,111,425	\$3,450,596	\$81,277,154	\$261,675,261
OREGON	\$51,374,828	NO PULL-TABS	\$5,862,143	\$484,194	\$57,721,165
SOUTH CAROLINA	\$123,694,098	NO PULL-TABS			\$123,694,098
TEXAS	\$409,150,224	\$253,104,691			\$662,254,915
VIRGINIA	\$124,857,465	\$186,871,035	\$9,003,885	\$528,615	\$321,261,000
WASHINGTON*	\$77,185,344	\$66,857,337	\$7,418,416	\$222,458	\$151,683,555
WASHINGTON**		\$318,605,971		\$316,788,866	\$635,394,837
WEST VIRGINIA	\$49,943,338	\$101,101,688			\$151,045,026
WISCONSIN	\$18,292,696	NO PULL-TABS	\$63,757,276		\$82,049,972
STATE TOTALS					\$7,169,906,716
ALBERTA	\$237,206,000	\$35,075,000	\$98,469,000	\$752,432,000	\$1,123,182,000
MANITOBA	\$52,693,462	\$4,677,654	\$13,324,635	\$142,455	\$70,838,206
NEW BRUNSWICK	\$43,628,607	\$287,032	\$11,959,727	\$93,422	\$55,968,788
NEWFOUNDLAND	\$25,334,900	\$12,266,700	\$11,088,800	\$1,751,700	\$50,442,100
NOVA SCOTIA	\$72,222,000	NOT REPORTED	\$29,346,000		\$101,568,000
ONTARIO	\$886,000,000	\$289,000,000	\$272,000,000		\$1,447,000,000
PRINCE EDWARD ISLAND	\$12,320,647	NO PULL-TABS			\$12,320,647
SASKATCHEWAN	\$70,087,617	\$13,451,685	\$29,880,077	\$20,880,592	\$131,618,136
PROVINCE TOTALS					\$2,992,937,877

Source: NAFTM 2006 Annual Report.

Note: Figures are as reported by the states and provinces.

**Charitable Receipts,

***Commercial Receipts Sold in Establishments That Sell Food and Drink for On-Site Consumption Only Per Washington State Gaming Commission 02/25/08.

Table 12 (see page 37) provides data on Charitable Bingo Licenses and Funding for calendar years 2002 – 2007. Charitable bingo total gross receipts increased each year from 2002 through 2007. 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.

Table 13 (see previous page) shows bingo gross receipts, pull-tab gross receipts, and other gross receipts reported in the North American Association of Fundraising Ticket Manufacturers (NAFTM) 2006 Annual Report. In combined bingo gross receipts and pull-tabs, Texas ranked third among all North American states and provinces for 2006, surpassed only by Minnesota and Ontario. Texas ranked second in bingo gross receipts and eighth in pull-tab gross receipts. Minnesota reported more than \$1 billion in pull-tab sales. Minnesota allows pull-tabs to be sold in locations other than bingo halls, as long as they are sold by authorized charitable organizations.

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.

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 at the lottery operator’s instant ticket warehouse facility, the agency is capable of monitoring the level of service received from the primary vendor to ensure contractual standards are met. The division also performs many other vendor oversight and monitoring activities to ensure 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 2007, new licenses were issued to 2,275 Texas Lottery retailers.

Charitable Bingo regulation

The Texas Lottery Commission, through two departments of its CBOD, works to ensure licensee compliance with the Bingo Enabling Act and Charitable Bingo Administrative Rules.

The Licensing Services Section of the Taxpayer Services Department reviews and licenses non-profit organizations that conduct bingo games, persons who lease the locations where bingo games are conducted, entities that manufacture and distribute bingo equipment.

The Accounting Services Section of the Taxpayer Services Department processes quarterly tax returns, mails out billing notices, identifies non-filers of quarterly tax returns to the Audit Services Department 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.

AGENCY ACTIVITIES

The Audit Services Department conducts financial audits, conducts testing on pull-tabs, electronic card-minding systems and devices, video confirmation devices, bingo paper, and pull-tab ticket dispensers. In addition, the Audit Services Department assists with investigating bingo complaints as appropriate.

In calendar year 2007, the CBOD received 7,501 license applications and issued 7,245 bingo licenses. 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 agency continues to receive, track and address jurisdictional concerns from the public via the Compliance Activity Monitoring Program (CAMP) hotline, which was formally established in 2004. Awareness of the hotline is supported through placement of the toll-free 1-800 number on the Web site, in retail locations and in venues where bingo games are conducted. 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 is 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 considering license issuance and/or administrative action.

Consumer Protection Efforts

In 2007, the Texas Lottery expanded programs and initiatives to provide additional protection to lottery consumers, follow up on complaints and ensure retailers comply with rules related to prize validations.

Enhanced consumer protection strategies include the deployment of 10,250 check-a-ticket terminals beginning in 2008. The player-activated terminals will provide consumers with the ability to check the winning status of on-line and instant tickets prior to validation by a retailer. This functionality currently is available on 1,000 self-service terminals (SSTs) in Texas. On the ISYS sales terminal, the main terminal operated by sales clerks, the agency is adding a series of tones that will play when tickets are scanned for prize validation. Specific tones will sound informing players if they have winning or nonwinning tickets and indicate whether a prize may be paid by a retailer or must be claimed at a Texas Lottery Claim Center. A renewed campaign to remind players to sign the back of their lottery tickets will be implemented in 2008. Encouraging players to sign tickets presented for prize payment at retailer locations can help reduce uncertainty about the prize claim process.

The agency also encourages any retailer or lottery player who believes there is a ticket sale or prize payment violation to immediately contact the Texas Lottery so that the complaint can be

recorded and appropriate follow-up activities such as an investigation and possible disciplinary action can be initiated. Information on how to communicate these concerns is posted in retail locations and on the agency Web site. Communications Service and Claim Center staff is trained to recognize possible violations in the course of their contacts with members of the public and to direct them to the Compliance Hotline.

The Texas Lottery Commission will continue to enhance retailer training materials to stress ethical standards and the consequences of rule violations. The agency has established administrative rules that provide for a progressive disciplinary process related to consumer protection concerns. Every effort is made to ensure that any proven cases of illegal activity or fraud results in timely and consistent application of progressive disciplinary remedies up to and including the revocation of sales licenses. These consumer protection efforts are focused on ensuring that potential fraud situations are reviewed judiciously, while simultaneously recognizing the need to protect consumers without inconveniencing or disturbing honest retailers. As the vast majority of retailers serve their customers in an ethical and forthright manner, it is critical for the agency to balance consumer protection with retailer motivation to sell lottery tickets.

Various system reports are available or are under development to assist the Security Department staff in closely monitoring and identifying aberrations in the claims process.

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 of the dangers of being scammed, particularly within the Hispanic community. The agency is currently designing a new Security Spotlight page which will continue to highlight these types of scams and other consumer protection concerns. The Security Spotlight page, maintained by the Security Department, is part of ongoing consumer best practices

initiatives and will include information helpful to players and retailers alike.

Reminders for players to check their tickets and sign them upon receipt are a part of the agency's communications efforts in retailer locations, agency publications and on the Texas Lottery Web site. Various forms of point-of-sale advertising will include this message to raise the level of awareness on the part of players regarding their role in consumer protection. Messages to retailers will be distributed via sales terminals, signage and other communications media reminding retailers and clerks of their prize payment responsibilities.

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. Drawings are supervised by the Security Department, open to the public, certified by an independent auditor and conducted in accordance with procedures.

The Texas Lottery Draw Team performs the night drawings for the *Megaplier*, *Lotto Texas*, *Cash Five*, *Texas Two Step*, and the day and night drawings for *Daily 4* and *Pick 3* in the on-site drawings studio. Both *Daily 4* and *Pick 3* have an add-on feature called *Sum It Up*. The sum of the numbers drawn in the *Pick 3* and *Daily 4* drawings are tabulated and the *Sum It Up* number for both games is communicated as part of the drawings broadcast.

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. The off-site *Mega Millions* drawing, conducted by the Georgia Lottery for the *Mega Millions* states, is monitored by draw team staff and the independent auditor, and is taped and merged with the Megaplier drawing conducted in the Texas Lottery drawings studio. Drawings are conducted Monday through Saturday throughout the year, including holidays.

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

A forensic laboratory operated by the Security Department, performs forensic testing on tickets and other questionable documents related to claims. Questionable claims received from the Texas Lottery claim centers are 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 requiring further investigation are referred 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 all instant games to ensure they meet established security, environmental and durability standards. The tests are performed in addition to the quality assurance measures taken by agency staff and the ticket manufacturers, which serve to provide Texas Lottery players with a durable and secure product of the highest quality. Barker and Herbert Analytical Laboratories Inc. is the current vendor for these services.

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 CBOD 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 ano-

nymity. 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 2007, Enforcement Division investigators and background investigators conducted 1,751 investigations, including 533 alleged violations of the Lottery Act and 96 alleged violations of the Charitable Bingo Act. Background investigations were conducted on 451 bingo license applicants, 629 lottery license applicants, and 42 Texas Lottery Commission employment 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).

Retailer Education Initiative

In FY 2005, the agency launched an initiative to increase retailer knowledge of Texas Lottery games, policies and operation of sales terminals. The ultimate goal of the initiative is to ensure that all new and existing retailers are properly trained on the various games offered by the Texas Lottery and the operation of the equipment used to dispense tickets. Ongoing training is available upon request for any retailer and is available in store or classroom. New retailers must meet minimum training requirements in order to begin selling lottery tickets at their business. In FY 2006, retailers were provided with a new *Retailer Guide*. The guide complements the existing retailer manual, which provides hands-on information about how to sell lottery tickets as well as policies and procedures related to lottery ticket sales. In 2007, retailers were provided additional access to the *Retailer Guide* when it was placed on the Texas Lottery Web site. The Retailers page of the Web site was also updated in 2007 to include access to product information such as game and universal product code (UPC) lists, contests and promotions, game-closing schedules and point-of-sale pieces, archives of retailer newsletters, and a Frequently Asked Questions section with updates on policies, practices and software that affect the sale of lottery tickets.

Other initiatives to expand retailer knowledge and provide easier access to information include the continuing use of small-group retailer forums, Retailer Links, in each of the 10 sales districts and one-on-one training updates with the introduction of new games and add-on features. Revisions to the retailer manual and classroom training scripts began in 2007 with the addition of *Daily 4* with *Sum It Up* and the addition of *Sum It Up* on the existing *Pick 3* game.

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, 2007, 305 training programs have been conducted with 11,870 individuals attending.

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 changes the Commission makes 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 Sunday morning must wait until the Lotto Texas drawing occurs on Wednesday night to determine if a prize has been won. 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 an opportunity for 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 by exploring the introduction of higher price points, licensed property games and noncash merchandise prizes that have been successful tools in expanding and increasing instant games sales.

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 sec-

ond 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.

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 15-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. The agency is considering potential add-on game concepts, such as a multiplier, that will continue to keep the game fresh and provide additional or increased winning experiences for players.

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 in-

ception in October 1993. As of February 2008, *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 recently launched the *Sum It Up* add-on feature on *Pick 3*. Agency staff will continue to look for opportunities to maintain the sales levels on this best selling on-line game.

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.

As with other Texas Lottery games, *Mega Millions* revenues go to the Foundation School Fund to support public education in Texas. Sales for *Mega Millions* began on December 3, 2003.

Through FY 2007, more than \$318.6 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 \$390 million *Mega Millions* jackpot in March 2007.

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 million 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. The agency is currently evaluating ways to renew interest in the game including unique add-on game features that may lend appeal to the game.

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*.

Daily 4

New to the on-line product mix in FY 2008, *Daily 4* was launched in September 2007 with the add-on feature, *Sum It Up*, and both have positively impacted on-line game sales during the first five months they have been available. A non-jackpot game similar in play style to *Pick 3*, *Daily 4* has the ability to establish a core player base over time, just as *Pick 3* has without relying on large jackpots to generate sales and increased player and retailer interest. *Daily 4* has a pair play feature, which is not currently available on *Pick 3*, to differentiate the two daily number game offerings.

Daily 4 mimics the more complex play style from the *Pick 3* game that has proved so appealing to certain players. Savvy players enjoy the different play types and wager options available in the game. In order to ensure the success of the game, the agency will continue to focus on player and retailer education about the new game and its features.

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. Additional game concept information is described in section VI of this document.

Instant Games

The Texas Lottery continues to follow an aggressive game-launch strategy. In the late 1990s, approximately 25-30 games were introduced in a fiscal year. By FY 2004, approximately 88 games constituted the game plan and in FY 2006 and FY 2007, approximately 100 games were introduced each year. Introducing more games at smaller print runs keeps the product line new, fresh and exciting. In addition to the game-launch strategy, higher price-point games such as the \$30 and \$50 games have allowed the agency to reach impressive sales levels. Instant games are currently available at the following price points: \$1, \$2, \$3, \$5, \$7, \$10, \$20, \$25, \$30 and \$50. The concept of introducing multiple instant games at various price points on a frequent basis has allowed the agency to realize annual sales of more than \$2.8 billion in 2006 and 2007.

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 on-line game ticket. Toward the end of FY 2008, the agency will attempt to increase cross-play with the introduction of a scratch-off game that offers an on-line game Quick Pick as a prize. Players can present their winning scratch-off to their lottery retailer and upon validation, the retailer's lottery terminal will automatically generate a Quick Pick ticket for the specified on-line game. This concept has proven to be successful in other jurisdictions and the agency hopes to leverage the successful scratch category to stimulate player exposure to the on-line product line.

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 more than three-fourths of these locations are convenience stores. Grocery stores make up the second largest group of retail locations. The agency is focusing its recruitment efforts on the addition of high-traffic retail locations that currently do not sell lottery products, as well as nontraditional types of locations such as fine wine and spirits stores, shopping centers, airports, drug stores and home improvement centers. The agency will also continue to explore new avenues for retailer recruitment and retention.

Check-A-Ticket

Providing Texas Lottery consumers with the greatest level of security and protection possible is key to ensuring the integrity of the games.

The agency has procured 10,250 check-a-ticket machines to provide consumers with the ability to verify the winning status of instant or on-line game tickets. Deployment of this new technology within the retailer base is dependent on use of an additional specialized barcode on scratch-offs. The addition of the PDF 417 barcode to instant tickets began in late 2007 and is expected to be complete on a sufficient level of ticket inventory to allow deployment of the check-a-ticket machines to begin in 2008.

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 option 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, transporting ticket inventory and handling cash from the self service sales equipment. Preventing purchase by minors also remains a major concern. 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 services. 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 nontraditional venues.

Charitable Bingo

In July 2002, Charitable Bingo Administrative Rule 302.300, Pull-tab Bingo, was amended. The amendments authorized additional 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 yearly decline in regular card sales each year from 2002 through 2007. Pull-tab sales increased each year from 2002 through 2007. In 2006, and again in 2007, pull-tab sales exceeded card sales.

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

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 fulfill the objectives noted above. Most research initiatives focus on the following objectives:

- Learning about and understanding Texans' attitudes, behaviors and interests as they relate to the Texas Lottery and other industries;
- Improving and sustaining existing game sales;
- Developing new games and/or game enhancements to meet or exceed customer expectations;
- Developing effective promotional and advertising opportunities;
- Enhancing product distribution channels.

The following examples represent the agency's marketing research and general research agendas.

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 specific topical concerns that often come from the Lottery Operations Division. 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

Texas Statute mandates that the agency's Executive Director contract with an independent firm to conduct a demographic study of Texas Lottery players every two years. The Center for Public Policy at the University of Houston published the most recent state-mandated study, the *2007 Demographic Study of Texas Lottery Players*, in December 2007.

Tracking and Segmentation Studies

Quantitative methods are used by the Texas Lottery to understand public attitudes and behaviors. Monthly and annual public surveys are conducted using representative sampling techniques that measure myriad variables including: Texas Lottery participation, perceptions of the lottery, gaming motivations, and so on. Surveys are conducted by an independent vendor which tracks and segments the Texas market.

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. Other items measure player views on lottery game changes, the reasons for abandoning or beginning to play games, and other topics. Tracking studies have at least two objectives: provide longitudinal data on public attitudes and behaviors; and, offer an efficient means for researching immediate agency interests. Approximately 400 people are surveyed each month and fiscal quarterly data are rolled up into a sample of 1,200 respondents.

Annual segmentation studies are produced each October and sample 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.

Lottery Research Groups

The Texas Lottery Commission uses qualitative-research methods to examine player and retailer interests. Qualitative-research methods include focus groups, in-depth personal interviews, and other techniques used to assess specific topical concerns that are typically generated by the Products Department. Research groups are often assembled quarterly, for example, to test instant ticket concepts. Regardless of the project's design, participants are recruited from across Texas. Research groups are managed by external vendors, with results being assessed and analyzed by the agency's internal research staff.

Miscellaneous Projects

The Texas Lottery Commission also develops assorted research projects according to specific interests or needs that emerge from existing efforts, as well as other sources. The agency recently completed what was arguably an industry first, in the form of a comprehensive Consumer Behavior Study (CBS). The CBS emerged from insights gleaned from the annual segmentation studies, and sampled more than 3,300 Texans to improve understanding of how and where potential consumers can be reached and what could relate to and improve product appeal.

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 of the more than 16,000 Texas Lottery retailers are surveyed over a four-year period. Survey questions ask about point-of-sale item displays, ticket dispensers, and other topics. Responses are compiled into semi-annual reports that specify general trends among retailers. Project data is collected by claim center personnel and all reports are generated and distributed internally.

D. Technological Developments

Impact of Technology on Agency Operations

The most significant impact of technology on current operations is the continued growth in the agency's Internet services and the refresh of the agency's information technology infrastructure. The Internet continues to be an integral tool for communicating with players, customers and the general public, as well as a source for processing business transactions. Technology refresh is critical to ensure the infrastructure is dynamic and expandable to support the growth and changes required to meet business needs.

Completed Technology Initiatives:

- Converted all email, file and print services to newer technology.
- Implemented an agency standard for applications development and converted all older legacy systems to the new standard.
- Refreshed desktops, servers and storage area network equipment.
- Implemented a virtual tape backup system.
- Redesigned the agency Web site.

Planned Technology Initiatives:

- **Refresh of Wide Area Network Components** – The agency received capital budget authority in FY 2008 to purchase equipment to refresh network components such as switches, routers, firewalls, etc., due to much of the equipment reaching the end of its estimated useful life.
- **Refresh of Desktop Software** – The agency received capital budget authority in FY 2008 to upgrade the Microsoft Office Suite.

- **Security** – As with all entities, the agency continues to be confronted with the latest security threats and is always implementing changes to ensure the security of the network and data. The agency will continue to do penetration testing to mitigate and respond to threats.
- **Telecommunications** – The agency's voice mail system has reached its end of life. The agency is evaluating options for the replacement of this system, as well as examining options for Voice over IP.
- **Web site** – In FY 2008, the agency will complete the development of a retailer locator function to facilitate players' ability to identify locations where a specific scratch off game is available for purchase.

