



2013-2017



AN AGENCY OF THE
STATE OF TEXAS

COMPREHENSIVE **STRATEGIC PLAN**

For Fiscal Years 2013 – 2017

Agency Strategic Plan

For the Fiscal Years 2013 – 2017 Period

Submitted by:

TEXAS LOTTERY COMMISSION

Commission Member

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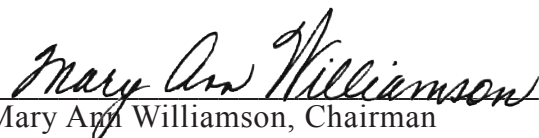
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STRATEGIC PLAN

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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

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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 percentage 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
- Number of new business permits issued online

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 and accepting information in electronic format.

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.

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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.

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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 SAC first reviewed the Texas Lottery Commission 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.

Even though the SAC's Management Recommendations did not pass the Legislature, the agency moved forward and implemented the recommendations.

The SAC reviewed the Texas Lottery Commission 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. However, in 2009, the 81st Legislature passed Senate Bill (SB) 2 in its first called special session to continue the Texas Lottery Commission through FY 2013.

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

The SAC began its most recent review of the agency in September 2011. The agency completed the first step in the Sunset review process in late August 2011, when the agency's Self-Evaluation Report (SER) was submitted to the Sunset Commission. The SER explains the operations of the Texas Lottery Commission in detail, provides justification for various business strategies, and outlines potential opportunities for improvement.

Following the submission and review of the SER, Sunset staff continued its review of the agency through Commission staff interviews, evaluating agency and division performance reports, and examining all aspects of the operation. Sunset staff also solicited input from interest groups, members of the public and lottery retailer organizations to determine additional issues of importance to our customers and the public. The Sunset Commission published a staff report on March 8, 2012, and conducted a public hearing on April 10, 2012, to provide an opportunity for Sunset staff to present its recommendations, give the agency an opportunity to formally respond to the recommendations, and allow for public comment. The agency concurred with all the recommendations contained in the staff report.

At the beginning of the 83rd Legislative Session in January 2013, the Sunset Commission will provide the Legislature with its report on the Texas Lottery Commission. The Sunset Commission's report on a particular agency must include a recommendation to either abolish or continue the agency and may also include other recommendations, including legislative changes. If the Sunset Commission recommends an agency be continued, the Sunset Commission must provide draft legislation to the Legislature to continue the agency for up to 12 years. Under the Texas Sunset Act, the agency will be abolished effective September 1, 2013, unless continued in existence as provided by the Act. If abolished, the agency may continue until September 1, 2014, 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, Texas voters approved House Joint Resolution (HJR) 8, containing the constitutional amendment to authorize a state lottery.

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, Article III, Section 47, of the Texas Constitution, prohibited bingo. 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.

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

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

D. Texas Lottery® Games

The *Games of Texas* is the body of games that the Texas Lottery makes available to the playing public. These include instant games and draw games. As of March 31, 2012, seven draw games, four with add-on features, and approximately 85 instant games constituted the current 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, key number or symbol matches, beat score, and add-up games. Additional play styles, such as “doubler” features, “automatic win” symbols and “win 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 Series of Poker*®,

Price Is Right, *Monopoly*, the *Houston Texans* and the *Dallas Cowboys*. Licensed property games attract members of the public who might not typically purchase a lottery ticket, 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 \$7.5 million. The majority of \$1 tickets typically offer a top prize of approximately \$1,000 to \$5,000, while \$2, \$3, \$5, \$10, \$20 and \$50 games offer higher top prizes. The \$20 price point games offer top prizes of \$1 million to \$2.5 million, whereas the

\$50 price point offers up to a \$7.5 million top prize.

There also are games that provide annuity prizes that are paid out over a period of time. As of March 2012, annuity style instant games are offered at the \$2, \$5, \$10 and \$20 price points.

While draw games have a set number of draws scheduled each week, instant ticket games offer the possibility of immediate winning experiences with cash and non-cash prizes. Most instant ticket purchases are impulse buys. Therefore, it is important to create games that are attractive to players, provide frequent opportunities to win, and offer a variety of prizes per game. In evaluating industry best practices related to scratch-off game marketing initiatives, the Texas Lottery has added “call-outs” to faces of certain tickets. These “call-outs” communicate 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



OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

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 the Foundation School Fund.

Draw Games

Draw games are games for which tickets are generated from a sales terminal connected to the lottery operator's central gaming system. Players can either select their own numbers for these games or utilize the Quick Pick feature and the terminal will select a combination of numbers. Drawings are then conducted independent of the lottery operator's central gaming system to determine a set of winning numbers for these types of games.

The term "draw games" is a change in terminology that the agency is implementing with the publication of this plan. The agency has always used lottery industry terminology and referred to these games as "on-line" games. That terminology was used because the sales terminal was said to be "on-line" with the central system. With the proliferation of the Internet, the term "on-line" (or "online") has come to be commonly understood as something that is taking place on the Internet. As the agency's draw games are not drawn via the Internet, the change to "draw games" should distinguish the agency's games from any type of Internet-based, online gaming activity.

Most draw 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. Other prizes may be paid for matching fewer than all of the numbers selected. Players may select their

own numbers or have them selected by the sales terminal by choosing the Quick Pick option.

The Texas Lottery's current draw game offerings include *Powerball*® with the add-on feature *Power Play*®, *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, *Powerball* and *Mega Millions* are multimillion-dollar rolling jackpot-style games. *Lotto Texas* was the first draw 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 began on December 3, 2003. The game matrix changed in the summer of 2005 as a result of the California Lottery joining the game. Currently, the *Mega Millions* starting jackpot is \$12 million and numbers are drawn twice per week. For an extra \$1 per play, the *Megaplier* feature allows players the chance to increase their non-grand/jackpot prize winnings. In January 2011, the *Megaplier* feature was enhanced to offer a guaranteed second-tier prize amount of \$1 million.

Until January 2010, *Mega Millions* was comprised of Texas and 11 other member states including California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York,



Ohio, Virginia and Washington. In October 2009, an historic cross-selling agreement was reached between *Mega Millions* member states and the Multi-State Lottery Association (MUSL), which operates *Powerball*, to allow *Mega Millions*

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

states to sell *Powerball*, and *Powerball* states to sell *Mega Millions*. January 31, 2010, marked the first date that member states could begin offering both games. The Texas Lottery Commission adopted the *Powerball* game rule at the January 6, 2010, Commission meeting, allowing the executive director to sign the necessary agreements for Texas to begin selling *Powerball*. Sales of *Powerball* began in Texas on January 31, 2010. In October 2011, the Texas Lottery Commission unanimously approved game rule changes for *Powerball*. The game changes were researched and proposed by MUSL in an effort to redesign the game and bring more value to players. The changes provided bigger starting grand/jackpot prizes, better odds of winning and more chances to win \$1 million than the original game. The price also increased from \$1 to \$2 per play. Sales for the new \$2 *Powerball* game began in January of 2012. Offering both multi-state jackpot games with large population bases creates the opportunity for increased jackpot rolls and record-breaking jackpot levels. Offering both of these games has resulted in increased revenue to the Foundation School Fund.



Currently, the *Powerball* starting jackpots are \$40 million

and numbers are drawn twice per week. The second-tier prize, awarded for matching all five numbers but not the *Powerball* number, is \$1 million. Like *Mega Millions*, *Powerball* also has an add-on feature, called *Power Play*. For an extra \$1 per play, *Power Play* offers set increases for non-grand jackpot prizes. The Match 5 prize (second-tier prize) automatically wins a \$2 million prize with *Power Play*.



Pick 3 is a daily non-jackpot game that for 14 years realized consistent year-over-year sales growth since its incep-

tion in October 1993. The game experienced its first sales decrease in FY 2008, due to the

addition of the *Daily 4* game. Even with this anticipated cannibalization caused by *Daily 4*, the *Pick 3* game continues to be the agency's best-selling draw game, illustrating that non-jackpot style games can be effective in helping to reach sales and revenue goals. The only changes made to *Pick 3* in its 18-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 an 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 six days a week.

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*, 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

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

jackpot game in that, as the jackpot climbs, sales increase.



Daily 4 is similar in play style to *Pick 3*. However, it also offers an additional play style, Pair Play, which allows players 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. The *Sum It Up* add-on game feature is also available on *Daily 4*. 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 six days a week.

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 120 counties, 160 justice precincts, and 272 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 is a location where more than one licensed nonprofit organization conducts bingo. Games conducted in these venues are generally conducted by paid employees of the nonprofit organization, 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.