Automation Efforts

- **Electronic Records Management** – The agency is committed to expanding the use of electronic records management where it creates operational efficiencies and value for the State.
- **Texas Online** – In FY 2008, the agency will start accepting payments from Lottery Retailers through Texas Online.

Electronic Filing for Charitable Bingo

In 2006, electronic filing of quarterly reports was made available to conductors, conductor/lessors, lessors, and accounting units. The CBOD is not statutorily authorized to accept electronic payments of prize fees and taxes. The ability of the CBOD to accept and process on-line payments would benefit both licensees and the Division.

The CBOD is developing an online version of the Operator Training Program that includes both training and testing components. The program is scheduled to be implemented in June 2008. When successfully completed the indi-

vidual receives certification from the CBOD. The online version benefits both licensees and the CBOD in that it eliminates the need for travel, ensures consistency of presentation and information related to the training program. In addition, it provides flexibility to the individuals who are required to take the test as they can take it anytime they choose. The on-site Operator Training Programs required some individuals to take time off from work to complete the test; the online version eliminates this inconvenience.

The online version of the Operator Training Program will not replace on-site operator training programs offered throughout the state but will reduce the number of on-site training programs offered by the CBOD. The reduction in on-site training programs will result in significant savings of travel expenses for the CBOD. It is not possible to entirely eliminate on-site training programs because some individuals required to complete the program do not have access to and/or training in using computers; to require them take the training program online would impose an undue burden on them.

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 Commission is committed to investing in training to provide its employees with the skills they need to work in today's 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 efforts is to responsibly reach and communicate with adult Texans to enhance awareness and participation in 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 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, Internet) and point-of-sale materials (flyers, brochures, posters, etc.).

While the Texas Lottery's advertising budget has diminished in nominal dollars from \$40 million in 1993 to \$31 million in 2007, the effects of inflation are even more pronounced. An advertising budget of \$40 million in 1993 dollars would equate to \$56.8 million in 2007 dollars adjusted for inflation.

With the greatly expanded product mix, the agency faces significant challenges in advertising and communicating with the public about all of its products. In FY 1993, lottery products consisted of one online game (Lotto Texas) and two instant games. Today, the Texas Lottery offers six different on-line games. Additionally, the agency now introduces more than 100 instant games each year.

In FY 1993, players were easier to reach frequently via network TV and radio advertising. However, the advertising industry has experienced dramatic challenges with the proliferation of new media choices for consumers in recent years with the expansion of Internet advertising, growth in cable channels, satellite TV and radio, and the emergence of technology such as TIVO and iPods that can limit advertising exposure. This market dilution means it is becoming more

difficult to reach large groups of consumers for the same level of media expenditures.

Since FY 1993, the population of Texas over 18 has increased by 47 percent from 12,564,393 to 18,500,000. Additionally, the population of Texas has become more ethnically diverse with a majority-minority population. The increased population and decreased advertising budget have combined to lower per capita expenditures over a 15-year period by 47 percent from \$3.17 to \$1.68.

Research from the University of Texas suggests that for each additional dollar in advertising expenditures, an additional \$5 to \$25 in additional sales could be anticipated.

The agency adheres to specific measures to ensure appropriate communications with the public regarding Texas Lottery products. In accordance with Government Code 466.110, advertisements or promotions sponsored by the agency 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 2007, more than 80 promotional events and over 1,700 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 new 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 Retailer Service Center section of the agency Web site provides a broad base of information useful to retailers for the sale of games and operation of equipment and financial reporting data to support business activities related to lottery sales. The agency also holds a series of meetings throughout the year with "retailer links" to solicit their input and explain Texas Lottery initiatives, plans and activities.

Retailer Links Meetings

Since 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.

"Retailer links" meetings are held with a small group of retailers that meet with lottery staff in each of the 10 sales districts. The agency attempts to meet with retailers in a different district each month, covering the state each year. The retailers 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 retailers also discuss other issues of importance including services, policies and products of the Texas Lottery and

its vendors. The input gathered from the retailer links is extremely beneficial to the agency and has frequently resulted in the implementation of new initiatives or revision to existing initiatives. Whenever possible, the Texas Lottery adopts suggestions from retailers that can increase revenue to the state and provide better service to players and retailers.

Communicating with Charitable Bingo Licensees

The CBOD Web site is used extensively to update, educate and inform licensees and the general public about issues pertinent to the regulation of charitable bingo in Texas. The Web site is designed to provide a wide variety of information including: electronic forms; news alerts; links to the Bingo Enabling Act and Charitable Bingo Administrative Rules; access to the Bingo Services Center; Operator Training Program schedules, and registration; FAQs; Advisory Opinions; information on the Bingo Advisory Committee; and much more.

The CBOD 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 and other agency personnel attend check presentations, give speeches to civic organizations, participate in media interviews, and promote 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 CBOD.

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 provides 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, HB 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 (DPS) 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.

Silver Alert System

On May 1, 2007, the Texas State Legislature unanimously passed the Silver Alert System, which issues statewide notice for missing senior citizens. The Silver Alert System is modeled after the Amber Alert Network and uses the same infrastructure currently used by state and local law enforcement. The legislation outlines procedures to be used by local law enforcement to verify that a senior citizen is missing and has an impaired mental condition.

On September 1, 2007, the Texas Lottery Commission officially joined the Silver Alert System. Though Senate Bill (SB) 1315 did not mention the agency by name, since the Texas Lottery was lending assistance in the Amber Alert Network through the DPS, the agency became a partner in the Silver Alert System.

Play Responsibly

The Texas Lottery is committed to educating players about important game-related information and encouraging them to play responsibly. The Play Responsibly public information campaign reminds consumers that the Texas Lottery Commission encourages conscientious participation in its games. The campaign was originally launched in August 2003 and continues today with the Play Responsibly message positioned in public communications, including how-to-play brochures, retailer and player publications, point-of-sale materials, and news releases. The campaign features the agency's Play Responsibly Web page where players can find links to outside problem gambling resources.

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 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, reports, and links to agency administrative rules and other legal documents.



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 launched and ran its first "Where the Money Goes" awareness campaign in FY 2006 and 2007, which included TV, radio, outdoor and point-of-sale support.

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2007 – 2011 Period

IV. EXTERNAL FACTORS AFFECTING SERVICES

A. Demographic Characteristics

Texas Lottery Players¹

Texas Lottery players were distributed variously within and across demographic categories in 2007. Players were found in lower-, middle- and upper-income and educational groups, and were relatively split in terms of gender. The average player age was roughly 53 years old, with females being somewhat older on average than males (54 and 51 years old, respectively). Average age of the player base increased over what was reported in the previous Strategic Plan.

Texas Lottery players were predominately white (65.8 percent) and approximated the state's adult white population (69.8 percent). The nonwhite ethnic composition of players was, however, disproportionate to the state's demographics. For example, U.S. Census Bureau 2006 population estimates indicated that Hispanics comprised 35.7 percent of the Texas population aged 18 and above.² Only 18.7 percent of Texas Lottery players identified themselves as of Hispanic origin. The remaining minority player groups did not approximate state demographic distributions (see discussion below).

¹See *Demographic Survey of Texas Lottery Players* for the years 2005 and 2007 for section information. Available at: http://www.txlottery.org/export/sites/default/About_Us/Publications/Reports.html.

²U.S. Census Bureau. 2006. *American Community Survey*. Table B03002. "Hispanic or Latino Origin by Race-Universe: Total Population." Located at: http://factfinder.census.gov/servlet/DTSubjectShowTablesServlet?_ts=220438148525. Accessed 2/8/08.

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 2005, approximating income categories in this three-tiered manner consigned roughly 30 percent of players to each income bracket (<\$30,000; \$30,000-\$74,999; >\$75,000). This distribution changed in 2007 when roughly 43 percent of players were located in the middle income group of \$30,000-\$74,999, with the remaining 57 percent distributed relatively evenly in the other tiers.

Texas Lottery players were, moreover, represented across all educational levels, but less so among respondents lacking high school diplomas. Fully two-thirds, however, had at least some college, 36 percent held at least a college degree, and less than 6 percent had not completed high school.

Overall, these demographic patterns suggest relative stability or slight variation compared to demographic material reported in the previous Strategic Plan (2007-2011).

The U.S. Census Bureau estimated that roughly 17 million adult Texans (aged 18 and older) resided in the state in 2006, an 8.6 percent increase over 2004 and 13.6 percent increase over 2000. The *2007 Demographic Study of Texas Lottery Players* demonstrated that about 38 percent of survey respondents played lottery games in the previous year. Extrapolating from these findings suggests a Texas lottery player base just below 6.5 million adult Texans.

The following demographic information profiles Texas Lottery players in 2007 and compares them to the general adult population in Texas.

Household Income

Texas Lottery players were polarized in 2005 in terms of reported household income, but that trend changed in 2007 when players were increasingly likely to earn between \$30,000 and \$75,000. The distribution of players across different household income brackets in 2005 suggested that they were concentrated at the extremes (i.e. <\$30,000 and >\$75,000). More than 61 percent of 2005 lottery players claimed to have annual household incomes in one of these two groups. Just over 32 percent of 2005 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 income pattern among lottery players.

By 2007, however, nearly 43 percent of players were concentrated in the middle-income categories of \$30,000 and \$75,000. The extreme income groups' (i.e. <\$30,000 and >\$75,000) proportions contracted in 2007 to 57.3 percent combined. This decline was accounted for primarily by fewer players (26.4 percent) having reported incomes in the extreme groups. The proportion of players reporting household incomes exceeding \$75,000 increased slightly to 30.9 percent. Although the extremes of <\$20,000 and >\$100,000 declined in proportion to a combined 31.3 percent of all players, the less-than \$20,000 group absorbed most of the decline, with 13.6 percent of players falling into this category compared to 17.9 percent previously. Players reporting household earnings exceeding \$100,000 increased slightly to 17.7 percent. Hence the decentralizing income pattern seen previously may have subsided in 2007.

Texas Lottery player income levels diverged from state patterns in 2007, as players were over-represented in upper income brackets and under-represented in lower income brackets. Compared to 2006 Census Bureau household income data, players were 36 percent less likely than the Texas adult population to report household incomes below \$20,000. In addition, players were roughly 30 percent more likely to report household incomes of \$75,000 or above. Finally, players were roughly 12 percent less likely than the general population to report household incomes below \$50,000, and 14 percent more likely to report incomes of \$50,000 or greater.

Education

The distribution of Texas Lottery players across educational levels continued to exhibit a centralized pattern in 2007, with the majority of players gravitating toward the middle categories. For example, just more than 83 percent of respondents reported holding high school or college degrees, or having some college. Roughly 55.5 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 16 percent of the sample (6.0 percent and 10.6 percent, respectively). The largest proportions of lottery players held either a high school degree (27.9 percent) or had "some college, no degree" (29.5 percent).

Texas Lottery players reported generally higher levels of education than what was found in the adult Texas population in 2006. Based on 2006 population estimates from the U.S. Census Bureau, players were roughly 32 percent more likely than the general adult population to hold college and post-graduate degrees: 36.7 percent, opposed to 27.8 percent, respectively. Players were also less likely than the general population to not earn high school diplomas: 21.5 percent of Texans aged 18 and above had not completed

high school in 2006, yet 6 percent of lottery players reported not finishing high school.

Age

In 2007, the majority (69.8 percent) of Texas Lottery players were above age 45, nearly 87 percent were older than 35, and about 22 percent were above age 65. The youngest demographic group, those aged 18 to 24, comprised the smallest percentage of Texas Lottery players (2.7 percent of players) and reported the lowest rate of past-year lottery participation (17 percent).

When compared to the adult Texas population, Texas Lottery players were underrepresented in younger age categories and overrepresented in older groups. Nearly 14 percent of players were age 18 to 34, while 35.6 percent of the adult Texas population was in this age group in 2006. Further, 46 percent of players were age 55 or older, compared to 26.5 percent for adult Texans in this age bracket.

Gender

Texas Lottery players were somewhat more likely to be female (52.1 percent) than male (47.9 percent). In comparison, the adult Texas population in 2006 was 50.7 percent female and 49.3 percent male.

Ethnicity

The ethnic and racial composition of lottery players suggested a diverse player base. Although Whites made up over 65 percent of players, they represented 69.8 percent of Texans aged 18 and above in 2006. Hispanics were underrepresented as players compared to the general population aged 18 and older (18.7 percent versus 35.7 percent, respectively), and African-American players were overrepresented (13.3 percent of players versus 11.6 percent of the adult Texas population).

Charitable Bingo Players

Total bingo attendance at licensed locations was more than 18 million in calendar year 2007.

In an effort to determine who plays bingo in Texas and why they play, the CBOD 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.

The Bingo Division plans to conduct a follow-up survey demographic survey in 2009 to determine if there have been any changes in the demographics of bingo players.

Charitable Bingo Licensees

In 2007 there were 1,775 charitable bingo licensees, including 1,312 conductors, 432 commercial lessors, 15 distributors and 16 manufacturers. Table 14 (see page 60) shows the licenses issues by calendar year from 1986 through 2007 and the percentage changes from year to year.

The total number of licensed organizations peaked in 1989 at 2,652. The total number of licensed organizations decreased yearly from 1989 through 2007, with two exceptions—there were slight increases in 1992 and 1995.

From 1986 to 2007, the number of licensed conductor organizations declined each year, with the exception of a 2 percent increase from 1991 to 1992.

From 1986 through 2007, the number of licensed lessor organization peaked in 1989 with 585 licensed lessors, and declined each year from 1989 through 2007, with two exceptions—there were slight increases in 1992 and 1995.

From 1986 through 2007, the number of licensed distributors varied, peaking in 1987 with 45 licensed distributors. The lowest number of licensed distributors in any year has been 15, with 15 licensed distributors in 2001, 2002, 2006 and 2007.

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From 1986 to 2007, the number of licensed manufacturers per year has varied, peaking in 1987 with 30 licensed manufacturers, dropping to a low of eight licensed manufacturers in 1994, rising to 21 in 2003. In 2007, there were 16 licensed manufacturers.

From 1996 to 2007, the number of licensed system service providers ranged from one to none, with a peak of two licensed system service providers in 1998, 1999, 2001 and 2002. There were no licensed system service providers in 2006 and 2007.

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. Table 15 shows the types of conductor organizations licensed by year from 1986 through 2007.

The number of licensed religious conductor organizations was at its highest in 1986 with 303 licensed organizations, and declined yearly with the exception of 2004 and 2005, which

TABLE 14
ORGANIZATIONS THAT APPLIED FOR AND WERE ISSUED A LICENSE
1986 – 2007

YEAR	CONDUCTOR	LESSOR	DISTRIBUTOR	MANUFACTURER	SYSTEM SERVICE PROVIDER	TOTAL	% CHANGE
1986	1,451	427	27	25		1,930	
1987	1,776	495	45	30		2,346	21.55%
1988	1,813	543	28	15		2,399	2.26%
1989	2,033	585	23	11		2,652	10.55%
1990	1,844	537	25	11		2,417	-8.86%
1991	1,827	534	23	13		2,397	-0.83%
1992	1,863	554	24	11		2,452	2.29%
1993	1,811	549	25	11		2,396	-2.28%
1994	1,757	522	20	8		2,307	-3.71%
1995	1,775	547	20	9		2,351	1.91%
1996	1,707	531	20	12	1	2,271	-3.40%
1997	1,669	508	20	13	1	2,211	-2.64%
1998	1,616	491	19	12	2	2,140	-3.21%
1999	1,587	498	18	13	2	2,118	-1.03%
2000	1,536	491	17	13	1	2,058	-2.83%
2001	1,482	472	15	14	2	1,985	-3.55%
2002	1,447	461	15	15	2	1,940	-2.27%
2003	1,430	464	19	21	1	1,935	-0.26%
2004	1,419	459	18	18	1	1,915	-1.03%
2005	1,363	436	18	18	0	1,835	-4.18%
2006	1,318	425	15	19	0	1,777	-3.16%
2007	1,312	432	15	16	0	1,775	-0.11%

1986 - 2002 Source is Texas Lottery Commission (CBS)

2003 source is Texas Lottery Commission (ACBS)

Figures as of 3/12/2008. Unaudited.

EXTERNAL FACTORS AFFECTING SERVICES

TABLE 15
LICENSED AUTHORIZED CONDUCTOR ORGANIZATIONS BY ORGANIZATION TYPE
1986 – 2007

CALENDAR YEAR	RELIGIOUS	MEDICAL	FRATERNAL	VOLUNTEER FIRE DEPT.	VETERAN	TOTAL	% CHANGE
1986	303	533	27	93	447	1,451	
1987	356	692	45	130	517	1,776	22.40%
1988	351	717	28	135	527	1,813	2.08%
1989	326	923	23	141	543	2,033	12.13%
1990	301	776	25	129	560	1,844	-9.30%
1991	286	787	23	125	554	1,827	-0.92%
1992	278	822	24	125	563	1,863	1.97%
1993	267	807	25	120	550	1,811	-2.79%
1994	260	793	20	106	537	1,757	-2.98%
1995	256	821	20	101	535	1,775	1.02%
1996	244	799	20	89	514	1,707	-3.83%
1997	233	790	20	86	506	1,669	-2.23%
1998	217	791	19	74	484	1,616	-3.18%
1999	209	788	18	73	468	1,587	-1.79%
2000	195	757	17	73	458	1,536	-3.21%
2001	179	744	15	71	438	1,482	-3.52%
2002	175	744	15	71	413	1,447	-2.36%
2003	166	740	19	74	410	1,430	-1.17%
2004	168	743	18	71	399	1,419	-0.77%
2005	169	717	18	66	376	1,363	-3.95%
2006	160	721	15	64	341	1,318	-3.30%
2007	155	803	15	64	260	1,312	-0.46%

1986 - 2002 Source is Texas Lottery Commission (CBS)
2003 source is Texas Lottery Commission (ACBS)
Figures as of 3/12/2008. Unaudited.

showed increases of two and one licensed organization respectively.

The number of licensed medical organizations peaked at 100 in 1989, and shows a steady decline, with the exception of 1995 and 2000, with increases of one and four licensed organizations respectively.

The number of licensed fraternal organization peaked in 1989 with 923 licensed organization and shows yearly fluctuations from 1989, with

the largest increase of 82 organizations from 2006 to 2007.

The number of licensed volunteer fire department peaked in 1989, with 141 organizations and shows a steady decline to 64 licensed organizations in 2007.

The number of licensed veteran organizations peaked 1992, with 563 licensed organizations and shows yearly declines from 1992 to 2007, with a low of 260 licensed organizations in 2007.

EXTERNAL FACTORS AFFECTING SERVICES

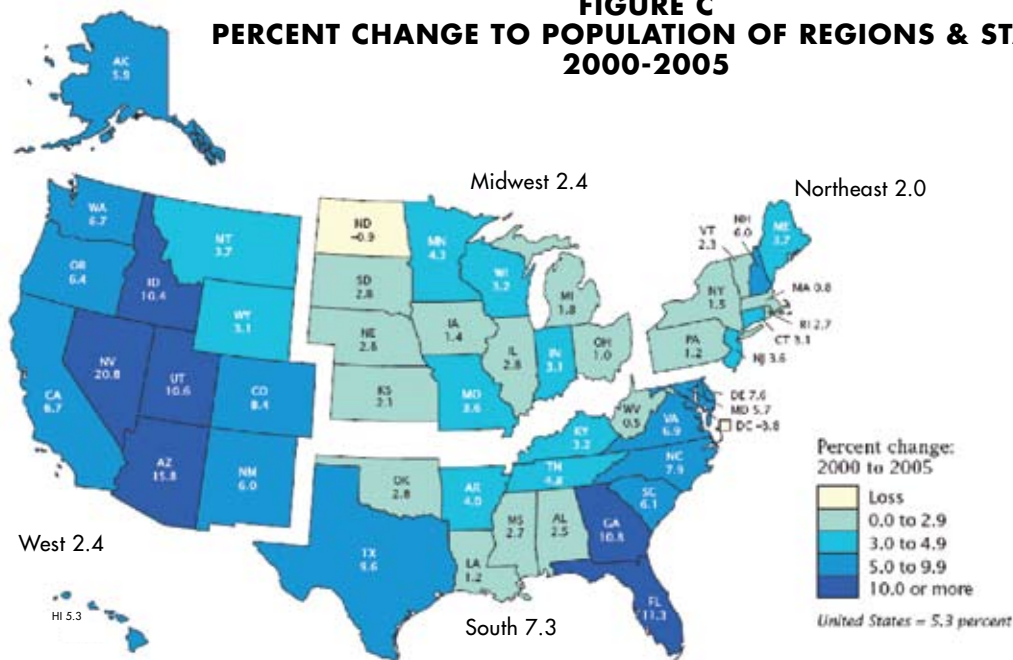
Texas Lottery and State Demographic Trends and Impacts

Texas was the second-largest state in the United States in 2005, ranked behind only California.³ California, Florida and Texas were projected to account for nearly 50 percent of the total U.S. population growth between 2000 and 2030. Texas alone is expected to grow 60 percent during this period, and between 2000 and 2005 had grown 9.6 percent (see Figure 1).⁴ Population growth in Texas is already evident in U.S. Census Bureau population estimates for 2006.

six of the 25 fastest growing U.S. cities are in Texas (Houston, San Antonio, Dallas, Austin, Fort Worth, and El Paso).

Between 2004 and 2006, Census Bureau estimates demonstrated that adults aged 18-24 were the fastest growing age group in Texas, increasing nearly 12.5 percent (see source, footnote 3). The longer term trend from 2000 to 2006 suggests, however, that the 55 to 64 age group outpaced other groups in terms of growth: up 36 percent over that period.⁶

**FIGURE C
PERCENT CHANGE TO POPULATION OF REGIONS & STATES
2000-2005**



Source: U.S. Census Bureau, Population Estimates Program, April 1, 2000, to July 1, 2005.

Compared to 2000, the adult population aged 18 and older increased 13.6 percent: from 14.9 million in 2000 to 17 million in 2006.⁵ Finally,

With reference to ethnicity and race, Texas became in 2004 one of the few states to be categorized a “majority-minority” state, with roughly 50.2 percent of its population being minority.⁷ Non-Hispanic whites made up less than half the state’s population in 2006, Hispanics nearly 36 percent, African-Americans

³United States Census Bureau. 2007. “The Population Profile in the United States: Dynamic Version.” Located at: <http://www.census.gov/population/pop-profile/dynamic/PopDistribution.pdf>. Accessed 2/7/08.

⁴ Bernstein, Robert. 2005. “Florida, California and Texas to Dominate Future Population Growth...”

⁵ United States Census Bureau. 2006 *American Community Survey*. Table B01001. “Sex by Age” for the Total Texas Population. Located at: http://factfinder.census.gov/servlet/DTSUBJECTSHOWTABLES?_ts=220265160605. Accessed 2/5/08.

⁶Ibid. 2006 *American Community Survey*.

⁷Murdock, Steve H., Steve White, Md. Nazrul Hoque, Beverly Pecotte, Xuihong You, and Jennifer Balkan. 2003. *The New Texas Challenge: Population Change and the Future of Texas*. P. 27. College Station, TX: Texas A&M University Press.

roughly 12 percent, Asians about 3.3 percent, and American Indian and Alaska Native .5 percent. A conservative 2003 estimate put Hispanics at more than 44 percent of the total Texas population by 2040, Anglos just over 41 percent and African-Americans roughly 10.5 percent.⁷

Based on 2006 Census Bureau estimates, non-Hispanic whites and African-Americans 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 (39.9 versus 30.6 and 26.9, respectively).⁸

Hispanic population growth should be of interest to business in Texas given the population has experienced recent increases in buying power and income. Generally, Hispanic buying power in the United States is expected to reach an estimated \$1 trillion.⁹ Economic studies have suggested that Hispanic buying power is growing more steeply than any other group in the United States.¹⁰ By 2007, for example, Hispanic buying increased 307 percent over 1990 (from \$212 billion to \$862 billion)—outpacing the growth for all consumers (134 percent) and all other minority group rates in the United States. Hispanic buying power in Texas exhibited similar growth where it surged nearly 341 percent, from \$34.9 billion in 1990 to nearly \$154 billion in 2007.¹¹

The increase in Hispanic buying power is significant to Texas for several reasons. First, Hispanics comprised 35.6 percent of the 2006 Texas population, up from 32 percent in 2000, with continued growth expected. Second, Hispanics and Latinos held more than 16

percent of Texas buying power overall.¹² Third, Hispanic population growth in Texas has a concomitant increase in earnings. The number of U.S. Hispanics earning more than \$50,000 increased nearly 130 percent between 1994 and 2000. Also, Hispanic households earning over \$50,000 increased 30 percent between 2000 and 2004. Population estimates from the U.S. Census Bureau indicated that the trend of increasing earnings in the Texas Hispanic population has continued in recent years. From 2002 to 2006, the median household income for Hispanics increased at a higher rate (10.8 percent) than that for non-Hispanic whites (10.4 percent), African-Americans (5.7 percent), Asians (7.3 percent), and American Indian/Alaskan Natives (-1.6 percent).¹³ Finally, Texas has three of the top 10 U.S. cities experiencing Hispanic growth: Houston, Dallas, and the McAllen region. In a similar vein, San Antonio and Houston/Galveston are two of the top 10 U.S. metro areas with the highest concentrations of Hispanics.¹⁴

However, Hispanic income and buying power growth should not be exclusive foci, particularly given short term trends. Texas's Asian population, for example, experienced the highest rate of median household income growth compared to all other ethnic/racial groups between 2004 and 2006—increasing 15.8 percent. During this period, the number of Asian households earning \$200,000 or more per year more than doubled, despite Asians comprising only a small proportion of the state's adult population. Finally, between 2000 and 2002 Asian buying power in Texas increased more than 250 percent, with total Asian buying power predictions reaching \$26.8 billion for 2007.¹⁵

⁸Ibid. 2006 American Community Survey.

⁹Degross, Renee. 2005. "Home Depot Courts Hispanics." *The Atlanta Journal Constitution*. Feb. 15. Business section: p. D1.

¹⁰Humphreys (2002, p. 1) defined buying power as "the total personal income of residents that is available, after taxes, for spending on goods and services." The term is equated with "disposable income."

¹¹Humphreys, Jeffrey M. 2007. "The Multicultural Economy 2007." *Georgia Business and Economic Conditions*. 67: 1-15.

¹²Humphreys, Jeffrey M. 2002. "The Multicultural Economy 2002: Minority Buying Power in the New Century." *Georgia Business and Economic Conditions*. 62: 1-22.

¹³United States Census Bureau. *American Community Survey*. Table series B19001 by select ethnic/racial group and year.

¹⁴Diversity Best Practices WOW Facts. Year unknown.

¹⁵See Humphreys 2002, p. 18.

As a final note, psychographic profile differences were evident among Texans in 2007. Although most (88 percent) Texans agreed it was important that money from the lottery “goes to a good cause,” for example, fewer people (46 percent) believed the lottery “makes a positive contribution” to the state.¹⁶ Beliefs were fractured about what the Texas Lottery *should* do and what Texans think it actually *does*. It is notable that, in 2005, knowing lottery profits were dedicated to education did 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). However, in 2006 and 2007 the latter trend reversed as an increasing percentage of respondents claimed that knowledge of the Texas Lottery’s profit allocation made them feel *positive* about spending on Lottery games (41 percent in 2007, 39 percent in 2006).

Texas lottery player demographics and psychographics may be expected to shift as the state’s population grows and changes in the direction of youth and minority groups and with respect to changing socioeconomic conditions. Matters of age, ethnicity, population growth, income, and buying power 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. Texas’s demographic shifts toward younger, non-Anglo minority groups, is expected to continue through the early part of the 21st century.¹⁷

¹⁶Source: Ipsos-Reid’s 2007 *Annual Segmentation Study* conducted on the Texas Lottery Commission’s behalf.

¹⁷Murdock, Steve H., Steve White, Md. Nazrul Hoque, Beverly Pecotte, Xuihong You, and Jennifer Balkan. 2003. *The New Texas Challenge: Population Change and the Future of Texas*. College Station, TX: Texas A&M University Press.

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 CBOD 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. The assumption turned out to be false. Based on 2007 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

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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.

The hypothesis proved to be false. The new styles of instant bingo games were approved for

sale in Texas in September 2002. Comparing paper sales to pull-tab sales for calendar years 2002 through 2007 showed that paper sales declined each year and pull-tab sales have increased each year.

Table 16 shows card sales peaked at over \$503 million in 1992, declined in 1993 and 1994, rose slightly in 1995 and declined yearly from 1996 through 1997. Some of the decline in

**TABLE 16
COMPARISON OF BINGO CARD SALES TO PULL-TAB SALES
1982 - 2007**

YEAR	CARD SALES	CHANGE CARD SALES	% CHANGE CARD SALES	PULL-TAB SALES	VETERAN	% CHANGE PULL-TAB SALES
1982	\$66,488,368			\$0		
1983	\$163,172,680	\$96,684,312	145.42%	\$87		
1984	\$217,137,488	\$53,964,808	33.07%	\$4,676,582	\$4,676,495	
1985	\$243,420,805	\$26,283,317	12.10%	\$11,872,941	\$7,196,359	153.88%
1986	\$289,108,477	\$45,687,672	18.77%	\$13,548,709	\$1,675,768	14.11%
1987	\$331,938,566	\$42,830,089	14.81%	\$36,086,789	\$22,538,080	166.35%
1988	\$365,110,091	\$33,171,525	9.99%	\$101,901,561	\$65,814,772	182.38%
1989	\$419,677,774	\$54,567,683	14.95%	\$130,997,997	\$29,096,436	28.55%
1990	\$467,113,452	\$47,435,678	11.30%	\$154,335,596	\$23,337,599	17.82%
1991	\$499,971,275	\$32,857,823	7.03%	\$173,501,233	\$19,165,637	12.42%
1992	\$503,400,917	\$3,429,642	0.69%	\$164,719,328	-\$8,781,905	-5.06%
1993	\$500,434,638	-\$2,966,279	-0.59%	\$151,592,343	-\$13,126,985	-7.97%
1994	\$496,971,984	-\$3,462,654	-0.69%	\$141,599,698	-\$9,992,645	-6.59%
1995	\$498,377,085	\$1,405,101	0.28%	\$139,807,479	-\$1,792,219	-1.27%
1996	\$485,532,608	-\$12,844,477	-2.58%	\$121,926,846	-\$17,880,633	-12.79%
1997	\$449,141,019	-\$36,391,589	-7.50%	\$104,888,564	-\$17,038,282	-13.97%
1998	\$431,161,924	-\$17,979,095	-4.00%	\$99,177,810	-\$5,710,754	-5.44%
1999	\$390,254,799	-\$40,907,125	-9.49%	\$96,753,377	-\$2,424,433	-2.44%
2000	\$356,410,441	-\$33,844,358	-8.67%	\$89,353,141	-\$7,400,236	-7.65%
2001	\$334,606,017	-\$21,804,424	-6.12%	\$85,122,819	-\$4,230,323	-4.73%
2002	\$319,865,576	-\$14,740,441	-4.41%	\$88,979,503	\$3,856,685	4.53%
2003	\$296,955,280	-\$22,910,296	-7.16%	\$129,825,563	\$40,846,060	45.91%
2004	\$280,367,439	-\$16,587,841	-5.59%	\$173,835,537	\$44,009,974	33.90%
2005	\$260,840,747	-\$19,526,692	-6.96%	\$223,207,923	\$49,372,386	28.40%
2006	\$251,273,670	-\$9,567,077	-3.67%	\$253,552,957	\$30,345,034	13.59%
2007	\$229,166,570	-\$22,107,100	-8.80%	\$276,749,246	\$23,196,289	9.15%
TOTAL	\$9,147,899,690			\$2,968,013,629		

1986 - 2002 Source is Texas Lottery Commission (CBS)

2003 source is Texas Lottery Commission (ACBS)

Figures as of 3/12/2008. Unaudited.

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card sales is attributable to the increase in pull-tab sales, but it is difficult to attribute the entire decline to increased pull-tab sales, as other factors could affect card sales, including declining attendance.

Electronic bingo was authorized in 1996 and has increased each year, with the exception of 2005 when it showed a slight decline. The popularity of electronic bingo may be because it is a high-tech way to play bingo. Electronic bingo is an electronic or computerized device and related hardware and software that is interfaced with or connected to equipment used to conduct a game of bingo. The player may play up to 66 card faces on one device by entering the number called into the card minder. While there is a limit on the number of cards that can be played on one card minder, there is no limit on the number of card minders a player may purchase.

Table 17 shows electronic bingo rose yearly from 1997 through 2004, declined in 2005, and increased in 2006 and 2007.

**TABLE 17
ELECTRONIC CARD SALES
1996 – 2007**

YEAR	ELECTRONIC CARD SALES	CHANGE IN ELECTRONIC CARD SALES	% CHANGE IN ELECTRONIC CARD SALES
1996	\$3,806,301		
1997	\$42,783,034	\$38,976,733.00	1024.01%
1998	\$75,687,551	\$32,904,517.00	76.91%
1999	\$120,060,166	\$44,372,615.00	58.63%
2000	\$137,005,668	\$16,945,502.00	14.11%
2001	\$143,791,528	\$6,785,860.00	4.95%
2002	\$148,241,778	\$4,450,250.00	3.09%
2003	\$148,921,116	\$679,338.00	0.46%
2004	\$150,549,106	\$1,627,990.00	1.09%
2005	\$150,000,823	-\$548,283.00	-0.36%
2006	\$153,498,545	\$3,497,722.00	2.33%
2007	\$155,675,992	\$2,177,447.00	1.42%

Figures as of 3/12/2008. Unaudited.
Source: Texas Lottery Commission

Table 18 shows attendance from 1992 through 1997. Attendance has shown a steady decline since 1991. It appears that the introduction of the new style of instant tickets may have altered player patterns in an environment of declining attendance, with players choosing to spend their funds on instant tickets rather than paper.

**TABLE 18
ATTENDANCE AT BINGO OCCASIONS
1982 – 2007**

YEAR	ATTENDANCE	CHANGE ATTENDANCE	% CHANGE ATTENDANCE
1982	0		
1983	900		
1984	15,292	14,392	1599.11%
1985	239,703	224,411	1467.51%
1986	21,928,014	21,688,311	9047.99%
1987	24,720,392	2,792,378	12.73%
1988	27,435,271	2,714,879	10.98%
1989	30,768,010	3,332,739	12.15%
1990	33,551,956	2,783,946	9.05%
1991	37,030,913	3,478,957	10.37%
1992	35,400,888	-1,630,025	-4.40%
1993	34,774,830	-626,058	-1.77%
1994	34,125,815	-649,015	-1.87%
1995	34,102,757	-23,058	-0.07%
1996	32,692,610	-1,410,147	-4.13%
1997	31,074,536	-1,618,074	-4.95%
1998	29,926,084	-1,148,452	-3.70%
1999	27,916,523	-2,009,561	-6.72%
2000	25,820,653	-2,095,870	-7.51%
2001	24,385,464	-1,435,189	-5.56%
2002	23,718,342	-667,122	-2.74%
2003	22,749,669	-968,673	-4.08%
2004	21,594,956	-1,154,713	-5.08%
2005	20,114,037	-1,480,919	-6.86%
2006	19,365,514	-748,523	-3.72%
2007	18,166,171	-1,199,343	-6.19%

Figures as of 3/12/2008. Unaudited.
Source: Texas Lottery Commission

B. Impact of Recent and Proposed Legislation

During the 80th Regular Legislative Session two particular bills passed the Legislature, but were vetoed by the Governor. They were:

HB 1179 – Relating to procurements by the Texas Lottery Commission. The provisions of this bill proposed to amend the State Lottery Act to remove the agency’s exemptions from contracting statutes. The bill would have amended Section 466.101, Government Code, to remove the general exemption from Texas Building and Procurement Commission rules and requirements for state lottery purchases and contracts.

The Governor’s veto message included that, “The Texas Lottery should retain its flexibility in purchasing because the agency in contracting for and operating a unique business that deals with a limited vendor community qualified to operate the games. These purchases are different from consumable goods, such as office supplies, that other agencies purchase and which the TBPC rules are designed to cover.”

HB 2265 – This legislation related to the prizes awarded in a progressive bingo game. This legislation proposed to amend the Bingo Enabling Act by adding definitions and increasing the prize limit for a progressive bingo game.

The Governor’s veto message states that, “HB 2265 would authorize progressive bingo, in which the jackpot prize can grow to several times the currently allowed level. This is a significant departure from existing legal charitable games,” and “Progressive bingo represents an expansion of gambling beyond anything contemplated when Texas allows neighborhood charitable bingo halls.”

The following are bills proposed during the 80th Regular Legislative Session which would have had an impact on the Texas Lottery Commission, but were not enacted:

HB 1156 – Relating to the operation and regulation of charitable bingo and the use of bingo proceeds. This legislation included some general provisions related to the regulation of bingo, and also included provisions to streamline the licensing process.

HB 1670 – Relating to the payment of a lottery prize awarded to a minor. This legislation would have clarified the definitions of “adult” and “minor” to provide that a person 18 years or older could claim a lottery prize, whether the prize consisted of prize money or of property.

HB 2160 – Relating to eliminating the limitation on lottery advertising expenses based on the lottery prize payout percentage. This legislation would have repealed Section 466.015(d), which limits the lottery advertising budget for the next fiscal year if in the preceding fiscal year the prize payout exceeded 52 percent of the gross revenue from ticket sales.

HB 2206 – Relating to the use of card minding device to play bingo. This bill would have authorized the use of a card-minding device to display and play a pull-tab ticket.

HB 2739 – Relating to sale of lottery tickets at a location at which a person holds an alcoholic beverage permit. This legislation would have amended the State Lottery Act to allow for the sale of lottery tickets at bars and restaurants.