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

Permanent cards may have little shutters or windows that can cover 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:

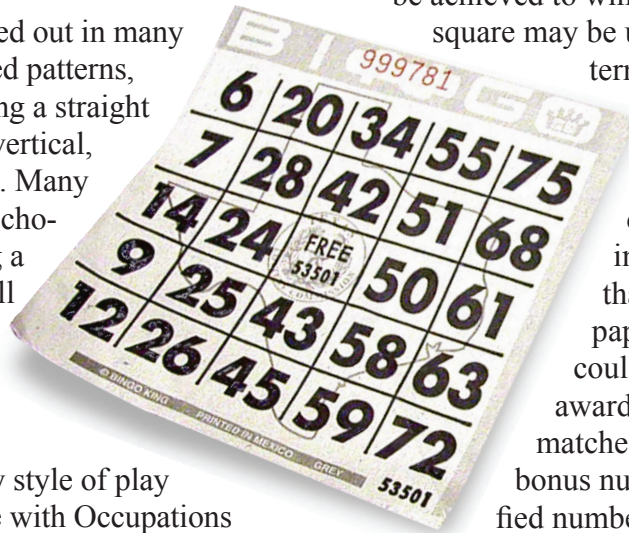
Player pick ‘ems. A game of bingo where a player selects his/her own numbers on a multi-part duplicated disposable bingo card/paper. One copy is retained by the player and used as a bingo card/paper, while the other copy is provided to the organization for verification purposes.

Progressive bingo. A game of bingo in which 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.

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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.

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 Card-Minding Devices

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). The latest form of card minders use wireless handsets that 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 prizewinners. 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.



OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

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 94.7 percent of total pull-tab sales, with an approximate average of 71.7 percent for calendar year 2011. In Texas, the prize payout must be at least 65 percent. For security purposes, each set or deal of cards is factory sealed and given a unique serial number.

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

A major advantage of event tickets is that they come in much smaller ticket counts per set or deal and the major “event” winners are not paid until all tickets are sold, which guarantees the exact stated profit per set or deal. Gross receipts for pull-tab sales in 2011 were more than \$343 million, the highest amount ever for pull-tab ticket sales in Texas.

Pull-tab tickets are generally sold in the bingo hall by bingo workers such as 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 Texans 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. In addition, the Texas Lottery Commission remains respectful of, and sensitive to, the viewpoints of Texans who are not in favor of gaming in any form.

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 August 31, 2011, the Texas Lottery had nearly 17,000 licensed retailers. The two largest groups, according to their Standard Industrial Code (SIC) classifications, are convenience

OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

stores (78.6 percent) and grocery stores (12.4 percent). 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 multi-location 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 continues to work with retailers and various other groups to standardize lottery financial statements.

Charitable Bingo Licensees

The CBOD licenses bingo conductors, lessors, manufacturers and distributors. In 2011, there were 1,678 bingo licensees. Of these, there were 1,227 charitable bingo conductors in Texas, comprising nonprofit organizations such as veteran organizations, religious societies, fraternal organizations, National Historical District Association, volunteer fire departments, volunteer emergency medical services and groups supporting medical research programs. There were 417 commercial lessors, which are individuals, corporations, authorized organizations or associations of authorized organizations that lease property where bingo is conducted. There were 18 manufacturers of bingo products and 16 distributors.

Bingo Advisory Committee

The Bingo Advisory Committee (BAC) consisted of nine members, appointed by the Texas Lottery Commission, which represented a balance of bingo industry interests. Those interests included representatives from the general public, charities that operate bingo games, commercial and charity lessors, manufacturers and distributors of bingo equipment and supplies. The BAC's purpose was

to 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. The BAC ceases to exist annually on August 31, unless the Commission, prior to August 31, votes to continue the BAC. At their meeting held on August 10, 2011, the Commission chose to not take any action on continuing the BAC.

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 benefit from the creation of jobs resulting from the conduct of the *Games of Texas*. Texas families benefit from the Texas Lottery's net revenue contributions to the Foundation School Fund, which totaled more than \$14 billion as of March 2012 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

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to the state. In addition, from FY 1995 through March 2012, more than \$711 million in unclaimed Texas Lottery prize funds reverted to the state to be appropriated for health care and other programs authorized by the state legislature.

The Texas Legislature enacted legislation in 2009 requiring the agency to create and sell a scratch-off game to benefit the Fund for Veterans' Assistance, which is managed by the Texas Veterans Commission. The agency now offers a veterans' scratch-off game on an ongoing basis in support of the fund. Since the introduction of the first game in FY 2010, these games have generated more than \$19.4 million in revenue through March 2012.

Several Texas Lottery Commission initiatives indirectly support the welfare of Texans. The Texas Lottery continues its relationship with the Texas AMBER Alert Network, by communicating to the public through its lottery retailer network to help 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 53 AMBER Alerts through August 31, 2011.

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. The agency has issued 227 Silver Alerts to the public through August 31, 2011.

The Blue Alert Program, designed to speed the apprehension of violent criminals who seriously wound local, state or federal law enforcement officers was added in August 2008. The agency has participated in three Blue Alerts through August 31, 2011.

The Endangered Missing Persons Alert Program was implemented in September 2011. The agency will participate in this program as well, in an effort to find missing persons with intellectual disabilities.

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 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, which totaled more than \$1 billion as of December 31, 2011.

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2013 – 2017 Period

II. ORGANIZATIONAL ASPECTS

A. Workforce Composition

The Texas Lottery Commission has 309.5 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	33
ENFORCEMENT	16
EXECUTIVE	3
GOVERNMENTAL AFFAIRS	4
HUMAN RESOURCES	7
INTERNAL AUDIT	6
LEGAL SERVICES	16.5
LOTTERY OPERATIONS	127
MEDIA RELATIONS	7
OFFICE OF THE CONTROLLER	22
TOTAL	309.5

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 workforce composition at the end of FY 2011 was: 11.8 percent African American, 29.2 percent Hispanic, 56.2 percent White and 2 percent Asian. During the same time period, the agency's staff was 63.8 percent female and 36.2 percent male, and 79 percent of the workforce was more than 40 years of age.

**TABLE 2
AGE OF EMPLOYEES
(FY 2011 AVERAGE)**

LESS THAN 30	4%
BETWEEN 30 AND 40	17%
BETWEEN 40 AND 50	36%
BETWEEN 50 AND 60	31%
MORE THAN 60	12%

Source: Uniform Statewide Payroll/Personnel System (USPS)

**TABLE 3
EMPLOYEE ETHNIC AND GENDER REPRESENTATION (FY 2011 AVERAGE)**

GENDER	AFRICAN AMERICAN	HISPANIC	WHITE	ASIAN	INDIAN	TOTAL
FEMALES	8.51%	20.36%	33.74%	1.22%	0	63.83%
MALES	3.34%	8.82%	22.49%	1.22%	.3%	36.17%
TOTAL	11.85%	29.18%	56.23%	2.44%	.3	100%

Source: Uniform Statewide Payroll/Personnel System (USPS)

TABLE 4
WORKFORCE DIVERSITY DATA (FY 2011 AVERAGE)

JOB CATEGORY	AFRICAN AMERICAN	HISPANIC	FEMALE
OFFICIALS AND ADMINISTRATORS (12)	8%	17%	50%
ADMINISTRATIVE SUPPORT (52)	15%	40%	83%
PROFESSIONALS (103)	11%	17%	54%
PARAPROFESSIONALS (134)	13%	37%	69%
TECHNICIANS (28)	7%	21%	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 director of Charitable Bingo Operations, and the director of Internal Audit 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 director of Charitable Bingo Operations 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 director of Internal Audit 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.

The members of the original Implementation Task Force of the Texas Lottery were the architects of what has become known as the “Texas Model,” a unique public-private arrangement. The agency maintains administrative, regulatory and management control over all critical functions, while utilizing private enterprises’ inherent efficiency and profit motive to optimize the Texas Lottery’s revenue potential. This organizational model maintains critical functions and broad oversight within the agency, while outsourcing those functions better performed by private industry, thus shifting the burden of performance to the private sector while the state enforces performance standards under parameters strictly defined by contract. The agency also enjoys economies of scale by contracting with vendor partners to provide—directly or through subcontractors—a wide range of services statewide. This alliance with private enterprise enables the Texas Lottery to limit the size of its work force.

Division Descriptions

Administration Division

The Administration Division serves the needs of the Commission and its customers in the areas of information resources, support services and records management. The

Administration Division is managed by a director, who reports to the executive director.

The Information Resources Department is responsible for managing the Commission's network infrastructure which includes the local and wide area networks, telecommunications, the internal Intranet site and the Commission's website. The department manages and supports a variety of software applications including the Commission'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.

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

Charitable bingo is an important fund-raising 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 requirements 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

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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 financial monitoring, compliance audits, game inspections and compliant investigations.

The inspection team has primary responsibility for conducting complaint investigations and bingo game inspections.

The Audit Services Department conducts testing on pull-tabs, bingo 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 two sections: Accounting Services and Licensing Services. 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; review unit accounting agreements for compliance; monitor the operating capital limits and distributions of bingo net proceeds; process waiver requests 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, meeting their net proceed requirements, notification of accounting unit changes or the transfer of funds into their bingo account, and the calculation of their operating capital and required distribution. On a quarterly basis, Accounting Services notifies all conductors in writing of their required distributions and then verifies that their distributions were made as mandated by the Bingo Enabling Act.

Accounting Services is responsible for working with the agency's Office of the Comptroller 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 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 for one year or 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, processing equipment transfer requests, updating changes to licensees' information on file and, conducting pre-licensing interviews and site inspections. Additionally, all examiners provide assistance as necessary to applicants who call on the 1-800 information line.