HB 3186 – Relating to the authorization and regulation of poker gaming and the duties of the Texas Lottery Commission. This bill would have authorized charitable poker gaming in the state. It would have also created a poker gaming division at the Texas Lottery Commission for the regulation of these activities.

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HB 3350 – Related to the payment of costs incurred in the operation and administration of the Texas Lottery Commission. This legislation would have amended the State Lottery Act to allow for funding of bingo indirect and administrative expenses from the state lottery account.

The agency's Legislative Appropriations Request for FY 2008-2009 included a rider request that provided for funding of certain bingo indirect and administrative overhead expenses through the sale of lottery tickets. The Commission's request was contingent upon the passage of legislation, specifically an amendment to the State Lottery Act, which would clarify the authority of money in the state lottery account be used to pay for costs incurred in the administration of the entire agency, including the regulation of charitable bingo.

HB 3973 – Relating to authorizing a long-term concession agreement for operation of the lottery and establishing three trust funds to receive the revenue resulting from the long-term concession agreement. This legislation would have amended the State Lottery Act to permit an agreement between the state and a private entity to operate the lottery on behalf of the state and retain revenues derived from operation of the lottery.

SB 1200 – Relating to rules governing instant games by the Texas Lottery Commission. This bill would have required the agency to adopt rules requiring prompt closure of instant games in which all of the top level prizes have been claimed. Although not enacted, the agency did adopt rules that mirrored the intent of SB 1200. (See also Rider 14 below.)

SB 1751 – Relating to the authority of the Texas Lottery Commission to establish an Internet lottery game program. This legislation would have authorized the sale of lottery tickets over the Internet.

Additionally, various bills and joint resolutions related to the authorization of video lottery terminals were filed during the legislative session:

HB 1 – General Appropriations Act. Several new provisions which were enacted in the General Appropriations Act impact the Texas Lottery Commission. These include the following two Riders contained in the agency's bill pattern:

Rider 14 – Relating to instant game closures. Rider 14 provided an additional \$3 million per year for instant ticket production costs contingent upon the agency adopting administrative rules requiring prompt closure of instant games in which all of the top level prizes have been claimed.

Rider 15 – Relating to the sale of the lottery. Rider 15 prohibits the agency from expending any appropriated funds for any activities linked to a possible sale of the Texas Lottery.

C. Other Legal Issues

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 certain communications between the Texas Lottery Commission and a licensed bingo manufacturer were public documents for purposes of the Public Information Act, reasoning that the litigation exception no longer applied to information exchanged by all parties to pending or anticipated litigation

and instructing that the communications be released to the public. 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. The Texas Lottery Commission filed a Motion for Summary Judgment asserting that the communications were informal settlement communications and thus should be afforded the same confidentiality provided formal settlement communications. The Texas Lottery Commission also asserted that it is contrary to public policy for parties who do not incur the time and expense of formal alternative dispute resolution to somehow be afforded less confidentiality than those who do. Summary judgment was granted by the Travis County District court in favor of the manufacturer and the Texas Lottery Commission, ruling that documents relating to informal settlement negotiations should be kept confidential. This decision is currently pending on appeal by the Attorney General's office in the Third Court of Appeals, Austin, Texas.

Assignment of Lottery Prize Installment Payments

In March 2007, pursuant to a Motion for Summary Judgment in a declaratory judgment action, a Travis County District Court ruled that Texas Business and Commerce Code provisions (UCC) prevailed over the more specific State Lottery Act relating to assignments of lottery prize installment payments. The State Lottery Act restricts prize winners from assigning the last two years of prize installment payments. The plaintiff in the case argued that the UCC provides that lottery payments are considered an account under the UCC and therefore any assignment thereof cannot be in any way restricted. The district court ruled in favor of the plaintiff. The Commission appealed the ruling. The matter is pending on appeal in the Third Court of Appeals, Austin, Texas.

Personal Liability of Officers, Directors and Shareholders of Lottery Retailers

In 2002, after repeated unsuccessful attempts to collect monies owed by a former licensed lottery retailer, the Texas Lottery Commission levied the amount owed directly from the personal bank account of a director of the retailer.

After the levy, the director requested a tax re-determination hearing for refund of the monies. The matter was referred to the State Office of Administrative Hearings and an administrative law judge issued a Proposal for Decision (PFD) that was adopted by Commission Order. The PFD contained findings of facts and conclusions of law that concluded that the director was personally liable pursuant to the State Lottery Act, and that the State Lottery Act provision evidences the intent to create an exception to established law relating to businesses and corporations in order to assess liability against individuals. The director claimed that the Tax Code limited his personally liability and that the Texas Lottery Commission must prove how much money was actually collected by the director, that he had actual knowledge that the money had been collected by the retailer, and that he had the requisite financial control of the retailer's assets. The director filed a petition for judicial review of the Commission Order, which was heard in the Travis County District Court on February 20, 2008. The district court upheld the Commission Order, ruling against the director. The director filed an appeal with the 3rd Court of Appeals in Austin on February 28, 2008, where the matter is currently pending.

Attorney General Opinions

In November 2007, in response to a legislative request concerning the sale of lottery tickets in retail locations where smoking is permitted, the Attorney General issued an opinion that "a court would probably find that the Texas Lottery Commission violates the Americans with Disabilities Act if it fails to provide Texas

residents with ‘meaningful access’ to state services.”

In January 2008, the Attorney General released an opinion stating that a raffle is not authorized by any exception to the Texas Constitution, Article III, Section 47a, which prohibits “lotteries and gift enterprises.” The Attorney General concluded that the Texas Lottery Commission may not operate a “raffle-style” game, nor may it enter into a contract with a private entity to operate such a game on behalf of the state.

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 peace precinct level. Currently, 264 cities, 118 counties and 156 justice of the peace 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 may affect 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 may also compete for 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, up 44 percent. By January 2008, the average price of regular gasoline in Texas was \$2.98. 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 2005.¹⁸ According to the report, 26 percent of lottery players claimed to spend less on lottery products because of higher fuel prices. A 2008 national study of roughly 1,200 respondents found that nearly 20 percent had purchased a more fuel efficient car in the past year.¹⁹ However, a study conducted by the Texas Lottery Commission’s Research Department in 2005 found few statistically significant negative correlations between rising gasoline prices and Texas Lottery sales. The trend in escalating gasoline prices over time is outlined in Chart A and may play a role in how consumer dollars are spent.

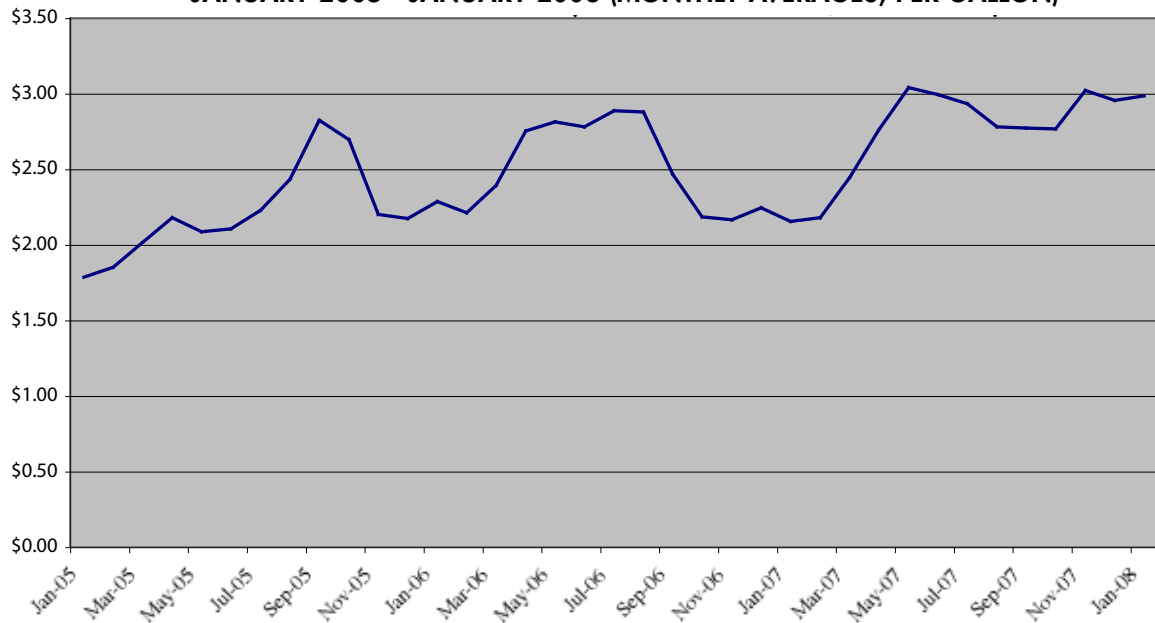
The U.S. and Texas economies have been fairly stable in recent years, although some indicators experienced declines, particularly near the end of 2007. Consumer confidence in the United States, for example, has been stable since the end of 2005, but slipped at the end of 2007 (see Chart B).

¹⁸Mueller, Margaret. 2006. “Lottery Players Driven Away by Gas Prices.” *Lottery Insights*.

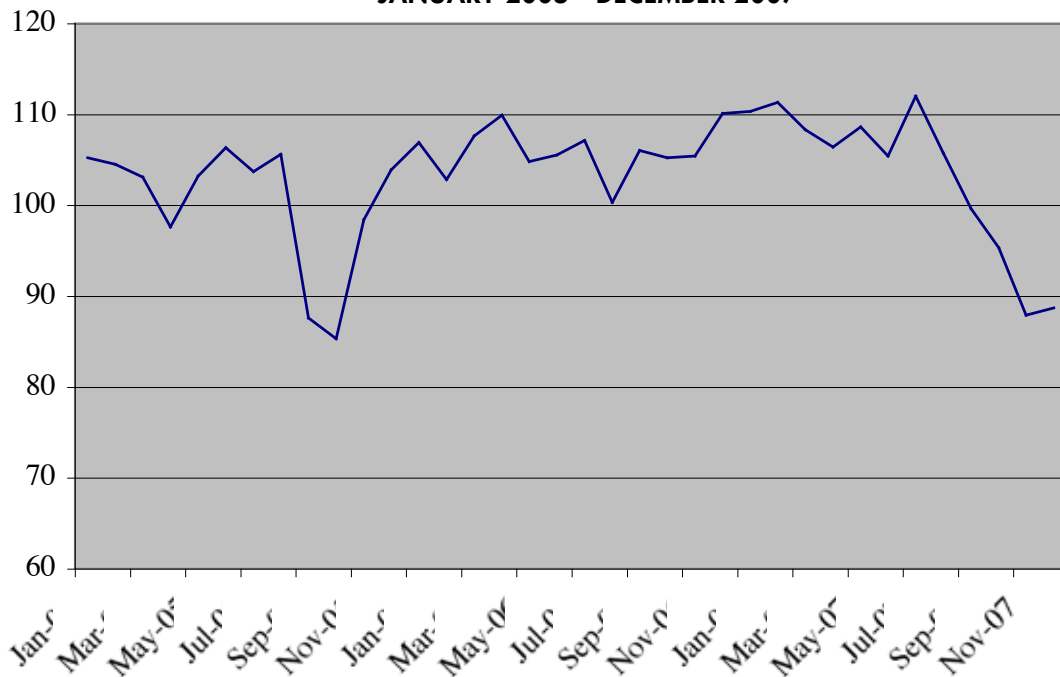
¹⁹The Association for Convenience and Petroleum Retailing (NACS). 2008. “Gas Prices are Consumers’ Top Economic Concern.” Available at: http://www.nacsonline.com/NACS/Resource/PRTToolkit/Campaigns/prtk_gp2008_TopConcerns.htm. Accessed 2/7/08.

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**CHART A: TEXAS ALL GRADES CONVENTIONAL RETAIL GASOLINE PRICES
JANUARY 2005 - JANUARY 2008 (MONTHLY AVERAGES, PER GALLON)**



**CHART B: U.S. CONSUMER CONFIDENCE INDEX
JANUARY 2005 - DECEMBER 2007**



EXTERNAL FACTORS AFFECTING SERVICES

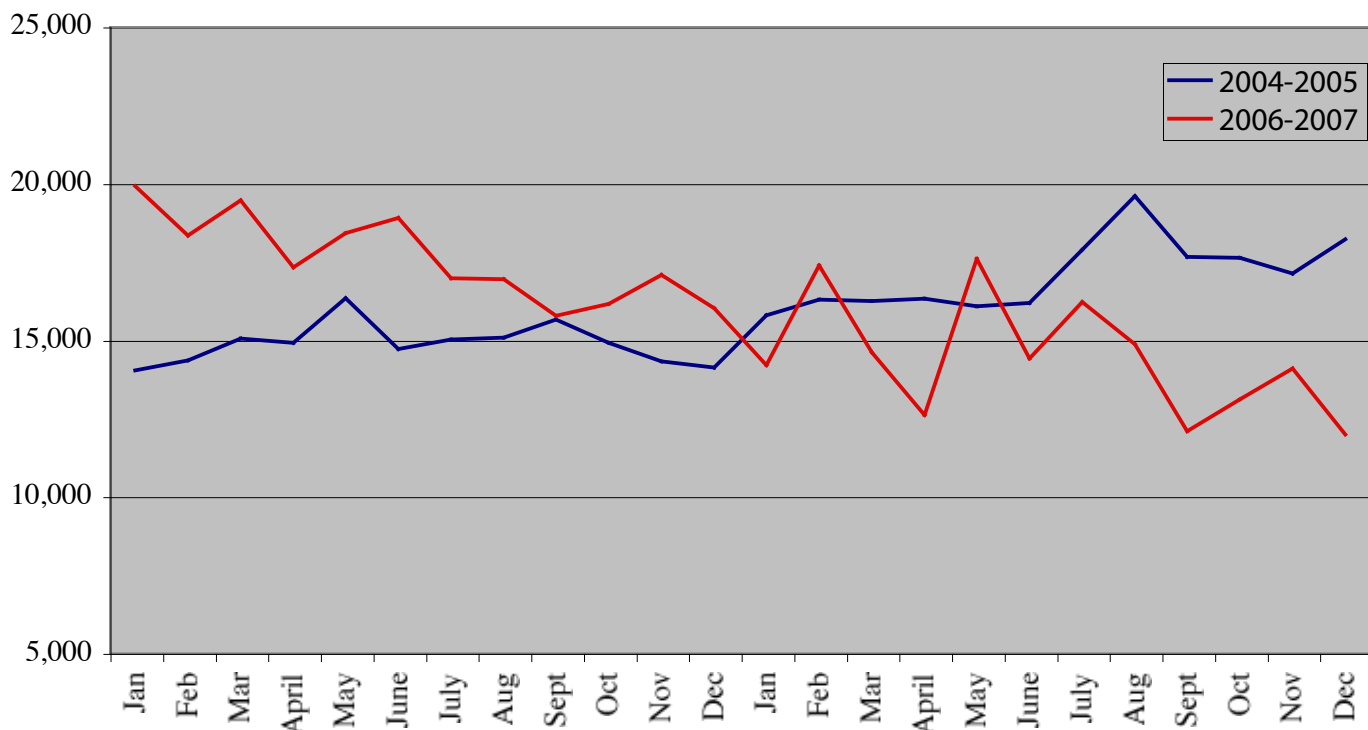
According to the U.S. Bureau of Labor Statistics, business-sector productivity in the United States has slowed down recently. For example, between 2000 and 2004, U.S. business productivity increased at an average of 3.2 percent annually.²⁰ By 2007, however, the annual increase declined to 1.6 percent.

Evidence of an economic slowdown also existed for Texas. For example, the number of Texas housing permits issued slowed from 2006 through 2007, as demonstrated in Chart C. Housing permits experienced growth in 2004 and 2005, but shifted downward in 2006 and 2007.²¹

Another economic indicator had to do with retail sales in Texas. Although retail sales in Texas experienced an upward trend from 2003 through 2007, growth was arguably slower in 2007 compared to other years. Chart D demonstrates, for example, an upward trend in retail sales generally, but sharp declines in the extent of growth year over year. Retail sales increased nearly 9 percent from Q2 2003 to Q2 2004; 7.5 percent from Q2 2004 to Q2 2005; 9 percent from Q2 2005 to Q2 2006; but only 5.6 percent from Q2 2006 to Q2 2007. The fourth quarter of 2006 marked the lowest year-over-year growth rate for the period examined (3.6 percent).²²

**CHART C: TEXAS RESIDENTIAL HOUSING PERMITS
MONTHLY, SEASONALLY ADJUSTED, JANUARY 2006 - DECEMBER 2007**

Number of permits Issued



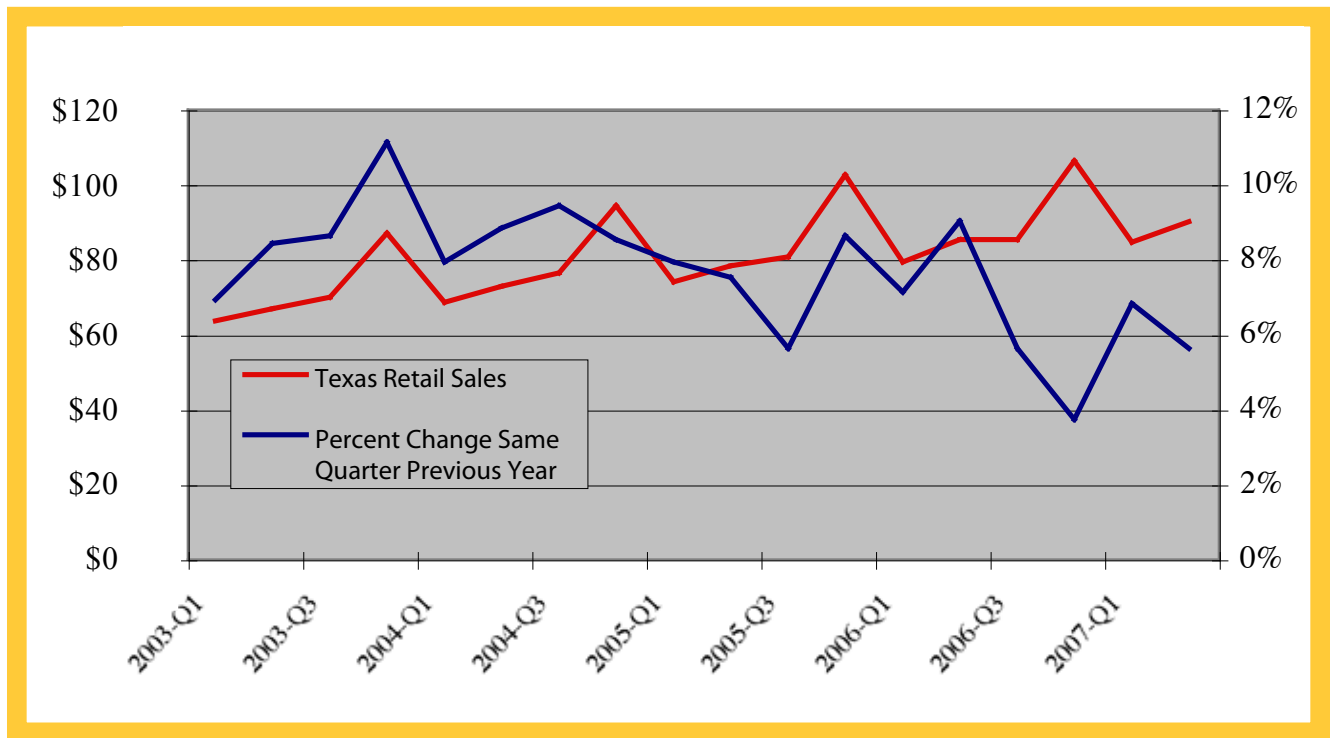
²⁰ United States Bureau of Labor Statistics. 2008. "Productivity and Costs, Fourth Quarter, Preliminary." Located at: <http://www.bls.gov/news.release/prod2.nr0.htm>. Accessed 2/6/08. BLS defines "productivity" as "output per hour of all persons."

²¹ Federal Reserve Bank of Dallas. 2008. "Texas Residential Housing Permits: Monthly, Seasonally Adjusted Number of Permits." Located at: <http://dallasfed.org/data/data/tpmtot.tab.htm>. Accessed 2/5/08.

²² Texas Comptroller of Public Accounts. 2008. "Texas Retail Sales." Located at: <http://www.window.state.tx.us/ecodata/eoind/eoind2.html#retail>. Accessed 2/5/08.

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**CHART D: TEXAS RETAIL SALES
QUARTERLY TOTALS, Q1 2003 - Q2 2007**



The Texas Lottery technically has no direct intrastate competition, but other gaming options exist which compete for Texans' entertainment dollars. According to *Harrah's Survey '06* profiling the American casino gambler, Texas ranked 7th among the top 10 states in 2005 that generated casino trips in the last 12 months.²³ Harrah's found that southern states, including Texas, had casino participation rates that exceeded the national average of 25 percent (based on adults that gambled at least once in a casino in the last 12 months). Dallas/Fort Worth and Houston ranked among the top 20 U.S. casino feeder markets with casino participation rates of 20 percent and 22 percent, respectively. They also ranked 21st and 26th among feeder markets generating one million or more casino trips in 2005. Texas had an overall casino participation rate of 21 percent in 2003, with Lake Charles, Louisiana; Las Vegas, Nevada; and Shreveport/Bossier City, Louisiana among top destinations. A sizeable proportion of Texans

therefore finds casino gambling alluring.

The Texas Lottery has monitored casino gaming expansion in Texas border states and Mexico. At least four casino gambling facilities were planned along the Texas-Mexico border in 2005, and more than 35 gaming sites existed within 50 miles of all the state's borders.²⁴ Although Mexico prohibited casino gambling, it continued to press ahead with alternative games including "electronic bingo" machines. International Gaming Technology had installed roughly 5,000 of these machines in Mexico by the end of 2006 and expected to install another 7,000 in 2007.²⁵

Domestically, however, evidence suggested that Oklahoma casinos were competing effectively for Texas's gaming population. Choctaw and Chickasaw Native American Indian Nations in Oklahoma expanded along the Texas border since Oklahoma's 2004 referendum gave tribes

²³ *Harrah's Survey 2006: Profile of the American Casino Gambler*. 2006. Published by Harrah's License Company, LLC. No publication city listed.

²⁴ Castillo, Mariano. 2006. "Mexico's Casinos Up the Ante for Texas." *San Antonio Express-News*. Metro section, 1/16/2006.

²⁵ Burke, Anne. No date. "Bordering on Success: Mexico Proves a Fertile Market for Electronic Bingo Manufacturers." Located at: <http://www.igwb.com/article.php?id=774>. Accessed 2/5/08.

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the right to offer poker, blackjack, and Las Vegas-style slots. In May 2006, for example, the Choctaw Nation opened a \$60 million casino-hotel in Durant, about 90 miles north of Dallas. Newspaper accounts of Oklahoma-Texas border casino expansion claimed casino managers expected 1.3 million customers in 2006, with Dallas-Fort Worth cited by them as a “primary market.”²⁶ The potential impacts on the Texas Lottery are, however, unknown in terms of gaming opportunities in Mexico and other border regions.

These economic trends were compounded by evidence from the Lottery’s 2007 Player Segmentation Study. This study demonstrated that 59 percent of players reporting to spend less money on Texas Lottery games agreed with the statement that they had “less money available for entertainment.” This figure was up from 54 percent in 2006, which suggests that an increasing percentage of players associated spending less money on lottery products with having less discretionary income.

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 periods when rates are low than when rates are high.

Charitable Bingo

Charitable Bingo attendance peaked in 1991 and has been in steady decline since that period. Even with approval of the new style of play pull-tab games that increased total gross receipts each year from 2002 to 2007, attendance declined each year. In 2006 and 2007, pull-tab sales exceeded card sales. Table 11 (page 49) illustrates key trends in attendance, gross receipts, prizes paid, fees and taxes collected, allocations and charitable distributions for the past six years.

Historically, the only type of demographic player information the CBOD 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.

²⁶ Korosec, Thomas. 2006. “Oklahoma Slots Lure Texans, and Hold ‘em” *Houston Chronicle*. June 25. Section B, p. 1.

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2009 – 2013 Period

V. INTERNAL FACTORS AFFECTING SERVICES

A. 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.

In December 2007, a new comprehensive business plan for the agency was published that covers the FY 2008 – 2011 time frame.

B. 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 2007 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 the previous survey conducted in 2005, the 2007 SOE results indicate that the agency has improved in 17 of the 20 constructs, with the Fair Pay construct remaining the same. Scores improved the most in the four SOE constructs of Holographic, Strategic Organization, Internal Information and External Information.

The employees' response rate was 80 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 response rate did not change significantly from the previous survey.

The 2007 SOE results show that Texas Lottery Commission employees feel that quality principles, such as customer service and continuous improvement, are part of the organizational culture and that employees have the resources to deliver quality services. In addition, employees view the work setting positively. Employees generally feel that job demands are reasonable given time and resource limitations; and that the work environment supports a balance between work and home life. Employees also feel that minimum needs

are being met for personal development and enhancement of job skills.

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. These areas were also identified as relative areas of concern in the previous SOE.

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 adopted a new Personnel Handbook and created the Ombuds position, giving employees additional avenues to voice their concerns or complaints. In addition, a new employee performance evaluation system was implemented with input from an employee work group.

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, and its Employee Assistance Program.

C. 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 retailers and Bingo licensees with links to information specific to their operations as well as the ability to pay their fees online.

During the 2010 – 2011 biennium, the agency will need to replace the laptops, desktops, servers and storage area network. This equipment is currently leased through a statewide contract and will be reaching 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. A cost-benefit analysis to be conducted prior to preparation of the FY 2010 – 2011 Legislative Appropriations Request to evaluate if capital budget authority will be requested for the purchase of the equipment, as opposed to continuing with a lease arrangement.

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2009 – 2013 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 FY 2007, the Texas Lottery generated more than \$47.3 billion in sales and returned more than \$15.0 billion in revenue to the state of Texas. Of that amount, more than \$9.6 billion has gone to the Foundation School Fund. More than \$27.1 billion has been returned to players in the form of lottery prizes. Licensed Texas Lottery retailers received approximately \$2.4 billion in commissions and \$69.7 million in bonuses.

Since the first licenses were issued in 1982 through calendar year 2007, gross receipts from the conduct of charitable bingo have totaled approximately \$13.5 billion. Bingo prizes awarded have been in excess of \$9.9 billion, and charitable distributions have totaled more than \$868 million.

Performance Measures

During FY 2007, the Texas Lottery Commission attained within 5 percent or exceeded targeted performance for nine of its 17 key performance measures, including all five of its key outcome measures and four of its 12 output and efficiency measures, as indicated in Table 19 (see page 78).

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 Lottery started a series of meetings called the Retailer

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**TABLE 19
KEY PERFORMANCE MEASURES
FISCAL YEAR 2007**

KEY PERFORMANCE MEASURES	TARGETED 2007 PERFORMANCE	ACTUAL PERFORMANCE	% OF TARGET
OUTCOME MEASURES			
PERCENT OF RETAILERS SATISFIED WITH TEXAS LOTTERY	93.00%	94.35%	101.45%
STATE REVENUE RECEIVED PER ADVERTISING DOLLAR EXPENDED	\$31.63	\$35.41	111.95%
PERCENTAGE OF COMPLAINTS RESULTING IN DISCIPLINARY ACTION	8.00%	16.82%	210.25%
NET BINGO GAMES REVENUE RECEIVED BY CHARITABLE ORGANIZATIONS (MILLIONS)	\$30.60	\$31.79	103.89%
PERCENTAGE OF ORGANIZATIONS WHO MET THE STATUTORY CHARITABLE DISTRIBUTION REQUIREMENT	97.50%	98.80%	101.33%
OUTPUT MEASURES			
NUMBER OF RETAILER BUSINESS LOCATIONS LICENSED	16,800.00	16,211.00	96.49%
DOLLAR AMOUNT OF ADVERTISING BUDGET SPENT ON TELEVISION (MILLIONS)	\$14.28	\$13.41	93.88%
NUMBER OF LOTTERY COMPLAINTS RESOLVED	600.00	462.00	77.00%
NUMBER OF LICENSES ISSUED TO INDIVIDUALS AND ORGANIZATIONS	7,500.00	7,217.00	96.23%
NUMBER OF BINGO COMPLAINTS RESOLVED	200.00	120.00	60.00%
NUMBER OF DAYS TO ALLOCATE PAYMENTS TO LOCAL JURISDICTIONS	28.00	14.00	50.00%
EFFICIENCY MEASURES			
AVERAGE COST PER RETAILER LOCATION LICENSE ISSUED	\$120.00	\$121.01	100.84%
AVERAGE COST PER SURVEY ISSUED	\$2.56	\$1.86	72.66%
PERCENTAGE OF ADULT TEXANS AWARE OF LOTTERY ADVERTISING	72.00%	61.66%	85.64%
AVERAGE COST PER COMPLAINT RESOLVED (LOTTERY)	\$200.00	\$200.49	100.25%
AVERAGE COST OF BINGO OPERATOR TRAINING CLASS	\$900.00	\$996.51	110.72%
AVERAGE COST PER BINGO COMPLAINT RESOLVED	\$90.00	\$274.65	305.17%

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 CBOD's efforts to increase communication with licensees through initiatives such as the Bingo Bulletin and the Operator Training Programs 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 CBOD?" and is given to each individual attending the Operator Training Program.

Table 20 shows the results of the responses to the survey question rating the quality of customer service provided by the CBOD by calendar year.

**TABLE 20
CBOD OPERATOR TRAINING SURVEY
CALENDAR 2000 - 2007**

YEAR	NUMBER RESPONDING	% RESPONDING "EXCELLENT OR "GOOD"
2000	1,117	94%
2001	804	97%
2002	1,646	95%
2003	1,324	96%
2004	1,595	96%
2005	1,378	97%
2006	1,438	96%
2007	1,142	96%

Charitable Bingo Milestones

Since the publication of the Agency Strategic Plan FYs 2007 – 2011, the CBOD attained the following milestones:

In 2007, three Charitable Bingo Administrative Rules were amended, as seen in Table 21.

**TABLE 21
AMENDED CHARITABLE BINGO ADMINISTRATIVE RULES
FISCAL YEAR 2007**

RULE NUMBER	TITLE	EFFECTIVE DATE OF AMENDMENT
§402.100	DEFINITIONS	SEPTEMBER 13, 2007
§402.300	PULL-TAB BINGO	JULY 17, 2007
§402.400	GENERAL LICENSING PROVISIONS	MARCH 15, 2007

TABLE 22
ADOPTED CHARITABLE BINGO ADMINISTRATIVE RULES
FISCAL YEAR 2007

RULE NUMBER	TITLE	EFFECTIVE DATE OF ADOPTION
§402.102	BINGO ADVISORY COMMITTEE	SEPTEMBER 13, 2007
§402.204	PROHIBITED PRICE FIXING	JULY 17, 2007
§402.505	PERMISSIBLE EXPENSE	MAY 10, 2007
§402.603	BOND OR OTHER SECURITY	MAY 10, 2007
§402.708	DISPUTE RESOLUTION	OCTOBER 14, 2007
§402.715	COMPLIANCE AUDIT	OCTOBER 14, 2007

Six new Charitable Bingo Administrative Rules were adopted by the Commission in 2007, as seen in Table 22.

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 2007 segmentation study found that of the 1,200 Texas residents surveyed, 48 percent held a positive overall opinion of the Texas Lottery, while 32 percent responded negatively (see Table 23)

National and International Comparisons

Texas Lottery National Ranking

According to sales summaries provided by *La Fleur's 2007 World Lottery Almanac*, the Texas Lottery was the third-ranked lottery in the United States for overall total sales* in FY 2006, behind the New York and Florida lotteries.

*Sales exclude Keno and VLTs sales, products not currently offered in Texas.

Texas Lottery International Ranking

Based on FY 2006 sales, the Texas Lottery ranked among the top 12 lotteries worldwide, according to *La Fleur's 2007 World Lottery Almanac*. International lotteries claim the first through fifth positions in total sales (including Keno and VLTs), with three U.S. lotteries—New York, Massachusetts and Florida—claiming the sixth, eighth and 10th positions respectively, as shown in Table 24.

Industry Resource

The Texas Lottery Commission staff serves as a resource to Texas and other states on issues

TABLE 23
ANNUAL SEGMENTATION SURVEY RESULTS
2004 - 2007

HOW WOULD YOU DESCRIBE YOUR OVERALL OPINION OF THE TEXAS LOTTERY (COMMISSION*)?				
	2004	2005	2006	2007
POSITIVE	35%	41%	46%	48%
NEGATIVE	40%	36%	35%	32%
NEUTRAL	23%	23%	19%	20%
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.				
	2004	2005	2006	2007
AGREE	57%	53%	55%	56%
DISAGREE	24%	31%	25%	25%
NEUTRAL	19%	16%	20%	20%
WHERE DO YOU THINK PROFITS FROM THE TEXAS LOTTERY GO?*				
	2004	2005	2006	2007
EDUCATION	33%	38%	52%	48%
STATE	11%	14%	13%	11%
TREASURY/ GENERAL FUND				
POLITICIAN'S POCKETS	9%	14%	10%	13%
ROAD REPAIR	1%	4%	4%	5%
OTHER	24%	33%	22%	20%
DON'T KNOW	22%	25%	17%	17%
OVERALL, HOW SATISFIED ARE YOU WITH THE GAMES PROVIDED BY THE TEXAS LOTTERY?				
	2004	2005	2006	2007
PERCENT SATISFIED	64%	60%	63%	65%

Source: Ipsos Reid annual segmentation studies

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.

TABLE 24
INTERNATIONAL LOTTERY RANKINGS
FY 2007

RANK	LOTTERY
1	ITALY (LOTTOMATICA)
2	SPAIN (LAE)
3	FRANCE
4	UNITED KINGDOM
5	JAPAN
6	U.S. - NEW YORK
7	CHINA WELFARE LOTTERY
8	U.S. - MASSACHUSETTS
9	GREECE
10	FLORIDA LOTTERY
11	CHINA SPORTS LOTTERY
12	U.S. - TEXAS LOTTERY

Source: LaFleur's 2007 World Lottery Almanac

Agency staff members 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 Director of the CBOD is also an active member of the North American Gaming Regulators Association (NAGRA) and has served as

cochair on the Charitable Gaming Committee since 2003. NAGRA was established in 1984 and is comprised of federal, state, local, tribal, and provincial government agencies that are responsible primarily for the regulation of legalized gaming activities. NAGRA brings together agencies that regulate gaming activities and provides them a forum for the mutual exchange of regulatory information and techniques.

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). In 2006 the SAO completed a five-phase audit of the agency. The five phases consisted of reviews of the following: Lotto Texas Activities, Workforce Management, Procurement, Lottery Security, and Financial Reporting, which included the financial opinion audit for FY 2006. Agency management agreed with all recommendations resulting from the audits and has aggressively pursued corrective actions to address conditions noted in the reports.

In 2007, the SAO returned to the agency to conduct follow-up efforts on three of the five phases. In February 2008, the SAO released their report titled, A Follow-up Audit Report on Workforce Management, Procurement, and Lotto Texas Activities at the Texas Lottery Commission. While the report noted many improvements, the auditors made additional recommendations to improve operations.

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

Charitable Bingo Enforcement Process

One of the biggest challenges to charitable bingo in Texas is eight-liner, or "gray," machines that directly compete with charitable bingo often negatively impacting charitable bingo revenues. The decision to prosecute use of eight-liners is left up to the local district attorney resulting in variations of enforcement. The ability of the Texas Lottery Commission to regulate the use of eight-liners in premises where bingo is played would significantly benefit charitable bingo in Texas.

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, fostering public awareness of agency activities and increased advertising expenditures to communicate with consumers about Texas Lottery products.

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 is currently reviewing changes to several existing on-line games. The on-line games scheduled for possible modification in FY 2008 – 2009 include *Pick 3*, *Daily 4*, *Cash Five* and *Lotto Texas*. The modifications under consideration include:

Pick 3 – introduction of “pair play.”

Daily 4 – additional drawings.

Cash Five – additional drawings, the addition of an instant win add-on feature or a complete game redesign.

Lotto Texas – the addition of an add-on game feature.

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

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

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 some added percent for the drawing.

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/Package Play – a way to market existing on-line games by selling products in packages and promoting trial of lesser played 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 to offer their players a better variety and different game experience in a non-traditional lottery venue:

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 Games

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

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.

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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™, *Major League Baseball*®, *I Love Lucy*®, and *Deal or No Deal*®. Other licensed property games will be evaluated for introduction.

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

Instant games with On-line prizes – Instant games can be created with on-line tickets (Quick Picks) as prizes. This allows for cross-promotion of the on-line product and is used as a tool to introduce the scratch-off player to the on-line product line.

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 game products – these games 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 pull-tab play action to reveal play symbols.

Electronic Game Cards – Electronic Game Cards are handheld devices that 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 hand-held 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 authorization of electronic pull-tab bingo, progressive bingo, and restructuring 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. In the 80th Legislature, Regular Session, HB 2265, relating to the award of prizes in, and the conduct of, a progressive bingo game passed but was vetoed by the governor.

Electronic Pull-tab Bingo

Electronic instant (pull-tab) bingo is an electronic form of pull-tab bingo where a

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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. In the 80th Legislature, Regular Session, HB 2206 and SB 1110, relating to the use of a card-minding device to play bingo, were filed but 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 where 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 2006 were \$1.2 billion, and in Texas, pull-tab ticket sales were \$253.1 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.

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 CBOD 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 offset 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 80th Legislature, Regular Session, HB 3186, relating to the authorization and regulation of poker gaming and the duties of the Texas Lottery Commission; providing civil and criminal penalties was filed but did not pass. SB 1478, relating to authorizing certain nonprofit organization to conduct charitable poker

tournament; providing penalties, was also filed in the 80th Legislature, Regular Session but did not pass.