Other services provided by both the Audit Services Department and Taxpayer Services Department include review of the Bingo Training Programs and update and maintain the online Bingo Training Program, coordinate and maintain the Charitable Bingo Operations Division website, develop and coordinate the publication and distributions of various educational material, research bingo/gaming trends, research charitable gaming regulations of other jurisdictions, and assist with coordinating and tracking open records requests. They also 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, staff coordinates collection and maintains data related to customer satisfactions, surrendered and expired licensees, and licenses that have been placed in administrative hold status.

Enforcement Division

The Enforcement Division investigates violations of the State Lottery Act, Bingo Enabling Act and administrative rules as determined by Commission prioritization. Enforcement staff works closely with the Charitable Bingo and Lottery Operations Divisions as well as state and local law enforcement agencies to effectively conduct their investigations. In FY 2011, Enforcement investigators completed a total of

1,804 investigations. Investigations conducted included field investigations on possible administrative and criminal violations and background investigations of Texas Lottery job applicants, bingo and lottery licensees, contract vendors and contract vendor employees.

The Enforcement Division is managed by a director who reports to the executive director.

Executive Division

The Executive Division refers to the 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 serves as the Chief Executive Officer for the Texas Lottery Commission relating to the agency's lottery operations and plays a key role in the short- and long-term planning for the agency. 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 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 executive director is also responsible for ensuring the Texas Lottery is appropriately represented in national and world lottery industry events and initiatives impacting the agency's revenue generating opportunities.

The Agency Ombudsman function was created in 2007 in response to a recommendation resulting from a workforce management audit conducted by the State Auditor's Office. The Ombudsman function serves the agency's

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employees by providing independent, neutral third-party assistance in resolving employment problems, concerns, and complaints.

Governmental Affairs Division

The Governmental Affairs Division serves as the Texas Lottery Commission's primary liaison with the legislative and executive branches of state government. Its actions are designed to assist the Commissioners, the executive director, the director of Charitable Bingo Operations, and all divisions of the agency by providing legislative tracking, analysis, representation, recommendations and information.

Governmental Affairs 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. Division staff assist agency managers to classify jobs and develop position descriptions, evaluate and track employee job performance, and process salary actions. Human Resources also coordinates the agency's employee recognition programs, employee assistance program, sick leave pool, and tuition reimbursement program.

Division staff work with managers and employees to cultivate positive employee relations. Human Resources 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); Civil Rights Act 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 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 provides legal advice, assistance and services to the Commissioners, the executive director, the director of Charitable Bingo Operations, the director of Internal Audit and agency staff. The division includes

the General Counsel Section, Open Records Coordinator 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, including assisting with transactional matters such as procurements and contracts, processing lottery prize claimants, and rulemaking, and representing the agency in contested case matters before the State Office of Administrative Hearings. The section is supervised by the Deputy General Counsel, who reports to the General Counsel.

Open Records Coordinator

The Open Records Coordinator 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 Texas Public Information Act (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 Texas 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.

Office of Special Counsel

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. Additionally, the Special Counsel provides independent counsel to the Commissioners in con-

nection with administrative contested cases. The Special Counsel reports to the General Counsel.

Lottery Operations Division

The Lottery Operations Division is responsible for player, retailer and vendor compliance with the requirements of Chapters 466 of the Texas Government Code and Chapter 401 of the Texas Administrative Code. The division serves the needs of the agency and its customers in the areas of vendor and licensee compliance, jurisdictional complaint monitoring; instant ticket printing, testing, 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 website, and oversight of the agency's correspondence functions; product development and product marketing; oversight of the lottery operator's sales force; 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 executive director.

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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 LatinWorks, 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

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 drawings, while ensuring that the draw 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 draw game 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, Pollard Banknote Limited and GTECH Printing Corporation, in coordination 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 draw 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 draw games, 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. The development and ongoing

support for the retailer sales incentive program is co-managed by the Products Manager along with staff from the Retailer Services Department and the Office of the Controller. This program rewards retailers for meeting defined sales goals while increasing revenue contributions to the state. Products Department staff is also responsible for administering the agency's retailer bonus program and 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 various collection methods, including bank account freezes, levies and property liens.

The Retailer Development Section in the Retailer Services Department designs and implements strategies for developing the retailer base through cooperative efforts with 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 CBOD 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 Communications 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 email 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.

ORGANIZATIONAL ASPECTS

Security Department

The Security Department's primary role is to ensure the security and integrity of Texas Lottery drawings and ticket validations. The Security Department monitors lottery drawings, including draw game, second-chance and retailer incentive drawings, to ensure they are conducted in compliance with all applicable laws, rules, regulations, policies and procedures.

The Security Department works with the Claim Center Section to complete reviews of ticket claims that cannot be validated through approved claim center validation procedures. A variety of forensic tools and investigative efforts are employed to evaluate these claims to aid in determinations for payment or submission to the Enforcement Division for further investigation. The department also assists the Claim Center Section in the completion of validation procedures associated with the review of certain large-value draw game prizes in accordance with agency procedures.

The Security Department works closely with the contracted instant ticket manufacturers, the instant ticket testing vendor, the Products Department and the lottery operator vendor to ensure that all Texas Lottery Tickets sold to the public are fully tested, secure and are of the highest quality. The Security Department is involved with instant ticket games throughout their existence, from the pre-production design of new games to the destruction of closed games. Similarly, the Security Department ensures that the lottery operator has appropriate security measures in place for the secure storage and destruction of residual draw game roll stock. The Security Department also participates in the approval process for new draw game roll stock to ensure it is secure and of the highest quality.

The Security Department is responsible for ensuring the agency's ongoing compliance with MUSL security standards associated with the conduct of the *Powerball* game. The department

works closely with the lottery operator and the agency's Information Resources Department to ensure the continued integrity of all Texas Lottery gaming systems.

Media Relations Division

The Media Relations Division is the first point of contact for all inquiries from local, state and national news media. The division director works in conjunction with the executive director, Charitable Bingo Operations Division 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 to the executive director.

Two distinct sections make up the Media Relations Division: Media Relations and Audio-Visual. The Media Relations Section responds to media inquiries and issues media advisories and news releases. Through its winner awareness efforts, this section generates publicity for winners of large jackpots and other draw game prizes, as well as instant ticket merchandise and cash prize winners.

The Media Relations Section also coordinates agency public awareness campaigns and provides agency representatives to speak to interest groups throughout Texas as part of the agency's Speakers Bureau. The section may also coordinate speaking points for customer and retailer service representatives, the executive director and other agency employees. 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 public service role in the public eye.

The Audio-Visual Section produces informational audio and video segments for statewide broadcast and satellite distribution, including video news releases on lottery and charitable

bingo activities, events and issues. This group also provides audio-visual support for events, as well as archival and training services for other divisions. In addition, the section occasionally furnishes audio-visual services to other state agencies and legislative offices upon request.

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 executive director.

Management Style

The agency uses an inclusive style of management, striving to involve staff in the decision making process as much as possible and keep staff informed as decisions are made. Directors strive to involve their staff in planning and implementing directives within their areas and also seek feedback from staff through periodic internal staff surveys. For Texas Lottery (non-CBOD) staff, appropriate management focus is placed on the optimization of revenue to the Foundation School Fund. Staff involvement at all levels has helped create the highly skilled

and experienced Texas Lottery Commission staff that is in place today.

Meetings to define strategy and recognize progress occur throughout the agency on a regular basis. 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.

Directors of each division meet with each other as needed to discuss agency business. Each division generally has biweekly management team meetings and monthly all-staff meetings, and each division director meets individually with the executive director on a regular basis. Full directors' meetings are also held periodically and agency-wide staff meetings occur monthly.

Although the directors of the CBOD and the Internal Audit Division report directly to the Commissioners, they both meet as needed with other division directors to review, plan and discuss projects that cross division lines and involve and/or impact the CBOD or Internal Audit Division.

C. Geographical Location and Travel Requirements

The Texas Lottery Commission has its main headquarters in Austin and field offices around the state to ensure convenience for its customers.

The Lottery Operations Division employs staff in the Austin headquarters and in 15 field claim centers 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 off-site personnel do not have to travel to receive required training. Certain claim center

offices also are able to videoconference 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 all matters.

Field claim center staff include two regional supervisors that routinely travel to field claim centers.

Enforcement Division personnel travel as needed 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 co-located with Texas Lottery claim centers. Regional offices are located in Odessa, Dallas, Houston and San Antonio. Audit staff at the headquarters in Austin make up a fifth region consisting of the immediate area surrounding Austin.

Auditors from the CBOD 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 2011, the Commission experienced an increase in its overall HUB/minority utilization. During this report period, the Commission expended more than \$40.7 million with HUBs and minority businesses (see Figure A), which represented an increase of \$5.8 million from the previous fiscal year.