In the Charity Gaming in North America 2006 Annual Report (Table 12), 26 jurisdictions reported raffle gross receipts and 25 jurisdictions reported gross receipts from “raffle” and “other” gaming activities. Raffles gross receipts for 2006 ranged from \$272 million (Ontario) to \$2.5 million (District of Columbia). Other gross receipts which included Las Vegas type games ranged from \$752 million (Alberta) to \$93.4 million (New Brunswick). In many jurisdiction “Texas Hold ‘em” tournaments are authorized under Las Vegas type games.

The CBOD 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 CBOD is not able to respond or assist these individuals. The CBOD 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 nonprofit 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.

Opportunities for Enhancing Efficiency and Customer Service

The CBOD is revising existing Charitable Bingo Administrative Rules (Rules) and writing new Rules in an effort to clarify Commission requirements and procedures related to the regulation of charitable bingo in Texas. The goal is to provide licensees with comprehensive information related to all aspects of the regulation of charitable bingo in Texas that has not been clarified in the past. It is hoped that this will benefit both licensees and the Division in reduced lead time for processing required licenses, forms, payments, and ultimately result in a reduction of violations of the Bingo Enabling Act and Charitable Bingo Administrative Rules.

Current, licensees can file their quarterly reports online but cannot pay prize fees and taxes electronically because the CBOD is not statutorily authorized to process electronic payments. It would enhance convenience and efficiency for both licensees and the CBOD if the electronic payment option were authorized.

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 lottery 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.

ITVM Expansion

Instant Ticket Vending Machines (ITVMs) provide a player-friendly module for expanding consumer access to the instant ticket product, the core of lottery sales in Texas. The addition of new technologies will provide added flexibility and opportunities for placement of ITVMs in trade styles other than grocery.

GamePoint Deployment

GamePoint terminals combine the convenience of an ITVM with an SST in one piece of equipment, as well as the ability for players to check their own tickets for winning status. Deployment of this equipment will begin in FY 2008 with a focus on growing the retailer base and identifying opportunities for exposure to expanded player segments.

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. Input from potential retailers within these trade styles indicates that a route sales model using a consolidated delivery system such as GamePoint is preferred. This license model would require the use of age-verification technology currently under review.

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 market 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 is intended to identify emerging technologies and product lines, industry trends, and issues related to vendors (and their industry competition) through broad-based industrywide 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, such as a trust, partnership or corporate entity.

Before declaring a lottery ticket valid, the Texas Lottery Commission has adopted procedures in accordance with Sections 466.254 and 466.409 of the State Lottery Act to ensure that 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.

Increasing Advertising Dollars

The following table details the significant challenges associated with advertising and communicating effectively with the public regarding Texas Lottery products.

EVALUATION AND OPPORTUNITIES

**TABLE 25
TEXAS LOTTERY ADVERTISING OVERVIEW
MAY 2008**

TEXAS LOTTERY ADVERTISING OVERVIEW - MAY 2008		
ADVERTISING LIMITATIONS: <ul style="list-style-type: none"> FY93-FY00—AGENCY ADVERTISING APPROPRIATION SET UP TO \$40 MILLION WITH NO PRIZE PAYOUT LIMITATIONS. FY01-FY07—AGENCY ADVERTISING APPROPRIATION LIMITATION IMPLEMENTED ASSOCIATED WITH PRIZE PAYOUT (PPO) PERCENTAGE. APPROPRIATION WAS REDUCED \$1 MILLION FOR EACH FULL % BY WHICH THE PRIZE PAYOUT (PPO) EXCEEDED 1) 57% IN FY 2001, AND 2) 52% BEGINNING IN FY 2002. <p> FY93 - FY00 - \$40 MILLION (NO APPROPRIATION REDUCTION) FY01 - \$40 MILLION (NO REDUCTION) [PPO 56%] FY02 - \$34 MILLION (REDUCED \$6 MILLION) [PPO 58%] FY03 - \$35 MILLION (REDUCED \$5 MILLION) [PPO 57%] FY04 - \$34 MILLION (REDUCED \$6 MILLION) [PPO 58%] FY05 - \$33 MILLION (REDUCED \$7 MILLION) [PPO 59%] FY06 - \$32 MILLION (REDUCED \$8 MILLION) [PPO 60%] FY07 - \$31 MILLION (REDUCED \$9 MILLION) [PPO 61%] </p>		
	FISCAL YEAR 1993	FISCAL YEAR 2007
IMPACT OF INFLATION	<ul style="list-style-type: none"> \$40 MILLION ADVERTISING BUDGET 12.6 MILLION TEXANS 18 OR OLDER \$3.17 AD SPEND PER CAPITA 	<ul style="list-style-type: none"> \$31 MILLION ADVERTISING BUDGET --\$40 MILLION IN 1993 DOLLARS EQUATES TO \$56.8 MILLION IN 2007 --ADJUSTED FOR INFLATION, \$31 MILLION IN 2007 EQUATES TO \$21.8 MILLION 1993 DOLLARS 18.5 MILLION TEXANS 18 OR OLDER \$1.68 AD SPEND PER CAPITA --\$3.17 AD SPEND PER CAPITA IN 1993 DOLLARS EQUATES TO \$4.55 IN 2007 --ADJUSTED FOR INFLATION, \$1.68 IN 2007 EQUATES TO \$1.18 IN 1993 DOLLARS
INCREASE IN PRODUCTS	TWO PRODUCTS: <ul style="list-style-type: none"> LOTTO TEXAS 2 SCRATCH-OFF GAMES 	SEVEN+ PRODUCTS: <ul style="list-style-type: none"> LOTTO TEXAS SCRATCH-OFF GAMES (APPROX. 100 LAUNCHED ANNUALLY) PICK 3 CASH FIVE TEXAS TWO STEP MEGA MILLIONS/MEGAPLIER DAILY 4 (SEPTEMBER 2007 LAUNCH)
PRODUCT LIFE CYCLE	LOTTERY PRODUCT WAS BRAND NEW, GENERATING IMMENSE EXCITEMENT AND INTEREST.	LOTTERY PRODUCTS ARE MATURE, MEANING THAT ADVERTISING DOLLARS MUST WORK HARDER TO CREATE PLAYER EXCITEMENT AND INTEREST IN THE GAMES. NEW GAMES, GAME CHANGES AND ADD-ON FEATURES CONTINUE TO BE INTRODUCED, ALL REQUIRING ADDITIONAL ADVERTISING SUPPORT.
FREE MEDIA EXPOSURE	EXTENSIVE FREE COVERAGE OF WINNERS, GAMES AND BALL DRAWINGS BY ALL MEDIA TYPES DUE TO NEWNESS OF GAMES.	EXTREMELY LIMITED COVERAGE OF POSITIVE NEWS STORIES LIKE WINNERS AND ALMOST NO COVERAGE OF LIVE DRAWINGS.
TEXAS ETHNICITY	CAUCASIANS MADE UP THE SIGNIFICANT MAJORITY OF THE POPULATION.	POPULATION IS MUCH MORE DIVERSE WITH A MAJORITY MINORITY POPULATION.
MEDIA PROLIFERATION	PLAYERS WERE EASY TO REACH FREQUENTLY VIA TV AND RADIO ADVERTISING.	ALTERNATIVE MEDIA EXPANSION OCCURS, (SATELLITE TV/RADIO, INTERNET, TIVO, IPODS) DILUTING EFFECTIVENESS OF CONVENTIONAL TV/RADIO ADVERTISING.
PAY AT THE PUMP	BECAUSE PAY-AT-THE-PUMP TECHNOLOGY WAS NEW AND LIMITED, MOST PEOPLE WENT INTO THE STORE TO PAY FOR GAS, ALLOWING FOR EXPOSURE TO LOTTERY PRODUCTS.	ALMOST 90 PERCENT OF STORES HAVE PAY-AT-THE-PUMP TECHNOLOGY, AND ABOUT 60 PERCENT OF CONSUMERS USE IT, REQUIRING ADVERTISING TO WORK HARDER TO DRIVE PLAYERS INTO THE STORE FOR LOTTERY PRODUCTS.

Research from the University of Texas suggests that for each additional dollar in advertising expenditures an additional \$5 to \$25 in additional sales could be anticipated.

Agency Operations

Electronic Records Management

Technological advances in recent years have changed the way the agency does business. From business transactions to administrative functions, more and more business is being done electronically. Recent e-government legislation encourages agencies to use information technology to streamline processes, reduce paperwork, improve response time and provide better access to government services. The management of electronically generated records creates new and additional challenges for the agency. While electronic records are included in the statutory definition of a state record, clear guidelines and parameters must be established to assist divisions in identifying what type of electronic records need to be saved, what process or technology should be used for the preservation of the record and how those records will be retrieved.

An effective e-records management program will result in new policies and procedures that will provide for more efficient use of computer resources, more consistent management of e-records, proper and timely disposition of e-records that have served their purpose, and standard e-mail management policies. The agency will also continue to evaluate and prioritize new initiatives for the agency's document management center.

Operational Continuity

The Texas Lottery Commission currently has a single contract for the provision of lottery

operations and services which support the agency's core business functions. The contract provides a variety of goods and services related to the administration and operation of the Texas Lottery. These include but are not limited to: lottery gaming system operation and maintenance, telecommunications network, retailer terminals, sales, marketing/promotion, warehouse and distribution, and a hotline support system. The current contract was awarded October 10, 2001, and expires August 31, 2011. The value of this 10-year contract is estimated to be more than \$1 billion.

A number of options are available to the agency for the delivery of services set forth in the lottery operator contract. In October 2006, staff developed a document titled "Plan B" that provided the framework for analyzing and exploring these options. The recommendation in "Plan B" was that the agency should immediately move to address two fundamental issues—business continuity for the services provided under the lottery operator contract and the procurement strategy for the lottery operator contract upon its completion. In addition to business continuity and procurement strategies, a third issue, compensation structure, will be reviewed. Any procurement strategy should ensure the resulting compensation structure is fair, equitable and maximizes revenue to the state.

The agency intends to hire a consultant to provide expertise and assistance in analyzing and exploring options available for the delivery of core lottery business functions and developing the resulting procurement documentation. The consultant will assist the agency in a complete business operations process review, developing business cases for the delivery of core lottery services and, finally, implementing designated procurement strategies.

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 2007, the Texas Lottery Commission paid more than \$42.6 million in contracts and sub-contracts to HUBs and minority businesses.

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 state-wide 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 has 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 agency's cost of operations. In FY 2003, the agency's turnover rate was below the state agency average, as shown in Table 26 on page 94. The turnover rate rose slightly in FY 2004. In FY 2005, an agency reorganization pushed the turnover rate to 22.9 percent—slightly above the state-agency average. In FY 2006, the rate declined to 6.1 percent and rose slightly to 9.2 percent in FY 2007, but below the state-agency average for both years. The agency continues to emphasize workforce and succession planning. This process involves closely monitoring staff turnover while building a tal-

**TABLE 26
TURNOVER RATES**

	2003	2004	2005	2006	2007
TEXAS LOTTERY	14.3%	15.2%	22.9%	6.1%	9.2%
STATEWIDE	17.9%	41.8%	18.9%	15.8%	17.4%

Source: SAO Electronic Classification Analysis System

ent 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.

Workforce Management

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.

In July 2006, the SAO issued their workforce management audit report. The comprehensive report identified weaknesses in the agency's employee relations practices, and made recommendations to improve policies and procedures for employee complaints; documentation of employee terminations; consistency in employee performance evaluations; and for improvements in supervisor training and in recruiting and hiring new employees.

In October 2007, the SAO returned to determine whether the agency has made progress in implementing recommendations to correct deficiencies identified in the 2006 workforce management audit.

The final report, (SAO Report No. 08-022) was released in February 2008. The report noted that the Texas Lottery Commission had fully implemented 11 of 13, or 85 percent, of the previous workforce-audit recommendations. The report stated that, while the agency has made progress in implementing most of the prior audit recommendations, it should continue its efforts to strengthen workforce-management activities, including responding to employee complaints.

AGENCY GOALS, OBJECTIVES AND MEASURES TEXAS LOTTERY COMMISSION Agency Strategic Plan Appropriation Structure for 2009 – 2013

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:

- 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
- 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:

- Number of retailer business locations licensed
- Number of denials or revocations of licenses

AGENCY GOALS, OBJECTIVES AND MEASURES

Dollars collected via the debt set-off program (thousands)
Number of licenses issued to individual retailers
Number of licenses renewed to individual retailers

Efficiency Measure:

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 (thousands)

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:

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

AGENCY GOALS, OBJECTIVES AND MEASURES

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

Number of Lottery investigations completed

Number of Lottery background investigations completed

Efficiency Measures:

Average time to complete lottery investigation (days)

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. Estimated and nontransferable.

STRATEGY A.1.7.: Instant Ticket Production Contract(s)

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.

AGENCY GOALS, OBJECTIVES AND MEASURES

STRATEGY A.1.8.: Mass Media Advertising Contract(s)

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 (millions)

Dollar amount of advertising budget spent on radio (millions)

Dollar amount of advertising budget spent on television (millions)

Dollar amount of advertising budget spent on other advertising media (millions)

Efficiency Measure:

Percentage of adult Texans aware of Lottery advertising

STRATEGY A.1.9.: Drawing and Broadcast Services Contract(s)

Definition: Provide and supervise the broadcast and production of all Texas on-line 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.1.10.: Market Research Services Contract(s)

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.1.11.: 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.

AGENCY GOALS, OBJECTIVES AND MEASURES

STRATEGY A.1.912: 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 on-line 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.

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 referred for disciplinary action
- Percent of complaints referred for disciplinary action
- Percent of documented complaints completed within six months
- Net Bingo games revenue received by Charitable Organizations (in millions)
- Percentage of organizations who met the statutory charitable distribution requirement
- Percentage of organizations receiving an audit
- Percentage of organizations receiving an 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:

- Number of licenses issued to individuals and organizations
- Number of applications processed
- Number of Worker Registry applications processed

AGENCY GOALS, OBJECTIVES AND MEASURES

Efficiency Measures:

Average Bingo license (new) processing time (days)

Average Bingo license (renewal) processing time (days)

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 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

Dollar amount of adjustment to charitable distribution

Number of Bingo background investigations completed

Efficiency Measures:

Average time for Bingo complaint completion (days)

Average cost per Bingo complaint completed

Average time to conduct an audit (hours)

Average time to complete Bingo background investigations (days)

Average cost per audit completed

AGENCY GOALS, OBJECTIVES AND MEASURES

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:

Number of days to allocate payments to local jurisdictions
Percentage of licensees who fail to pay fees and taxes by due date
Number of Bingo reports processed

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.
Estimated and nontransferable.

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APPENDIX A

Texas Lottery Commission

Description of Strategic Planning Process

The Texas Lottery Commission's 2009 – 2013 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.

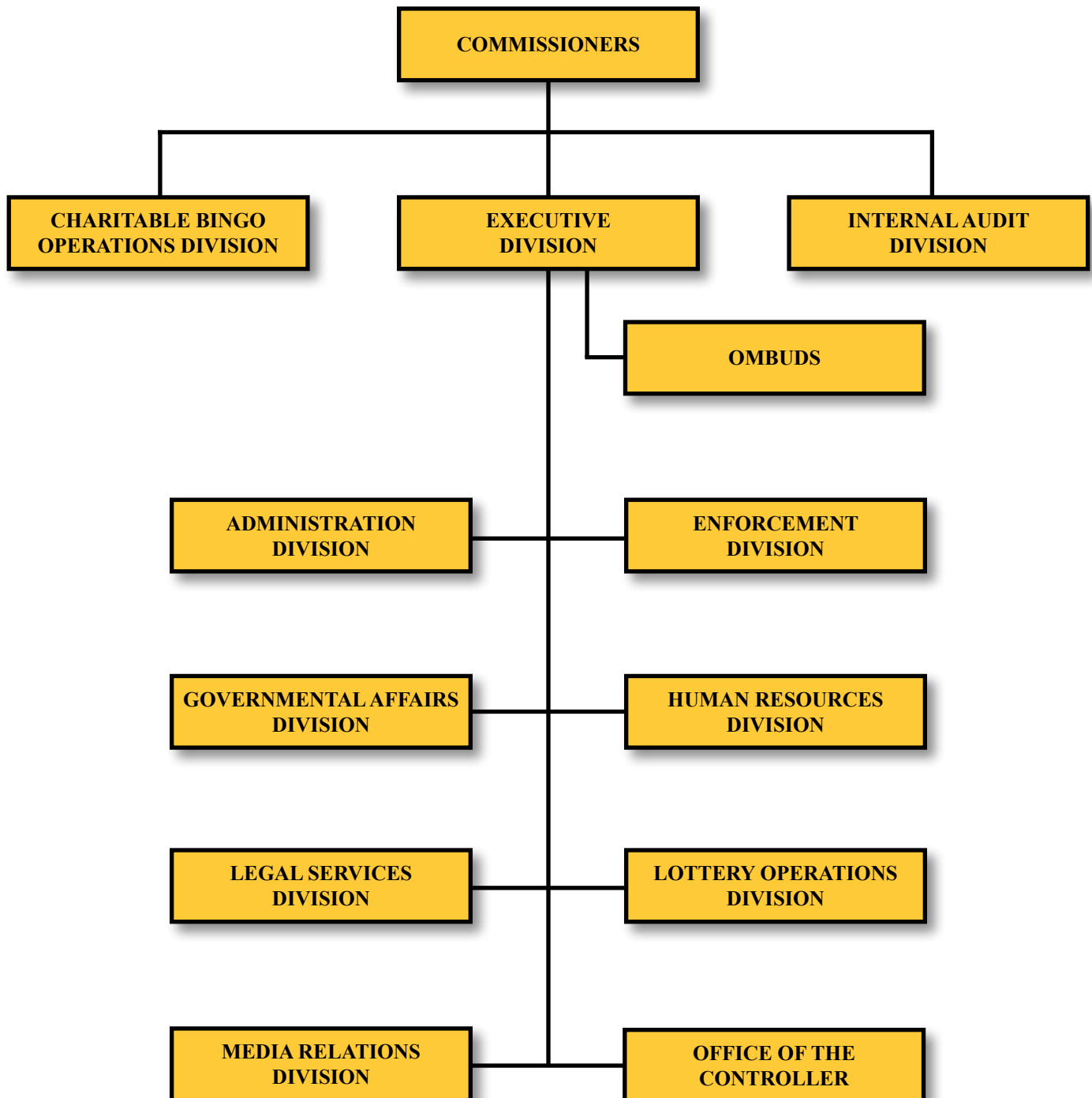
The planning process began in December 2007 when the Deputy Executive Director designated the Administration Division's Publications and Graphics Coordinator as project manager for the development of the strategic plan. The project manager subsequently developed a detailed work plan and timeline, and identified a project liaison in each division, in order to launch the project agency wide.

The strategic planning process began with a review of previous 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 a new strategic plan outline designed to highlight the agency's strategic direction and enhance 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 Lottery Operations 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 three-member Commission. The culmination of months of careful planning and work, the 2009 – 2013 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.