The Texas Lottery Commission continues to develop and improve its HUB/Minority Business program. The following are some highlights from FY 2011:

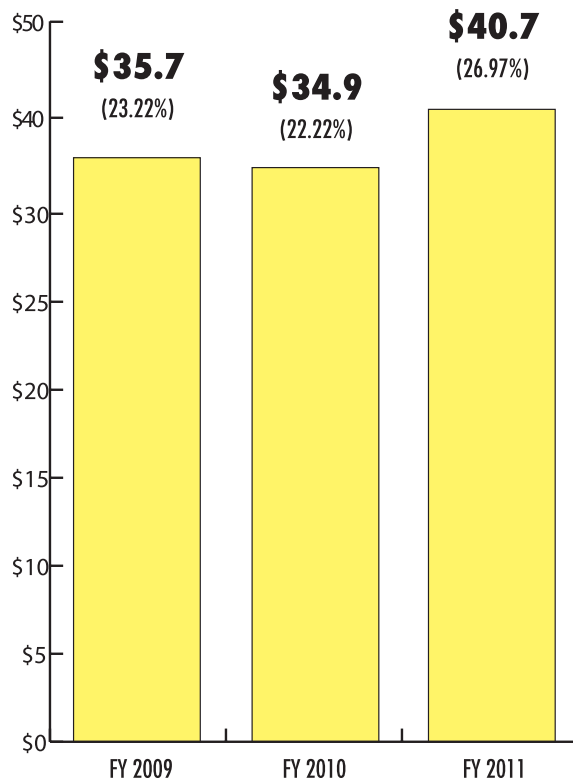
- The agency's overall HUB participation rate rose by nearly five percentage points from the previous fiscal year.
- Five of the agency's major contractors increased subcontracting payments to minority/HUB businesses.
- Three HUB companies provided major contract services to the agency.
- The agency participated in 17 economic opportunity forums and HUB-related outreach events statewide.
- The agency conducted a successful annual HUB forum in June 2011, which attracted minority/HUB participants from across the state.
- The agency sponsored one mentor-protégé relationship.
- The agency's HUB Coordinator served as the Chair of the HUB Discussion Workgroup.

Table 5 reflects the Texas Lottery Commission's HUB Strategic Plan Progress Report for FY 2010 and 2011, based on the Comptroller of Public Accounts' (CPA) HUB goals.

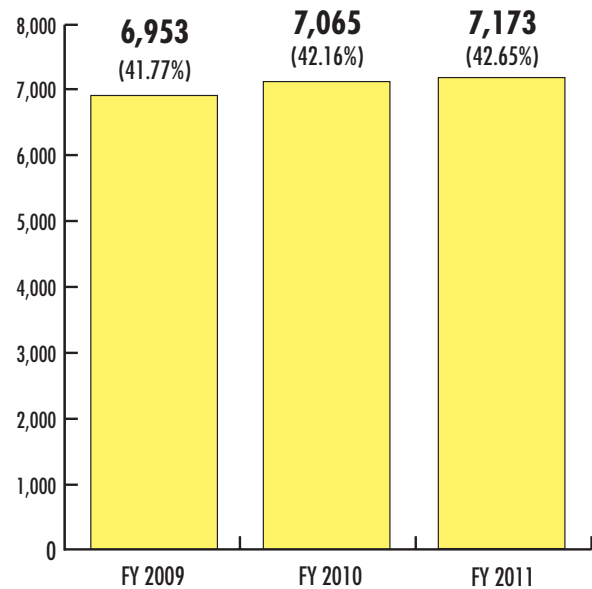
The Texas Lottery Commission is proud of its achievements regarding HUB/minority business utilization in agency procurements. For FY 2011, the agency ranked 19th in terms of overall expenditures as captured by the CPA's Fiscal Year 2011 Annual Historically Underutilized

ORGANIZATIONAL ASPECTS

**FIGURE A
HUB/MINORITY SPENDING
FISCAL YEAR 2009-2011**



**FIGURE B
LICENSED MINORITY RETAILERS
FISCAL YEAR 2009-2011***



*HUB/Minority Spending amounts include spending with minority vendors (direct and indirect) who were not HUB certified during the reported fiscal year.

Business (HUB) Report. During this report period, the Texas Lottery Commission ranked third by overall HUB percentage of the 19 largest-spending state agencies.

The Texas Lottery Commission has continued to exceed its statutory goal of a 20 percent mi-

nority-owned retailer base. During FY 2011, the Commission's retailer base included 7,173 minority retailers, which represented 42.65 percent of the Commission's total Texas Lottery retailer base (see Figure B). The agency has maintained a minority retailer percentage of more than 40 percent for five consecutive years.

**TABLE 5
HUB STRATEGIC PLAN PROGRESS REPORT**

REPORT CATEGORY	ACTUAL FY 2010	ACTUAL FY 2011	GOAL FY 2012
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	60.6%	1.39%	32.7%
PROFESSIONAL SERVICES CONTRACTS	87.5%	59.36%	23.6%
OTHER SERVICES CONTRACTS	21.1%	26.80%	24.6%
COMMODITIES CONTRACTS	54.7%	22.80%	21.0%

*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

E. Fiscal Aspects

Size of Budget

HB 1, the General Appropriations Act for the 2012 -2013 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 \$172.9 million in FY 2012 and \$174.2 million in FY 2013 to operate the Texas Lottery.
- Charitable Bingo appropriations from GR amount to \$14.8 million for FY 2012 and FY 2013, adjusted for Rider 15, the Contingent Revenue appropriation for the Automated Charitable Bingo System (ACBS) redesign.
- The agency's Full Time Equivalent (FTE) cap authorized by HB 1 is 309.5.
- Contingency Rider 12 provided the GR Dedicated Lottery Account with additional appropriation funding for fulfilling contractual obligations and other administrative costs if gross sales exceed \$3.776 billion in FY 2012 and \$3.796 billion in FY 2013. If this condition is met, the Commission will receive an appropriation equal to 1.49 percent of amounts exceeding the gross sales target.
- Rider 10 provided, in addition to the traditional 5 percent retailer commission amount, an amount not to exceed an additional one-half of one percent of gross sales each fiscal year that may be made available for the purpose of paying sales performance retailer commissions. Prior to providing this additional commission, a report must be provided to the Governor

and the Legislative Budget Board outlining the plan and projected sales and state revenue benefits.

- Contingency Rider 15 provided appropriation authority to fund the Automated Charitable Bingo System (ACBS) Redesign from temporary Bingo license fee increases. The Rider was not implemented due to opposition of the temporary license fee increase by the bingo industry due to the economic burden that would be imposed on the industry.

The agency's budget is prepared with direct input from division management and is reviewed and approved by the executive director or director of Charitable Bingo Operations, 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 (see next page) reflects the Texas Lottery Commission's budget by fund type for FY 2012 and FY 2013. The operation and administration of the state lottery is funded from the GR Dedicated Lottery Account. Charitable Bingo is funded from General Revenue.

Other States' Comparisons

The agency presents comparative data for U.S. lotteries calendar year 2011 sales in Table 7 (see next page).

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 September 1, 2011, and includes a compensation rate to the lottery operator of 2.2099 percent of gross sales. The contract expires August 31, 2020. (See Appendix H for more information on the lottery operator contract.)

From 1992 through August 1997, Texas Lottery proceeds were deposited to the state’s General Revenue Fund. Through a statutory change made by the 75th Legislature, Regular Session, Texas Lottery proceeds are now earmarked for the Foundation School Fund in support of public education. Beginning in FY 2010, Texas Lottery proceeds from the sales of certain instant ticket

**TABLE 6
BUDGET FUNDS, 2012-13 BIENNIUM**

	FY 2012	FY 2013
GENERAL REVENUE FUND* (CHARITABLE BINGO)	\$14,756,806	\$14,756,806
GENERAL REVENUE DEDICATED FUND - LOTTERY ACCOUNT NUMBER 5025	\$172,880,148	\$174,234,238
TOTAL, METHOD OF FINANCING	\$187,636,954	\$188,991,044

Source: HB1, General Appropriations Act, 82nd Legislature, Regular Session
*GR appropriation was reduced by \$1.25 million in FY 12 and FY 13 for Rider 15 Contingency - Automated Charitable Bingo System Redesign not implemented.

**TABLE 7
TOP 10 U.S. LOTTERIES
CALENDAR YEAR 2011**

STATE LOTTERY	SALES (\$ MIL.)
NEW YORK	6,840.0
MASSACHUSETTS	4,597.5
FLORIDA	4,217.7
TEXAS	3,863.4
GEORGIA	3,820.8
PENNSYLVANIA	3,647.6
CALIFORNIA	3,306.7
NEW JERSEY	2,652.8
OHIO	2,629.0
ILLINOIS	2,405.1

Source: *La Fleur's Magazine*, January/February 2012

games also benefit the Fund for Veterans’ Assistance.

The agency’s out-of-country and out-of-state travel is restricted by Rider 6 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.

Rider 14 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.

Funding for the regulation of Charitable Bingo has been significantly reduced over time. The Legislative Budget Board and Governor's Office requested that as a starting point for the agency's baseline budget request for FY 2012-13, General Revenue related (GR) funds could not exceed the sum of the amounts expended in FY 2010 and budgeted in FY 2011 adjusted to reflect a full 5 percent reduction.

Approximately 85 percent of the CBOD's FY 2012-13 appropriation consists of the statutorily required allocation of bingo prize fees to counties and cities. This is strictly an appropriation of pass-through funds. The CBOD is charged with the collection and processing of the prize fees submitted by the licensed authorized organizations conducting bingo. A portion of those prize fees collected is remitted back to the local jurisdictions where the bingo games are conducted. This estimated amount was included in the CBOD's appropriation as a separate strategy beginning in FY 2004. The Sunset Advisory Commission Staff Report contains a recommendation that the House Appropriations and Senate Finance Committee consider removing bingo prize fees from the agency's bill pattern so these fees would not be used to calculate budget cuts for bingo regulation in the future.

In order to meet the 5 percent budget reduction for FY 2012-13 required by the Legislative Budget Board and the Governor's Office, the administrative portion of the CBOD's appropriation was reduced by 26 percent compared to the prior biennium, and included a decrease of 14 full-time-equivalent staff members in the CBOD. The impact of this reduction is substantial, resulting in reduced frequency of inspections and

audits, as well as a lengthened processing time for license applications.

In addition and as previously discussed, the continued lack of funding for a redesign of the Automated Charitable Bingo System (ACBS) presents significant challenges for the agency. The ACBS supports the critical functions needed in the administration and management of Charitable Bingo in Texas. Since its implementation, there have been numerous changes to business processes, including system application changes. Vendor maintenance of the current ACBS platform toolset will only be supported through 2013. In order to meet the ongoing needs of the CBOD, it is vital that the existing system be redesigned and converted to ensure its continued availability. The agency has repeatedly included an Exceptional Item request for the ACBS redesign in its legislative appropriations requests with no success.

Degree to Which Current Budget Meets Current and Expected Needs

Staffing and funding resources appropriated for the Texas Lottery Commission for the 2012-13 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.

Revision of Rider 10, Retailer Commissions. This Rider was granted for the FY 2012-2013 biennium and provides an additional 0.5 percent of gross sales each fiscal year for the purpose of paying sales performance retailer commissions. The Commission will seek modification of this Rider for incentivized sales performance allocations to retailers to provide for the appropriation

of unexpended balances between the fiscal years of the biennium.

Should vendor/contract obligations for the instant ticket production contract require additional appropriation authority; the Commission will submit an Exceptional Item request in the FY 2014-2015 Legislative Appropriations Request.

The agency's out-of-country and out-of-state travel is restricted by Rider 6 of the 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 restrictions for out-of-country travel and out-of-state travel are more stringent than that which is imposed on other state agencies by Article IX, Section 5.08. The Commission will seek a deletion of Rider 6 in the Commission's FY 2014-2015 Legislative Appropriation Request and comply with the general travel restrictions outlined in Article IX.

that expire in fiscal years 2014 and 2016 respectively. A cost-benefit analysis will be completed prior to preparation of the FY 2014-2015 Legislative Appropriations Request to evaluate if capital budget authority should be requested for the purchase of the equipment as opposed to continuing with the lease arrangements.

The agency currently has a 1996 Dodge passenger van used to provide daily transportation for pick-up and delivery of mail, supplies, equipment, etc. and transportation of personnel to other state agencies and the state Capitol. The van is currently at the end of its estimated useful life and requires regular maintenance and repairs. A cost-benefit analysis will be completed prior to preparation of the FY 2014-2015 Legislative Appropriations Request to evaluate if capital budget authority should be requested for the purchase of a new vehicle.

Capital and/or Leased Needs

New games and/or features added to draw game products require new equipment or adjustments to existing equipment as they are implemented. Lottery drawing equipment used in the critical function of selecting numbers used in the lottery games is replaced on a regular schedule. This includes but is not limited to new ball machines, ball sets and additional required software. The replacement schedule varies depending on the type of game and the equipment.

The Texas Lottery Commission continually reviews strategies for technology hardware and software refresh. During the 2014-2015 biennium, the agency will be reviewing options for a refresh of its laptop and desktop computers, and storage area network equipment. This equipment is currently leased through statewide contracts

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2013 – 2017 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	2006	2007	2008	2009	2010	2011 *
PERFORMING ARTS COMPANIES	123,147,357	111,355,580	217,368,502	1,838,934,975	244,030,113	159,704,754
SPECTATOR SPORTS	391,203,597	417,223,821	416,576,659	457,260,067	528,686,683	221,410,884
MUSEUMS, HISTORICAL SITES, AND SIMILAR INSTITUTIONS	64,766,706	71,494,658	77,828,411	74,256,967	78,750,723	44,200,499
AMUSEMENT PARKS & ARCADES	544,946,270	544,468,308	527,434,286	501,530,660	509,414,247	285,857,434
GAMBLING INDUSTRIES	40,951,810	39,241,958	32,120,110	33,112,020	29,794,276	14,831,662
OTHER AMUSEMENT & RECREATION INDUSTRIES	2,583,618,846	2,927,169,280	3,222,436,046	3,137,139,685	3,172,937,448	1,682,556,175
RACETRACKS	111,619,127	107,050,599	97,858,231	85,914,715	72,680,195	37,791,114
TEXAS LOTTERY	3,743,766,963	3,776,342,217	3,645,999,482	3,773,590,861	3,733,639,571	3,863,446,227
CHARITABLE BINGO	658,325,172	658,203,740	685,573,612	693,292,264	699,431,119	705,926,913

*Complete data for Calendar Year 2011 not yet available, numbers shown through June 2011.

Source: Texas Comptroller of Public Accounts and Texas Lottery Commission

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.

Since 1997, lottery proceeds have been dedicated to the Foundation School Fund to support public education in our state and the Texas Lottery has contributed more than \$14 billion to the Foundation School Fund since that time. Other Texas Lottery funds such as unclaimed prizes revert back to the state for programs authorized by the Texas Legislature. Beginning in FY 2010, certain Texas Lottery proceeds from specific instant ticket games also benefit the Fund for Veterans' Assistance. Since that time, the Texas Lottery Commission has transferred nearly \$16 million to the Fund for Veterans' Assistance.

In FY 2011, the Texas Lottery Commission transferred \$963.2 million to the Foundation School Fund and \$8.7 million to the Fund for Veterans' Assistance. Including unclaimed prize money, total revenue transferred to the state was

**TABLE 9
REVENUE TRANSFERRED FROM TEXAS LOTTERY
FISCAL YEAR 1992 - 2011 (IN MILLIONS)**

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 2011, the Commission has generated more than \$19.3 billion for the state of Texas.

Prior to 1997, lottery proceeds were allocated to the General Revenue Fund.

	COMPTROLLER'S ESTIMATE	CASH BASIS (ACTUAL)	ACCRUAL BASIS (ACTUAL)
FY 1992	\$0	\$203	\$250
FY 1993	\$0	\$609	\$657
FY 1994	\$801	\$869	\$928
FY 1995	\$814	\$927	\$1,015
FY 1996	\$828	\$1,158	\$1,098
FY 1997	\$847	\$1,189	\$1,183
FY 1998	\$1,299	\$1,157	\$1,098
FY 1999	\$1,395	\$969	\$953
FY 2000	\$1,073	\$890	\$827
FY 2001	\$1,093	\$836	\$825
FY 2002	\$807	\$870	\$859
FY 2003	\$799	\$888	\$882
FY 2004	\$804	\$1,003	\$1,009
FY 2005	\$782	\$1,016	\$1,009
FY 2006	\$1,045	\$1,030	\$1,036
FY 2007	\$1,046	\$1,032	\$1,034
FY 2008	\$1,057	\$983	\$981
FY 2009	\$1,072	\$1,000	\$985
FY 2010	\$949	\$1,008	\$997
FY 2011	\$932	\$972	\$970

Source: Texas Comptroller of Public Accounts and Texas Lottery Commission

AGENCY ACTIVITIES

\$1.025 billion. The Texas Lottery Commission recognizes that future results may flatten or possibly decrease, in large part due to the maturity of the lottery in Texas and due to increased competition from other gambling activities, legal and illegal, both in Texas and in surrounding states.

Since the inception of the Texas Lottery Commission through FY 2011, more than \$36.4 billion has been returned to players in the form of lottery prizes. The Texas Lottery Commission's licensed retailers have received \$3.1 billion in commissions and nearly \$103.8 million in bonuses. In FY 2011, prizes paid to Texas Lottery winners totaled almost \$2.4 billion. Retailers received more than \$190.8 million in retailer commissions and \$21.3 million in retailer bonus and incentive payments, for a total of more than \$212 million in payments to Texas Lottery retailers.

The Texas Lottery Commission's transfer of slightly more than \$1 billion to the state of Texas marks the eighth time the agency has reached the \$1 billion mark since 2004. The Commission's revenue transfer in FY 2011 was based on overall sales of \$3.81 billion, the highest level of total sales in the agency's almost 20-year history.

In FY 2009, the Texas Lottery Commission introduced the \$500,000,000 Blockbuster instant ticket game that featured more \$1 million-plus prizes than any other Texas Lottery scratch-off game ever offered. In FY 2010 and 2011, other games of this type, such as the \$500 Million Frenzy and the Texas Lottery Black series, were introduced. Instant game sales for FY 2011 totaled \$2.8 billion, marking the third highest instant sales total in the agency's history; and an increase of 2.9 percent over FY 2010.