APPENDIX B
Texas Lottery Commission
Organizational Structure
FY 2009-2013



APPENDIX C

Texas Lottery Commission
Outcome Projections
FY 2009-2013

	2009	2010	2011	2012	2013
Lottery Outcomes					
Percent of Retailers Satisfied with the Texas Lottery Commission	93%	93%	93%	93%	93%
Per Capita Net Lottery Sales	\$145.04	\$137.88	\$131.10	\$131.10	\$131.10
Percentage of Net Lottery Sales Spent on Agency Administration	5.51%	5.71%	5.92%	5.92%	5.92%
Percentage of Bad Debt to Lottery Sales	0.02%	0.02%	0.02%	0.02%	0.02%
Ratio of Advertising Expense to Net Lottery Sales	0.85%	0.88%	0.91%	0.91%	0.91%
State Revenue Received per Advertising Dollar Expended	\$33.72	\$32.71	\$31.53	\$31.53	\$31.53
Percent of Licensees with No Recent Violations	98%	98%	98%	98%	98%
Percent of Retailer Surveys Completed	85%	85%	85%	85%	85%
Percent of Eligible Players Served	36%	36%	36%	36%	36%

	2009	2010	2011	2012	2013
Charitable Bingo Outcomes					
Percentage of Licensees with No Recent Violations	95.90%	97.90%	92.50%	92.50%	92.50%
Percentage of Bingo Audits Referred for Disciplinary Action	60%	60%	60%	60%	60%
Percentage of Complaints Referred for Disciplinary Action	33.33%	33.33%	33.33%	33.33%	33.33%
Percent of Documented Complaints Completed Within Six Months	92.00%	92.00%	92.00%	92.00%	92.00%
Net Bingo Games Revenue Received by Charitable Organizations (Millions)	\$31.20	\$31.20	\$31.20	\$31.20	\$31.20
Percentage of Organizations Receiving an Audit	2.94%	4.08%	4.08%	4.08%	4.08%
Percentage of Organizations Receiving an Inspection	30%	35%	45%	45%	45%

APPENDIX D

Texas Lottery Commission

Performance Measure Definitions

FY 2009-2013

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 by Claim Center staff. The resulting data is collected and maintained by the Lottery's Research Section.

Method of Calculation:

All survey responses are noted by the Claim Center staff conducting the interviews, the results are tabulated, and a report is written. The percentage is calculated by taking the number of retailers rating the Texas Lottery's services as either "Good" or "Excellent" divided by the total number of retailers asked the question regarding overall rating of Texas Lottery services. Responses for "Uncertain" are not included in the tabulation.

Data Limitations:

The percentage is based on voluntary, self-reported data.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

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 Financial Accounting system. Population estimates are provided by the U.S. Census Bureau Interim State Projections of Population by Sex.

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 U.S. Census Bureau).

Data Limitations:

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

Calculation Type:

Non-cumulative.

New Measure:

Revised.

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 Financial Accounting 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:

Revised.

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 12 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 Services staff review reports generated from the Retailer Management System and the Internal Control System (ICS). Retailer accounts that have been deemed uncollectible after 12 months and/or are in bankruptcy are identified and the total dollar value of the accounts is determined. Retailer Services staff acquire the total for ticket sales for the fiscal year for which the measure is being reported from the Office of the Controller.

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:

Revised.

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 Financial Accounting 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:

Revised.

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 Financial Accounting 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:

Revised.

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 a report generated from the Retailer Management System and is based on data maintained in the Lottery Operator's retailer database 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 agency staff and obtained by Retailer Services staff from reports produced from these lottery retailer database 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:

Revised.

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:

Retailers are surveyed by Claim Center staff. The resulting data is collected and maintained by the Lottery's Research Section.

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:

Revised.

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 provides Texas Lottery participation rates among the eligible player base, which are used to identify and track market trends.

Source/Collection of Data:

The Lottery's Market Research Services vendor conducts monthly tracking surveys that include questions measuring Lottery participation rates among the adult Texas population. The survey data is collected and maintained by the Lottery's Research Section.

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 participating in lottery games is equitable to eligible players served.

Calculation Type:

Cumulative.

New Measure:

Revised.

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 from the Retailer Management System which is based on data maintained in the Lottery Operator's retailer database. The report shows all retailer business locations licensed and active on the last day of the previous quarter. 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:

Revised.

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. Retailer Services staff refer cases to the Legal Services Division for revocation of licenses from information tracked in retailer database tracking 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 by Retailer Services staff in the Retailer Management System. Orders for license revocations are tracked and recorded in spreadsheets maintained by the Governmental Affairs Division staff.

Method of Calculation:

At the end of each quarter in the fiscal year, the activity is reviewed related to denials and revocations is reviewed by designated Retailer Services staff. The total number of license application denials and revocations for the quarter is compiled from data maintained by Retailer Services and Governmental Affairs Division staff.

Data Limitations:

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

Calculation Type:

Cumulative.

New Measure:

Revised.

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 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 report generated from the Financial Accounting System maintained by the Office of the Controller tracks the various payments to 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:

Revised.

Desired Performance:

Higher than target.

Goal A: Lottery

Strategy A.1.1. Lottery Operations

Output Measure A.1.1.d: Number of New 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 Retailer Management System by Retailer Services staff.

Method of Calculation:

The total number of new licenses issued to retailers is taken from a report generated from the Retailer Management System 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:

Revised.

Desired Performance:

Higher than target.

Goal A: Lottery**Strategy A.1.1. Lottery Operations****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 number of licenses renewed within each quarter is taken from a report generated at the end of the reporting period from the Retailer Management System by Retailer Services staff.

Method of Calculation:

The number of permanent retailer licenses renewed is compiled from reports based on data in files maintained in the Retailer Management System.

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:

Revised.

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 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 cost the Lottery incurs for conducting criminal history investigations and credit history reviews obtained from the Lottery's Financial Accounting System.

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 a percentage of salary expense during the quarter for select personnel assigned to process new licenses within Retailer Services combined with the costs charged to the Lottery for criminal history investigations and credit history reviews on the new license applicants. This cost information is provided by the Office of the Controller and excludes salary benefit costs and any other direct or indirect costs.

Data Limitations:

The reports used to calculate this data have well defined parameters. Business activity that involves the restructuring of a company's organization can result in a large number of new licenses being issued in a given quarter. When this occurs, the average cost per license issued can be lower than projected because application processing costs are generally lower in these situations due to criminal and credit history background checks being unnecessary. In most cases, these checks are already complete on the people that own the restructured company.

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 checks processed by the Commission claim centers located throughout the state. Due to tax reporting requirements, prizes in excess of \$599 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.

Purpose/Importance:

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

Source/Collection of Data:

Checks are processed after a player submits a winning ticket and completes a Texas Lottery Winner Claim Form. A validation is performed on the ticket and the claimant'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. 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, claimant, 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:

Number of prize checks processed is obtained by totaling the prize checks processed for all claim centers in Prosys during the reported quarter.

Data Limitations:

The weekly summary reports used to calculate this data have well defined parameters. The number of prize checks processed could be affected by checks processed, new game introductions and 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:

Newsletters are distributed to active retailers and chain retailer headquarters offices, during the reporting period. Retailer Services staff obtain the number of active retailer locations and chain retailer headquarter offices from a report generated from the Retailer Management System and is based on data maintained in the Lottery Operator's retailer database.

Method of Calculation:

The total number of newsletters distributed is calculated by taking the total active retailers including chain retailer headquarters from the Retailer Management System, multiplied by the number of issues of the newsletter produced and distributed during the reporting period.

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:

Revised.

Desired Performance:

Higher than target.

Goal A: Lottery**Strategy A.1.3. Marketing and Promotions****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) record retailer visits electronically using a card with a magnetic strip swiped on the on-line terminal and recorded in the Lottery Operator's retailer database system. Visits that cannot be recorded electronically due to electrical and/or communications issues at retailer locations are tracked and reported via a spreadsheet maintained by the Lottery Operator. Retailer Services staff aggregates all retailer visit reporting 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:

Revised.

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:

Retailers are surveyed by Claim Center staff. The resulting data is collected and maintained by the Lottery's Research Section. Newsletter surveys are composed and included in retailer newsletters that are distributed by the Texas Lottery Commission.

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. The cost per survey is calculated by adding together the Claim Center administration cost, Claim Center travel cost, Research 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 the distribution schedule of retailer newsletters.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

Desired Performance:

Lower than target.

Goal A: Lottery**Strategy A.1.4. Security****Output Measure A.1.4.a: Number of Lottery Investigations Initiated****Short Definition:**

This measure reports that total number of administrative and criminal lottery investigations initiated by the Enforcement 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 on 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 Enforcement Division.

Data Limitations:

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

Calculation Type:

Cumulative.

New Measure:

Revised.

Desired Performance:

Lower than target.

Goal A: Lottery

Strategy A.1.4. Security

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:

No.

Desired Performance:

Higher than target.

Goal A: Lottery**Strategy A.1.4. Security****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:

No.

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:

No.

Desired Performance:

Lower than target.

Goal A: Lottery**Strategy A.1.4. Security****Efficiency Measure A.1.4.b: Average Cost Per Completed Investigation****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

Strategy A.1.4. Security

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:

No.

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 Advertising (Millions)****Short Definition:**

This performance measure reflects the number of dollars the Texas Lottery Commission spends on print advertising.

Purpose/Importance:

Texas Lottery Commission advertising creates awareness and impacts sales of all Texas Lottery products.

Source/Collection of Data:

The media and production expenditures for print advertising are obtained from the Lottery's Financial Accounting System.

Method of Calculation:

This measure is calculated by taking the total amount spent on lottery division media and production expenditures associated with print advertising during the quarter.

Data Limitations:

Estimated targets are based on projected annual advertising plans which are subject to change, based on product modifications, product introduction schedules and media optimization efforts. 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 Advertising (Millions)

Short Definition:

This performance measure reflects the number of dollars the Texas Lottery Commission spends on radio advertising.

Purpose/Importance:

Texas Lottery Commission advertising creates awareness and impacts sales of all Texas Lottery products.

Source/Collection of Data:

The media and production expenditures for radio advertising are obtained from the Lottery's Financial Accounting System.

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:

Estimated targets are based on projected annual advertising plans which are subject to change, based on product modifications, product introduction schedules and media optimization efforts. 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 TV Advertising (Millions)****Short Definition:**

This performance measure reflects the number of dollars the Texas Lottery Commission spends on television television

Purpose/Importance:

Texas Lottery Commission advertising creates awareness and impacts sales of all Texas Lottery products.

Source/Collection of Data:

The media and production expenditures for television advertising are obtained from the Lottery's Financial Accounting System.

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:

Estimated targets are based on projected annual advertising plans which are subject to change, based on product modifications, product introduction schedules and media optimization efforts. 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 (Millions)

Short Definition:

This performance measure shows the number of dollars the Texas Lottery Commission spends on vendor account management and administration fees, as well as media and production expenditures for all types of advertising (point-of-sale, billboard, etc.) 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:

Vendor account management and administration fee expenditures as well as media and production expenditures for all other types of advertising not included in the print, radio or television categories which are obtained from the Lottery's Financial Accounting System.

Method of Calculation:

This measure is calculated by taking the total amount spent on vendor account management and administration fee expenditures as well as media and production expenditures for all other types of lottery division specific advertising not included in the print, radio or television categories during the quarter.

Data Limitations:

Estimated targets are based on projected annual advertising plans which are subject to change, based on product modifications, product introduction schedules and media optimization efforts. 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****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:

This measure provides a gauge of Texas Lottery advertising awareness among the adult Texas population.

Source/Collection of Data:

The Lottery's Market Research Services vendor conducts monthly tracking surveys that include questions measuring Texas lottery advertising awareness. The survey data is collected and maintained by the Lottery's Research Section.

Method of Calculation:

Results from the monthly tracking surveys are used to determine the number of respondents each month that recalled seeing or hearing any Texas Lottery advertising recently and the total number of survey respondents. The measure is calculated by dividing the total number of respondents that recalled seeing or hearing any Texas Lottery advertising for the quarter by the total number of survey respondents for the quarter.

Data Limitations:

The percentage is based on self-reported data.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

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 violation for the fiscal year to the total number of Bingo organizations that were licensed. A violation is defined as any violation of the Bingo Enabling Act and/or the Charitable Bingo Administrative Rules noted during an Inspection, Review, Game Observation, and 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:

External Factors: General market and economic conditions, statutory changes, and changes in the number of persons licensed are key variables that impact the measure.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo

Outcome Measure B.1.b: Percentage of Bingo Audits Referred for Disciplinary Action

Short Definition: This measure reports the ratio (in percent) of Bingo Audits referred for disciplinary action to the total number of Bingo Audits completed for the fiscal year.

Purpose/Importance: The measure is intended to show the extent to which the agency exercises its regulatory authority in proportion to the number of audits completed. It is important that both the public and licensees have an expectation that the agency will work to ensure fair and effective enforcement of the Bingo Enabling Act (Act) and Charitable Administrative Rules (Rules) and this measure seeks to indicate agency responsiveness to this expectation.

Source/Collection of Data: This data will be captured from the Automated Charitable Bingo system for the number of audits completed and the number of audits which identified violations of the Act or Rules and have been referred for disciplinary action.

Method of Calculation: Total number of Bingo Audits referred for disciplinary action divided by the total number of Bingo Audits completed for the fiscal year. Disciplinary action includes agreed orders, settlement agreements, warnings, suspensions, revocation, and / or administrative penalties. An audit is considered completed on the day the final audit report is issued.

Data Limitations:

There may be a period of time (days) between the issuance of the final audit report and the referral to Legal Services Division. Additionally, voluntary compliance by the organizations audited would have an impact on this percentage.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo

Outcome Measure B.1.c: Percentage of Complaints Referred for Disciplinary Action

Short Definition:

This measure reports the ratio (in percent) of complaints referred for disciplinary action to the total number of complaints completed for the fiscal year.

Purpose/Importance:

The measure is intended to show the extent to which the agency exercises its regulatory authority in proportion to the number of complaint investigations completed. It is important that both the public and licensees have an expectation that the agency will work to ensure fair and effective enforcement of the Bingo Enabling Act (Act) and Charitable Administrative Rules (Rules) and this measure seeks to indicate agency responsiveness to this expectation.

Source/Collection of Data:

This data is captured in the Compliance Activity Monitoring Process (CAMP) case management tracking system for the number of complaint investigations completed and the number of complaint investigations which identified violations of the Act or Rules and have been referred for disciplinary action.

Method of Calculation:

The ratio (in percentage) of Bingo complaint investigations referred to the Legal Division for some form of disciplinary action divided by the total number of complaints completed for the fiscal year. Disciplinary action includes agreed orders, settlement agreements, warnings, suspensions, revocation, and / or administrative penalties. A complaint investigation is considered completed on the day the final investigative report is issued.

Data Limitations:

The agency has no control over the number of complaints it receives, nor does it have any control over the substance of that complaint, and whether disciplinary action is justified based upon jurisdiction and evidence. There may be a period of time (days) between the issuance of the final audit report and the referral to Legal Services Division. Additionally, voluntary compliance by the organizations audited would have an impact on this percentage.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo**Outcome Measure B.1.d: 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) system for Bingo complaints investigated by either the Enforcement Division, Licensing Services, or Audit Services.

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. The data for this measure is collected and maintained in the CAMP system.

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.e: 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. The data for this measure is obtained from the division’s Automated Charitable Bingo System (ACBS) computer application system.

Method of Calculation:

Currently, bingo licensees report on a calendar quarter basis. As such, the third and fourth quarters from the preceding calendar year, as well as the first and second calendar quarters of the current calendar year will be utilized for this measure. The data reported will be rounded to the nearest hundred thousand and reported in the following format: \$XX.X.

Data Limitations:

This information is obtained from licensed authorized organizations self-reporting the amount of net proceeds used for a charitable purpose. The number of licensed authorized organizations and their ability to control authorized expenses may have an impact on this measure. Additionally, there is reliance on the licensee to report correct information.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo**Outcome Measure B.1.f: 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-percent 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:

Currently, bingo licensees report on a calendar quarter basis. As such, the third and fourth quarters from the preceding calendar year, as well as the first and second calendar quarters of the current calendar year will be utilized for this measure. 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 year.

Data Limitations:

Number of organizations required to file quarterly reports.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo

Outcome Measure B.1.g: Percentage of Organizations Receiving an Audit

Short Definition:

This measure reports the ratio (in percent) of organizations on which an Audit is performed during the fiscal year. An organization is a licensed authorized organization or licensed commercial lessor.

Purpose/Importance:

This outcome is intended to measure the degree of coverage achieved by auditors during the fiscal year. Adequate coverage is deemed important because of the deterrent effect of the expectation of an audit.

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 for which an audit is completed by the total number of authorized organizations and commercial lessors holding a license during the fiscal year.

Data Limitations:

None.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo**Outcome Measure B.1.h: Percentage of Organizations Receiving an Inspection****Short Definition:**

This measure reports the ratio (in percent) of organizations on which an Inspection is performed during the fiscal year. An Inspection can be a Game Inspection, Books & Records Inspection, or Complaint Investigation. An organization is a licensed authorized organization or licensed commercial lessor.

Purpose/Importance:

This outcome is intended to measure the degree of coverage achieved by auditors, inspectors, and investigators during the fiscal year. Adequate coverage is deemed important because of the deterrent effect of the expectation of an inspection.

Source/Collection of Data:

This data is captured in the Compliance Activity Monitoring Process (CAMP) case management tracking system for complaint investigations and in the Automated Charitable Bingo System (ACBS) for inspections.

Method of Calculation:

This measure is calculated by dividing the number of organizations for which an inspection is completed by the total number of authorized organizations and commercial lessors holding a license during the fiscal year.

Data Limitations:

None.

Calculation Type:

Non-cumulative.

New Measure:

Yes.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo

Strategy B.1.1. Bingo Licensing

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 provides data relating to the number of individuals and organizations desiring to be licensed under the Bingo Enabling Act.

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 licenses issued is dependent on the number of individuals and organizations requesting a license as well as the completeness of the application, outstanding tax liability, etc.

Calculation Type:

Cumulative.

New Measure:

Revised.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo**Strategy B.1.1. Bingo Licensing****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 provides data relating to the total number of applications received from individuals and organizations desiring to be licensed under the Bingo Enabling Act.

Source/Collection of Data:

The Commission's Automated Charitable Bingo System (ACBS) provides the licensing information through the Application Issued, Denied, Withdrawn, or Discontinued Report.

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, withdrawn or discontinued 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

Output Measure B.1.1.c: Number of Worker Registry Applications Processed

Short Definition:

This measure reports the number of individuals submitting an original or renewal application for inclusion on the Worker Registry.

Purpose/Importance:

This measure provides data relating to the total number of applications received from individuals desiring to be listed on the Registry of Bingo Workers under the Bingo Enabling Act.

Source/Collection of Data:

The Commission's Automated Charitable Bingo System (ACBS) captures the information.