Draw game sales experienced a decrease in FY 2011. In total, draw game sales decreased by \$8.4 million or 0.9 percent from the prior year sales total. The decrease is primarily attributable to *Lotto Texas* and *Cash Five*. These

games decreased in total sales by nearly \$85.0 million in FY 2011. However, these decreases were largely offset by increases in other online games. *Texas Two Step* finished the year with \$51 million in sales, a 3.9 percent increase over FY 2010 and the fourth highest sales since FY 2002. *Daily 4* sales increased \$5.0 million or 8.6 percent over the prior year. In their first full year of sales, combined *Powerball* and *Power Play* sales for FY 2011 totaled nearly \$124.2 million.

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

During FY 2011, the Texas Lottery Commission transferred \$53.3 million in unclaimed prizes to the state. This brings the total to \$687.1 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 \$332.2 million in unclaimed

TABLE 10
UNCLAIMED PRIZES TRANSFERRED
FROM TEXAS LOTTERY
FISCAL YEAR 2000 - 2011 (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
FISCAL 2008	\$54	\$54
FISCAL 2009	\$43	\$63
FISCAL 2010	\$87	\$67
FISCAL 2011	\$53	\$53

Source: Texas Lottery Commission

prizes. Prior to statutory changes in 1999, 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 2010 – 2011 bien-
nium, the Texas Lottery Commission transferred the first \$10 million of unclaimed prizes to the Department of State Health Services (DSHS) for the credit of the Multicategorical Teaching Hospi-
tal Account (Account No. 5049). The Texas Lot-
tery Commission also transfers unclaimed prizes from specific instant ticket games that benefit the Fund for Veterans' Assistance to that Fund. Any unclaimed prizes in excess of those amounts are transferred to the state's General Revenue Fund.

Finally, the Texas Lottery Commis-
sion 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 ef-
fort has garnered more than \$4 million for the state over the past three years to satisfy debt that might have other-
wise gone unpaid.

Bingo Revenue and Business Activities

Since the first licenses were issued in 1982, charitable bingo has had posi-
tive benefits for charities, players, and state, county and municipal govern-
ments in Texas. Gross receipts from the conduct of charitable bingo total more than \$16 billion, bingo prizes awarded have been in excess of \$11 billion, and allocations to local juris-
dictions have totaled approximately \$262.9 million. By the end of calendar year 2011, the total amount of chari-

table distributions from the conduct of bingo exceeded \$1 billion.

Distributions by organizations conducting chari-
table bingo benefit the people of Texas in many ways that include providing assistance to lo-
cal 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 depart-
ments, EMS units, police officer organizations, and senior citizen organizations, to name a few.

TABLE 11
CHARITABLE BINGO FOR CALENDAR YEARS 1982 - 2011

YEAR	TOTAL GROSS RECEIPTS	PRIZES PAID TO PLAYERS	CHARITABLE DISTRIBUTIONS	ALLOCATIONS
1982	\$66,488,368	\$45,102,756	\$3,536	\$657,184
1983	\$163,172,767	\$117,391,473	\$3,646,181	\$1,193,376
1984	\$221,814,070	\$161,408,850	\$17,993,595	\$4,047,322
1985	\$255,293,746	\$186,271,397	\$27,731,430	\$4,103,469
1986	\$302,657,186	\$220,241,691	\$18,814,743	\$3,745,303
1987	\$368,025,355	\$270,745,207	\$20,464,169	\$6,042,654
1988	\$467,011,652	\$346,054,120	\$28,082,676	\$7,935,380
1989	\$550,675,771	\$407,309,715	\$35,774,683	\$9,390,573
1990	\$621,449,048	\$447,567,333	\$47,668,061	\$9,560,443
1991	\$673,472,508	\$482,773,824	\$54,587,709	\$9,826,017
1992	\$668,120,245	\$484,992,347	\$48,192,980	\$5,961,898
1993	\$652,026,981	\$481,514,701	\$51,427,711	\$7,278,829
1994	\$638,571,682	\$476,049,785	\$48,933,529	\$10,729,548
1995	\$638,184,564	\$481,835,221	\$46,454,694	\$10,807,774
1996	\$611,265,755	\$460,964,655	\$40,482,002	\$10,690,662
1997	\$596,812,617	\$439,824,455	\$38,401,962	\$10,238,960
1998	\$606,027,285	\$432,876,694	\$42,588,280	\$9,919,696
1999	\$607,070,515	\$430,764,545	\$40,053,678	\$9,915,454
2000	\$582,767,393	\$413,799,779	\$36,809,265	\$9,589,796
2001	\$563,520,364	\$399,983,036	\$34,123,897	\$9,221,389
2002	\$557,086,857	\$397,920,227	\$31,745,178	\$9,098,223
2003	\$575,701,959	\$417,410,005	\$29,885,100	\$9,503,656
2004	\$604,744,497	\$444,846,802	\$30,044,665	\$10,303,938
2005	\$634,031,612	\$471,503,840	\$30,384,530	\$10,912,959
2006	\$658,325,172	\$492,181,753	\$31,999,876	\$11,589,240
2007	\$658,200,485	\$493,338,060	\$32,090,164	\$11,598,956
2008	\$685,418,665	\$513,089,176	\$32,852,800	\$11,866,340
2009	\$692,927,554	\$518,256,349	\$35,834,421	\$12,264,641
2010	\$699,431,119	\$526,715,056	\$33,919,844	\$12,338,567
2011	\$705,926,913	\$533,800,600	\$29,038,478	\$12,576,181
TOTAL	\$16,319,961,598	\$11,991,579,776	\$1,000,076,628	\$262,908,428

Source: Texas Lottery Commission
Figures as of 4/2/2012. Unaudited.

AGENCY ACTIVITIES

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

Table 11 (see previous page) provides data related to gross receipts, prizes paid to players, charitable distributions, and allocations to cities and counties from 1982 through 2011.

In calendar year 2011:

- \$705.9 million in gross receipts was generated from the conduct of charitable bingo in Texas;
- \$533.8 million was paid in prizes to bingo players;

- \$29 million was distributed to charitable purposes by licensed conductors;

- \$27.9 million in prize fees and taxes, was collected from charitable bingo activities;

- \$3 million was collected in charitable bingo license fees; and

- \$31.4 million was deposited to the General Revenue Fund, of which \$12.5 million in allocations was returned to local jurisdictions for their share of charitable bingo prize fees.

Table 12 provides data on charitable bingo licenses and revenue for fiscal years 2006-2011.

**TABLE 12
CHARITABLE BINGO LICENSES, REVENUE AND EXPENDITURES
CALENDAR YEARS 2006 - 2011**

	2006	2007	2008	2009	2010	2011
APPLICATIONS						
APPLICATIONS RECEIVED	7285	7347	7402	7614	9568	9668
APPLICATIONS PROCESSED	7275	7479	7420	7559	9555	9636
REVENUE	\$ 3,170,370	\$ 2,896,839	\$ 3,062,425	\$ 2,900,760	\$ 2,956,022	\$ 2,993,864
BINGO OPERATORS/LESSORS	\$ 83,000	\$ 65,000	\$ 81,000	\$ 59,000	\$ 67,500	\$ 79,800
BINGO EQUIPMENT	\$ 1,196,989	\$ 1,153,439	\$ 1,209,870	\$ 1,222,561	\$ 1,221,287	\$ 1,207,909
BINGO RENTAL TAX	\$ 24,314,975	\$24,776,983	\$25,223,223	\$ 26,163,743	\$ 26,054,899	\$ 26,686,711
BINGO PRIZE FEES	\$ 262,275	\$ -	\$ -	\$ -	\$ -	\$ -
JUDGMENTS	\$ 3,134	\$ 1,141	\$ 1,008	\$ 2,175	\$ 1,809	\$ 1,421
FEES/COPIES OR FILING OF RECORDS	\$ -	\$ -	\$ -	\$ -	\$ 60	\$ 530
FEES FOR ADMINISTRATIVE SVCS	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ -
OTHER SURPLUS/SALVAGE PROPERTY	\$ -	\$ -	\$ -	\$ 5,837	\$ -	\$ -
FORFEITURES	\$ -	\$ 30,200	\$ 55,260	\$ 56,213	\$ 244,612	\$ 207,299
ADMINISTRATIVE PENALTIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DEFAULT FUND-RETURN CHECKS	\$31,262,474	\$31,984,403	\$31,824,697	\$31,192,097	\$32,763,265	\$34,213,368

Source: Texas Lottery Commission

Table 13 (see page 40) shows bingo gross receipts, pull-tab gross receipts, and other gross receipts reported in the North American Association of Fundraising Ticket Manufacturers (NAFTM) 2010 Annual Report. In combined bingo gross receipts and pull-tabs, Texas ranked third among all North American states and provinces for 2010, surpassed only by Ontario and Minnesota. Texas ranked second in bingo gross receipts to Ontario and second in pull-tab gross receipts to Minnesota.

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 Administration and/or 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 2011, new licenses were issued to 2,040 Texas Lottery retailers.

A key aspect of maintaining public confidence is providing assurance that lottery operations and performance are of the highest standards. This includes not only the functions performed by the Texas Lottery Commission, but also the functions performed on behalf of the agency through contracted relationships. The agency currently contracts with an outside vendor to provide goods and services related to the operation of the lottery. This contract is generally referred to as the “lottery operator” contract.

The lottery operator contract is large and complex, with the lottery operator being required to continuously be in compliance with numerous requirements. The agency is responsible for monitoring and reporting on the lottery operator’s performance against the contractual requirements. Monitoring and reporting are ongoing activities requiring regular and consistent planning, assessment, reporting and follow-up. Compliance monitoring activities include identification of all contractual requirements, prioritization of contract requirements based on operational risk, and planning and execution of quarterly reviews.

The current lottery operator contract was effective September 1, 2011, and expires August 31, 2020. (See Appendix H for more information on the lottery operator contract.)

TABLE 13
NAFTM ANNUAL REPORT 2010
CHARITY GAMING RECEIPTS BY GAMES

STATE/PROVINCE	BINGO GROSS	PULL-TAB GROSS	RAFFLE GROSS	OTHER GROSS	TOTAL GROSS RECEIPTS
COLORADO	\$45,238,937	\$58,573,919	\$9,511,240		\$113,324,096
CONNECTICUT	\$19,273,816	\$6,923,240	\$11,291,966	\$459,317	\$37,948,339
INDIANA	\$82,388,278	\$36,690,025	\$21,562,501	\$13,176,128	\$484,026,932
KENTUCKY	\$82,566,200	\$303,608,300	\$13,133,200	\$7,012,800	\$406,310,500
LOUISIANA	\$100,760,500	\$93,561,800	\$25,887,100	\$19,276,600	\$216,486,000
MAINE	\$17,203,701	\$-	\$-	\$55,607,957	\$72,811,658
MASSACHUSETTS	\$42,727,347	\$16,960,200	\$20,049,717	\$1,360,689	\$81,097,953
MICHIGAN	\$119,991,416	\$201,839,683	\$53,615,439	\$181,892,459	\$560,542,356
MINNESOTA	\$59,109,000	\$886,673,000	\$7,512,000	\$20,338,000	\$973,632,000
MISSOURI	\$59,060,997	\$44,023,801	\$-	\$-	\$103,084,799
NEBRASKA	\$9,427,780	\$30,752,495	\$6,820,938	\$185,461,253	\$232,462,466
NEW HAMPSHIRE	\$17,419,081	\$63,484,904	\$-	\$32,887,446	\$11,3791,431
NEW JERSEY	\$41,997,400	\$43,771,400	\$53,817,700	\$-	\$139,586,500
NEW YORK	\$73,926,547	\$235,134,501	\$6,603,334	\$872,370	\$316,536,752
NORTH DAKOTA	\$31,976,605	\$136,456,418	\$4,348,675	\$76,686,706	\$249,468,404
OREGON	\$32,717,992	\$-	\$6,349,918	\$732,034	\$3,979,943
SOUTH CAROLINA	\$120,500,719	\$-	\$-	\$-	\$120,500,719
TEXAS	\$372,206,404	\$327,184,860	\$-	\$-	\$699,391,264
VIRGINIA	\$114,437,868	\$156,477,860	\$5,536,410	\$414,194	\$276,866,332
WASHINGTON	\$40,683,419	\$43,289,509 \$217,739,28	\$7,281,248	\$365,780 \$246,924,967	\$91,619,956 \$464,664,256
WISCONSIN	\$18,030,200	\$-	\$62,091,800	\$19,000	\$80,141,000
CANADA					
ALBERTA	\$139,845,000	\$75,808,000	\$170,137,000	\$1,013,636,000	\$1,399,426,000
MANITOBA	\$44,174,145	\$4,179,006	\$27,979,514	\$1,438,842	\$77,771,508
NEWFOUNDLAND	\$189,316	\$145,697	\$187,265	\$18,682	\$540,661
ONTARIO	\$609,000,000	\$317,000,000	\$284,000,000	\$-	\$1,200,000,000

Source: NAFTM 2010 Annual Report. Note: Figures are as reported by the states and provinces. Canadian receipts are reported in Canadian dollars.

*Other gross includes Keno receipts. **Charitable Receipts. ***Commercial Receipts Sold in Establishments That Sell Food and Drink for On-Site Consumption Only Per Washington State Gaming Commission.

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 website.

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 2011, the CBOD received 9,841 license applications and issued 9,462 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 website, 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 Enforcement, Legal Services, Charitable Bingo Operations and/or Lottery Operations Divisions. The section maintains a comprehensive database on complaints, violations and disposition 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. Based on feedback obtained from the recent Sunset Staff Report, the agency is also exploring potential enhancements to the CAMP system that would allow the agency to: 1) produce reports showing the resolution of complaints by the type of allegation, and 2) report statistics about complaints received and resolved each year.

Consumer Protection Efforts

Maintaining public confidence in the security and integrity of the Texas Lottery is a core value of the agency supported by several key initiatives. The Texas Lottery Commission continues to expand existing programs and initiatives to protect and enhance the security of its lottery games, systems, drawings and operational facilities. The goal is to provide additional protection for lottery consumers, follow up on complaints and ensure retailers comply with rules related to prize validations.

Several of the agency's consumer protection-related initiatives that have already been implemented are listed below:

- Dual validation receipts (one for player and one for retailer)
- Split validation numbers (VIRN)
- Eliminating retailer validation codes on scratch-off tickets
- "Sign Your Ticket" public awareness campaign
- PDF 417 barcode on scratch-off tickets for self-check equipment
- Player-activated terminals for self-checking winning status of tickets
- Self-check terminal locator on website
- Multimedia monitor (ESMM) display of validation messages to player
- Terminal inquiry/validation tones
- Transaction display devices for terminals
- Security spotlight on website
- Purchase day, date and time printed on draw game tickets
- Monitoring of validation activity patterns at retail
- Monitoring of licensed retailer prize claims submitted for payment

Dual validation receipts were introduced to provide players printed confirmation of the validation transaction at the terminal while allowing retailers to continue to keep a copy for their records. By giving players a copy of the receipt, retailers are providing printed proof of the prize amount. This is useful when players are unsure how to play a game or if they have won.

The four-digit validation number (VIRN) is required for retailers to complete the validation of a scratch-off ticket. The VIRN on scratch-offs was changed from all four numbers inside one box within the serial number on the front of a ticket to now boxing the digits separately and placing them throughout the serial number. This action minimizes the opportunity for "pin pricking" or "micro-scratching" where a small amount of latex is removed to uncover portions of the VIRN number in an effort to fish for winning tickets within a pack.

The "Sign Your Ticket" campaign encourages players to sign their tickets upon receipt to protect them from loss. The campaign includes playstation decals and terminal toppers in the stores as well as reminders on the Texas Lottery website.

Enhanced consumer protection strategies include the deployment of more than 15,000 Check-a-Ticket terminals. The player-activated terminals provide consumers with the ability to check the winning status of instant and draw game tickets prior to validation by a retailer. Players also can check their tickets at more than 2,200 Gemini self-service vending terminals located primarily in grocery stores and travel centers across Texas. The Check-a Ticket and Gemini terminals read draw game barcodes as well as the PDF 417 barcode on the front of scratch-off tickets.

With the expanding presence of self-check equipment, the scratch-off and store locator feature on the Texas Lottery website was updated in October 2009 to identify the retailer locations

where consumers can check their own tickets. Players are able to search by city or ZIP code to find locations that have a Check-a-Ticket or Gemini.

The Altura terminal is the primary terminal used for producing and validating tickets in lottery sales locations. Beginning in the summer of 2011, retailers were provided the new multimedia monitors (ESMM) for displaying player transaction data, marketing messages and special alerts such as Amber, Silver, Blue and Endangered Missing Person Alerts. The ESMM displays the winning status of a validated ticket including the actual prize amounts under \$600, thus providing players visual confirmation of a prize amount.

Additionally, a series of audible tones are included on the Altura terminal to assist players in identifying the status of tickets scanned by the retailer. The five distinct tones also are identified on the Texas Lottery website to provide consumers the opportunity to become familiar with the sounds that identify a winning and non-winning ticket.

The Security Department developed a “Security Spotlight” on the Texas Lottery website under “News & Events.” This page features consumer protection tips and information on lottery-related scams. Information is also available regarding resources for reporting or researching suspicious activity.

The day, date and time that a draw game ticket is printed was added to supplement the draw-date information printed on each ticket. This additional information enables players to confirm that the ticket they are provided by the retailer was produced at the time of the purchase.

Security Department staff have developed reporting tools to monitor claims submitted by licensed retailers to Texas Lottery claim centers as well as specific patterns of validation activity at retail locations. These reports are used to

identify areas that may require more detailed inquiries by Texas Lottery investigators.

Through these many initiatives and concerted efforts, the agency continues to identify and implement evolving strategies for consumer protection. The Texas Lottery has added, and continues to develop, a significant level of security for consumers and retailer licensees who sell Texas Lottery games. Some examples of pending enhancements include:

- Adding the game name to the validation receipts which allows players to confirm the receipt was produced for the ticket which they submitted for prize inquiry or validation. This functionality has been implemented for both draw game and instant game tickets.
- Adding a 60-second “time out” period so that terminals reset if a validation inquiry is conducted on a sales terminal but the actual validation processes is not completed by the retail clerk.
- Deploying 5,000 additional Check-a-Ticket terminals in the summer of 2010, with a goal of having the self-check service available at most, if not all, licensed lottery retailers.