Method of Calculation:

The number of Applications for Registry of Approved Bingo Workers received from individuals data entered and those that have been denied, withdrawn or discontinued are added to the total.

Data Limitations:

The ultimate number of applications processed is dependent on the number of individuals requesting to be listed on the Registry of Approved Bingo Workers.

Calculation Type:

Cumulative.

New Measure:

Yes.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo**Strategy B.1.1. Bingo Licensing****Efficiency Measure B.1.1.a: Average Bingo License (New) Processing Time (Days)****Short Definition:**

Reports the average length of time, in days, that it takes the Charitable Bingo Division to issue a new license to conduct bingo or lease premises for the conduct of bingo.

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 through the report "Average Turnaround Time for License Issued" – LIRAVGTG.

Method of Calculation:

The total number of new licenses issued during the period for conductors times the average number of days to issue plus the total number of new licenses issued during the period for lessors times the average number of days to issue divided by the total number of new licenses issued to conductors and lessors equals the average processing time in days.

Data Limitations:

Factors that can influence this figure include: completeness of the application and the responsiveness of the applicant to requests for additional information.

Calculation Type:

Non-cumulative.

New Measure:

Yes.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo

Strategy B.1.1. Bingo Licensing

Efficiency Measure B.1.1.b: Average Bingo License (Renewal) Processing Time (Days)

Short Definition:

Reports the average length of time, in days, that it takes the Charitable Bingo Division to issue a renewal license to conduct bingo or lease premises for the conduct of bingo.

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 through the report "Average Turnaround Time for License Issued" – LIRAVGTG.

Method of Calculation:

The total number of renewal licenses issued during the period for conductors times the average number of days to issue plus the total number of renewal licenses issued during the period for lessors times the average number of days to issue divided by the total number of renewal licenses issued to conductors and lessors equals the average processing time in days.

Data Limitations:

Factors that can influence this figure include: completeness of the application, the responsiveness of the applicant to requests for additional information and non-compliance issues.

Calculation Type:

Non-cumulative.

New Measure:

Yes.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo**Strategy B.1.1. Bingo Licensing****Efficiency Measure B.1.1.c: 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. It 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

Strategy B.1.1. Bingo Licensing

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 during the fiscal year.

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 active organizations at the end of the fiscal year and of those organizations, whose license was surrendered, revoked or application for a renewal was denied during the fiscal year.

Method of Calculation:

The total number of conductors, lessors, manufacturers, distributors, and system service providers holding an active license on August 31st each year plus those organizations whose license was surrendered, revoked or application for a renewal was denied during the fiscal year.

Data Limitations:

None

Calculation Type:

Non-cumulative.

New Measure:

Revised.

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 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 as a result of increased travel costs and salaries.

Source/Collection of Data:

Information maintained in the Automated Charitable Bingo System (ACBS).

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:

Revised

Desired Performance:

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 Book and Records inspections, Game Inspections, and Complaint Investigations conducted and reported to headquarters by Audit or Enforcement 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. The measure also provides an assessment of compliance with the Act and Rules by organizations.

Source/Collection of Data:

This data is captured in the Compliance Activity Monitoring Process (CAMP) case management tracking system for complaint investigations and in the Automated Charitable Bingo System (ACBS) for inspections.

Method of Calculation:

The total number of inspections conducted and reported to headquarters by Audit staff and Enforcement staff for the fiscal year.

Data Limitations:

None.

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.b: Number of Bingo Audits and Reviews Completed

Short Definition:

This measure reports the total number of Bingo audits and reviews completed for the period.

Purpose/Importance:

An audit is a more detailed examination 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, Texas Bingo Quarterly Report information submitted to the Commission is reasonably accurate, bingo proceeds are used for authorized purposes, and bingo is conducted fairly.

Source/Collection of Data:

This data is captured in the Compliance Activity Monitoring Process (CAMP) case management tracking system for complaint investigations and in the Automated Charitable Bingo System (ACBS) for inspections.

Method of Calculation:

This data will be captured from the Automated Charitable Bingo System.

Data Limitations:

None.

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.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 bingo complaint investigations completed by either the Charitable Bingo Operations Division or Enforcement Division is stored in the Compliance Activity Monitoring System (CAMP).

Method of Calculation:

This measure is calculated by recording the number of Bingo complaints completed during the period. An investigation is considered completed on the day the final investigative report is issued.

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: 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 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:

Revised.

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 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:

No.

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 Completion (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 on the number of days it may take to resolve an investigation. Additionally, the availability of complainant, suspect and witness ability may also affect the length of time it takes to resolve an investigation.

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.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:

No.

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 Audit (Hours)

Short Definition:

This measure reports the average number of hours spent by an auditor preparing, conducting and finalizing an 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:

The data will be captured from the Automated Charitable Bingo System.

Method of Calculation:

The total number of hours spent to complete an audit divided by the total number of audits completed. An audit is considered completed on the day the final audit report is issued.

Data Limitations:

None.

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.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 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:

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.e: Average Cost per Bingo Audit Completed

Short Definition:

This measure reports the average cost per Bingo audit completed by the Charitable Bingo Operations Division.

Purpose/Importance:

This measure allows division management to better allocate and monitor the division's funds.

Source/Collection of Data:

The number of audits completed by the Charitable Bingo Operations Division, the travel costs per audit, and the hours per audit are 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 performing the audits, divided by the number of completed Bingo audits within the quarter.

Data Limitations:

Costs per completed audit are difficult to project based on current economical fluctuations and legislative changes. Additionally, the location of the audits, condition of the records, responsiveness of the taxpayer, suspect or witnesses may in some cases, impact the costs of performing audits.

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 business 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 of Data:

The division utilizes a calendar to determine the number of business days from the return due date to the date the payments are released.

Method of Calculation:

Each quarter, the actual number of business 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:

Revised.

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 Timely****Short Definition:**

This measure reports the ratio (in percent) of lessors and conductors who fail to timely pay prize fees and taxes by the due date.

Purpose/Importance:

This measure will help the Licensing Services Department determine those licensees that do not comply with the Bingo Enabling Act.

Source/Collection of Data:

The data is captured in the Automated Charitable Bingo System – Percent of Licensees that Fail to Pay Discoverer Report and the Number of Reports Processed Discoverer Report.

Method of Calculation:

This measure is calculated by dividing the number of lessors and conductors who fail to pay the correct amount of prize fee or rental tax due by the due date or having a check returned as NSF by billing the number of original reports processed.

Data Limitations:

This information is obtained from licensed authorized organizations self-reporting the amount of prizes awarded and gross rental receipts received. The number of organizations required to file a return and pay timely may have an impact on this measure. Additionally, there is reliance on the licensee to report correct information.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

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 provides data relating to the total number of reports received from individuals and organizations required to file a report under the Bingo Enabling Act.

Source/Collection of Data:

The Commission's Automated Charitable Bingo System (ACBS) provides this information through the Total Returns Processed Report.

Method of Calculation:

This measure is calculated by totaling the number of reports processed for the quarter.

Data Limitations:

The total number of returns processed is dependent on the total number of individuals and organizations holding a license.

Calculation Type:

Cumulative.

New Measure:

Revised.

Desired Performance:

Higher than target.

APPENDIX E

Texas Lottery Commission

Implementing the Texas Transformation

FY 2009-2013

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 Texas Lottery Commission is committed to deploying innovative technologies that will deliver world-class services to our players and customers.

Managed Service Delivery

Managed Services offers a solution that does not require agency ownership or maintenance of assets, and provides a guaranteed technology refresh path. The Texas Lottery Commission uses managed services for TEX-AN communications services, and is in the process of implementing the receipt of payments for licenses for lottery retailers through TexasOnline.com. Interfacing TexasOnline with the agency's existing Retailer Services Center has allowed the agency to accept payments from retailers without having to go through the development exercise to do so. This allows programming efforts to be focused on the licensing application and Web development for players of the Texas Lottery games.

Managed IT Supply Chain

The Texas Lottery Commission leverages the Information and Communications Technology Cooperative Contracts program for the majority of its IT purchases. This includes the lease of desktop and laptop computers, servers, and Storage Area Network; and voicemail services, software licensing and IT equipment purchases. The Texas Lottery Commission has worked with approved vendors to negotiate further discounts on IT equipment and services. The Texas Lottery Commission recently negotiated additional

discounts on software licenses, a Microsoft Enterprise Agreement and the lease for desktop and laptop computers.

Security and Privacy

The Texas Lottery Commission information security goals of preventing attacks, reducing vulnerabilities and minimizing impacts mirror those of the State Enterprise Security Plan. Agency staff implements multiple layers of information security to protect the resources of the agency. The information security layers include technology implementations (firewalls, routers, filters), standards and procedures (passwords, audits), and education & training for users and technical staff. Some of the techniques used to prevent information security incidents are also used to reduce the agency's vulnerability to information security attacks (audits, user education, technical training). In addition, Texas Lottery staff attempts to reduce the information security vulnerabilities of the agency by having security reviews and network security tests performed by external organizations on a regular basis. The impacts of any successful information security incidents are minimized through the use of automated notification systems to alert technical staff of service disruptions as well as a comprehensive data duplication and backup strategy.

The Texas Lottery Commission requires users to comply with agency information security standards that are modeled after the Texas Administrative Code 202. This includes restricting access to confidential data, requiring director approval before approving access to confidential data, transmitting confidential data using encryption techniques or via trusted

telecommunications circuits, and providing physical security protection methods to gain access to areas where confidential information is stored.

Future plans being considered for improving the protection of confidential information that is in the control of the agency include additional information technology encryption requirements as well as increased monitoring of electronic communications.

Technology Policy, Best Practices and Partnerships

The ability to share data and information across all levels of Texas government is a critical component of technology policy. This includes data provided to the public via the agency's Web site, data provided through the open records process, e-discovery data or other data necessary for proper payment of lottery winnings.

The Texas Lottery Commission's Web site, utilizes a search engine that allows for a comprehensive and advanced search of the agency's Web content by leveraging sophisticated indexing techniques. The Texas Lottery feeds data to allow for automated lottery results information. The Texas Lottery Commission also coordinates with other agencies to ensure that financial commitments of a lottery winner are met prior to disbursing funds, such as but not limited to child support and delinquent student loans.

To ensure that all open records requests and e-discovery requests can be met efficiently and timely, the agency has designated a Records Retentions committee to review and recommend record retention policies and ensure they are enforced. Additionally, the agency has implemented tools for efficient storage of archived email.

The Texas Lottery Commission has developed the Retailer Service Center and the Bingo

Service Center for the purpose of sharing data with our business partners and customers. These Web applications make critical day-to-day business data such as sales, tax and inventory information available to our business partners. Agency staff is currently in the process of enhancing these applications to allow for data collection as well.

Core Missions

At one time, the Texas Lottery Commission was maintaining applications on numerous development platforms. During the past three years, the agency has made a concerted effort to move to a standard applications platform. Older legacy systems are being maintained for archive and records retention purposes; as data maintained on the legacy systems meets its end of life, the systems are to be retired.

The Texas Lottery Commission has long been committed to energy conservation and managing resource consumption. The following IT initiatives are being evaluated as part of the agency's Energy Conservation Plan:

- Raising the temperature of the computer room;
- Evaluating all-in-one desktop PCs for power requirements;
- Considering server virtualization; and
- Automatically powering off all PCs each evening.

Additionally, procurements and bid specifications are developed that encourage recycling and repurposing, and the agency aggressively surpluses all usable equipment.

**TABLE E-1
TECHNOLOGY ALIGNMENT**

TECHNOLOGY INITIATIVE	RELATED AGENCY OBJECTIVE	RELATED SSP STRATEGY/ (IES)	STATUS	ANTICIPATED BENEFITS	INNOVATION, BEST PRACTICE, BENCHMARK
1. Refresh and upgrade the wide area network (WAN) infrastructure.	All Objectives	3-1	Current	Replacing WAN equipment as it reaches the end of its life cycle will reduce system downtime, keep maintenance costs down and provide more robust equipment. This ensures a stable and secure network infrastructure.	
2. Upgrade and maintain adequate network security.	All Objectives	3-1	Current	Network security includes intrusion detection, email firewall and content filtering. Security devices enhance the information security environment by providing automated inspection of network traffic, threat detection and active blocking of potential threats.	
3. Refresh and upgrade local area network (LAN) and desktop computer equipment, including Microsoft Office Suite.	All Objectives	3-1	Planned	Replacing LAN and desktop computers as it reaches the end of its life cycle will reduce system downtime, keep maintenance costs down and provide more robust equipment.	
4. Expand use of electronic records management.	All Objectives	4-1 4-2	Current	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.	
5. Expand web development.	All Objectives	1-3 5-1	Current	Provides user-friendly and informative services to players and retailers. Reduces paper processing and allows for the payment of fees online.	
6. Migrate legacy applications to new software platform.	All Objectives	4-2	Planned	Conversion is required to ensure continued maintenance support by vendor. The existing software application will no longer be supported in the future.	
7. Application development – instant ticket tracking system.	Objective A.1	4-2	Planned	Consolidate multiple databases into a single application which will streamline data entry and reporting requirements.	
8. Application Development – Games Compliance System.	Objective A.1	4-2	Planned	This is currently an Access database. The rewrite and redesign will be based on business needs to incorporate required changes and provide a more robust and accommodating system.	
9. Replace voicemail system.	All Objectives	1-2 5-1	Planned	The current system has reached end of life status and is no longer supported by the manufacturer. Replacing the voicemail system will reduce downtime, keep maintenance costs down and provide more functionality.	Innovation: Evaluating Voice over IP as an alternative.

APPENDIX F

Texas Lottery Commission Workforce Plan FY 2009-2013

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 administering 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 eight divisions within the agency, ensuring that staff carries 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.

TABLE E-1
POSITION ALLOCATION, BY DIVISION

DIVISION	FTE
ADMINISTRATION	68
CHARITABLE BINGO OPERATIONS	47
ENFORCEMENT	16
EXECUTIVE	4.5
GOVERNMENTAL AFFAIRS	4
HUMAN RESOURCES	7
INTERNAL AUDIT	5.5
LEGAL SERVICES	17
LOTTERY OPERATIONS	120.5
MEDIA RELATIONS	7
OFFICE OF THE CONTROLLER	22
TOTAL	318.5

Source: Texas Lottery Commission

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 during FY 2007 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
(AS OF SEPTEMBER 30, 2007)**

LESS THAN 30	5%
BETWEEN 30 AND 40	25%
BETWEEN 40 AND 50	40%
BETWEEN 50 AND 60	23%
MORE THAN 60	7%

Source: Uniform Statewide Payroll/Personnel System (USPS)

**TABLE E-3
EMPLOYEE ETHNIC AND GENDER REPRESENTATION (AS OF AUGUST 31, 2007)**

GENDER	AFRICAN AMERICAN	HISPANIC	WHITE	ASIAN	INDIAN	TOTAL
FEMALES	9%	20%	34%	0	0	63%
MALES	3%	10%	23%	1%	0	37%
TOTAL	12%	30%	57%	1%	0	100%

Source: Uniform Statewide Payroll/Personnel System (USPS)

**TABLE E-4
WORKFORCE DIVERSITY DATA (AS OF AUGUST 31, 2007)**

JOB CATEGORY	AFRICAN AMERICAN	HISPANIC	FEMALE
OFFICIALS AND ADMINISTRATORS (14)	14%	14%	43%
ADMINISTRATIVE SUPPORT (64)	17%	45%	83%
PROFESSIONALS (105)	11%	19%	55%
PARAPROFESSIONALS (120)	11%	34%	68%
TECHNICIANS (28)	4%	25%	43%

Source: Uniform Statewide Payroll/Personnel System (USPS)

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-5 compares the agency's turnover rates with that of the state average turnover rate for the past six years.

**TABLE E-5
TURNOVER RATES**

YEARS	2003	2004	2005	2006	2007
TEXAS LOTTERY	14.3%	15.2%	22.9%	6.1%	9.2%
STATEWIDE	17.9%	14.8%	18.9%	15.8%	17.4%

Source: SAO Electronic Classification Analysis System

D. Retirement Eligible Employees

State employees with at least five years of service are eligible to retire with health insurance benefits and an annuity at age 65. In FY 2009 through 2013, approximately 36 Texas Lottery employees are projected to fall into that category, while an additional approximately 25 employees are projected to be eligible to retire based on the rule of 80—age and service adding up to 80—and at least 10 years of state service.

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 2009 – 2013 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.

Employee retention is of equal importance. The agency maintains a number of programs to retain qualified employees, including alternative work schedules, tuition reimbursement, merit increases, employee service recognition, 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.

Recruitment strategies such as participation in WorkinTexas.com for Internet job posting, and listing selected jobs in metropolitan job market newspapers are utilized to ensure broad-based applicant pools.

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.

APPENDIX G

Texas Lottery Commission

Summary of 2007 Survey of Organizational Excellence

Fiscal Year 2009 – 2013

The response rate and overall scores have continued to rise as the Texas Lottery Commission participated in the Survey of Organizational Excellence (SOE) in 2007. The response rate for the 2007 SOE was an exceptional 80 percent.

TLC has been participating in the SOE since 1994. One of the values of participating in multiple iterations of the SOE is the opportunity to measure organizational change over time. 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 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 17 of the 20 constructs showed an improved score over the previous year, with one construct (Fair Pay) remaining at the same score as last year and two constructs (Goal Oriented and Availability) declining slightly.

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 TLC 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 TLC's response rate (80 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 past years, 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.

APPENDIX H

Texas Lottery Commission

Historically Underutilized Business (HUB) Plan

FY 2009 – 2013

A. GOAL: To promote fair and competitive opportunities which maximize the inclusion of Historically Underutilized Business (HUB) and minority businesses in contracts with the Texas Lottery 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:

Procurement Categories	Statewide HUB Goals
Special Trade Construction	57.2 %
Professional Services Contracts	20.0 %
Other Services Contracts	33.0 %
Commodity Contracts	12.6 %

Note: The Texas Lottery 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: From FY 2005 to 2006, the Texas Lottery Commission's HUB utilization decreased slightly. However, during FY 2007, the Commission experienced an increase in its HUB/minority utilization. During this report period, the Commission expended more than \$42.6 million with HUBs and minority businesses. The agency has an effective outreach program, which focuses on informing HUB and minority businesses about the Commission's procurement processes and opportunities to provide goods and services to the agency. The FY 2007 Annual Statewide HUB Report ranked the Texas Lottery Commission 12th in the state in terms of overall expenditures. However, the Texas Lottery Commission ranked number one by overall HUB percentage of the 25 largest spending state 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 20 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 20 percent of the total number of licensed sales agents/retailers will be minority businesses.

B.1.2. EXTERNAL AND INTERNAL ASSESSMENT: The Texas Lottery Commission continues to consistently exceed its statutory goal of a 20-percent minority business retailer base. During FY 2007, minority retailers numbered 6,636, which represented 40.94 percent of the Texas Lottery's total retailer base. FY 2007 was the fourth consecutive year during which the Texas Lottery Commission maintained a minority retailer level of more than 38 percent.



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