Another important element of the agency’s consumer protection efforts focuses on its retail licensees. The agency continues to work 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 for violations of the Act and rules. Every effort is made to ensure that a retailer’s noncompliance with the Act and rules results in timely and consistent application of progressive disciplinary remedies up to and including the revocation of sales licenses.

The agency recognizes the need to protect consumers while simultaneously not inconvenienc-

ing 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. These consumer protection initiatives are focused on equipping both players and retailers with the best tools available in the industry to enhance the playing and sales experience. The agency's mission to generate revenue for the state of Texas is supported by making every effort to ensure fun, positive lottery player experiences.

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 number combinations for Texas-based draw games are conducted on-site in the Texas Lottery security-controlled drawings studio. Drawings are conducted Monday through Saturday throughout the year, including holidays. Drawings, which are open to the public, are supervised by the Security Department, certified by an independent auditor and conducted in accordance with drawings procedures.

The Texas Lottery Draw Team performs the night drawings for *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 is 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 multi-state game *Mega Millions*, to the draw game mix, the Texas Lottery implemented its first computer-

generated drawing for the *Megaplier* add-on feature. The *Megaplier* number was selected using a random animated digital draw system (RADDS). The last *Megaplier* drawing as a Texas-only, add-on game feature was conducted on November 5, 2010. The *Megaplier* add-on feature is now conducted by the Georgia Lottery as a multi-state lottery add-on game feature for the off-site *Mega Millions* drawing conducted by the Georgia Lottery for all states participating in *Mega Millions*. The off-site *Mega Millions* drawing is monitored remotely via live video feed by Texas Lottery draw team staff and the independent auditor, and is taped and merged with the drawing conducted in the Texas Lottery drawings studio.

In FY 2010, the multistate game *Powerball* with the add-on feature *Power Play* was added to the draw game mix. The off-site *Powerball* and *Power Play* drawing is conducted by the Florida Lottery in Tallahassee, Fla., and is remotely monitored by Texas Lottery Information Resources staff, independent auditors, draw team staff, and is taped and merged with the drawing conducted in the Texas Lottery drawings studio.

Early in FY 2013, the Texas Lottery will launch its newest daily game, *All or Nothing*. The game will be drawn four times daily.

Drawings results are made available to the general public on the Texas Lottery website via live and archived webcasts; drawings broadcasts and winning number results are transmitted via satellite for use by television stations; newspaper and print publication receive broadcast email distributions; and results also are available through lottery retailer locations.

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 Laboratory

A forensic laboratory operated by the Security Department is available to perform forensic testing on tickets and other questionable documents related to claims. The agency's forensic analysts examine questionable claims received from the Texas Lottery claim centers. The analysts use 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.

The agency outsources 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.

Bingo Pull-Tab and Paper Testing Lab

This lab is operated by the CBOD 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.

Bingo Card-minding System Testing Lab

This lab is operated by the CBOD and confirms that the bingo card-minding systems 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.

At the February 2, 2012, Commission meeting, the Commissioners voted to propose revised administrative rules related to bingo card-minding devices. One of those proposed rules would allow for licensed manufacturers to utilize an independent testing facility (lab) to test their products for compliance with the Act and Rules. Once the lab performs their testing, the lab will issue a report. The Commission will review the report and test results and either approve or deny the product for use in Texas. The public comment hearing ended on March 19, 2012. The proposed rules are still pending at this time.

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 stan-

dard 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, and anonymous method in which to report any concerns regarding possible misconduct is critical.

The Internal Audit Division manages EthicsPoint, an Internet- and telephone-based reporting system that can be accessed from inside or outside the workplace. This system is intended to supplement the existing avenues that agency employees have to report concerns. In addition to anonymous reporting of concerns, the system also allows follow-up questions to be asked of the employee filing the report, while maintaining their anonymity. The EthicsPoint system is provided by a third-party vendor, EthicsPoint, Inc. The vendor provides round-the-clock monitoring, intake and distribution of reports. The system directly routes any reports of concerns related to any member of the Internal Audit Division or to any Commissioner to the State Auditor’s Office. The director of Internal Audit receives all other reports.

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 FY 2011, Enforcement Division investigators completed 1,804 investigations, including 543 alleged violations of the Lottery Act, 106 alleged violations of the Charitable Bingo Act, 759 lottery background investigations and completed 396 bingo background investigations.

Beginning in 2010, the Enforcement Division began the following initiatives:

- **High-tier prize inquiries** – Identify inquiries of winning lottery tickets with a predetermined prize range to detect indications of possible misconduct.
- **Bad validation inquiries** – Identify lottery retailers experiencing an unusually high number of bad validation attempts, which may be an indication of retailer misconduct.
- **Test tickets** – Test tickets will have the appearance of high tier winning instant lottery tickets and will be used in response to complaints to ensure the integrity of the validation process at lottery retailers.

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 equip-

ment 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. Retailers are provided with a retailer guide as well as a retailer manual. The retailer guide provides hands-on information about how to sell lottery tickets, as well as policies and procedures related to lottery ticket sales. The retailer manual provides detailed instructions on how to operate the various terminals deployed by the Texas Lottery Commission and how to produce and validate tickets for individual games. In 2007, retailers were provided additional access to the retailer guide when it was placed on the Texas Lottery website. Electronic updates to the guide are also provided as policies are revised and new games and add-on features are introduced. The “Retailers” page of the website also was 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 sales districts around the state and one-on-one training updates with the introduction of new games and add-on features. Retailer and lottery sales representative training scripts are updated as policies are revised and new games and add-on features are introduced.

Bingo Training Program

Section 2001.107 of the Bingo Enabling Act established the Bingo 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 bingo chairperson and designated agent of a unit to complete the training program 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 Bingo Training Program was held March 1, 2000. The Bingo Training Program is available to licensees and the public via free online program modules. In calendar year 2011, more than 934 individuals took the Bingo Training Program online and nine physical-site training courses were conducted across Texas, resulting in an additional 255 trained individuals for a total of 1,189 individuals trained in calendar year 2011.

The first Bingo Training Program was held March 1, 2000. The Bingo Training Program is available to licensees and the public via free online program modules and physical-site classes are held at multiple sites throughout the state each year. In October 2009, the Bingo Training Program underwent a significant enhancement as it was migrated to a MOODLE learning management system platform that facilitates online use to a wide variety of computer users. In calendar year 2009, more than 1,982 individuals took the Bingo Training Program online and 35 physical-site training courses were conducted across Texas, resulting in an additional 1,336 trained individuals for a total of more than 3,318 individuals trained in calendar year 2009.

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. Additionally, the Texas Lottery Commission monitors its intellectual property to identify any infringing use in order to prevent confusion for consumers.

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 are constantly being developed to keep Texas Lottery games innovative and exciting for Texas players. The agency relies heavily on marketing research to help ensure that any changes made to the current game mix will effectively meet the needs of Texas players, as well as assist in generating revenue to support public education.

Draw Games

One of the most significant differences between the instant and draw 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* draw 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 subsequent ticket purchase.

Draw games, industry wide, have relied primarily on jackpot levels to drive sales and revenue generation. Lotteries nationwide are attempting to increase draw game sales by exploring the introduction of higher price points. However, lotteries have struggled in these efforts, as players have become accustomed to playing for multi-million dollar jackpots for a \$1 wager. This has limited the industry's ability to create the value proposition differential between price points that has been so successful with the instant ticket product category. The new \$2 *Powerball* game introduced in January 2011 is the most recent and highly publicized attempt to successfully move jackpot games to a higher price point.

As noted above, lotteries nationally have recently collaborated to expand the offering of multi-jurisdictional jackpot games (*Mega Millions* and *Powerball*) across significantly larger population bases. This expansion of the jackpot draw game offerings in Texas requires the continued monitoring of jackpot and daily (non-jackpot) game performance for possible modifications and adjustments to the overall draw-game portfolio.

Multi-state games like *Mega Millions* and the new \$2 *Powerball* are capable of generating jackpots upwards of \$500 million, creating excitement for players and retailers alike, and also driving 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, 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, sales and revenue for this type of draw game have generally decreased over time.

New draw games and/or game changes require execution of the agency's formal administrative rulemaking process and extensive system software development before introduction. Additionally, draw games typically require costly advertising expenditures to communicate to the public about the new product or changes to an existing product. These games differ from instant tickets, as the instant game serves as its own communication vehicle due to its visible placement at retail. These draw game product requirements serve to limit the agency's ability to conduct frequent introductions of new draw games or make rapid changes to existing games.

Lastly, there are a number of additional draw games offered in other lottery jurisdictions that are not being pursued in Texas as they would require specific legislation. Keno, which is traditionally sold in bars and restaurants, and sales terminal-based raffle games are examples of such initiatives. During the 82nd Legislative Session, several bills were filed that would have expanded the types of games offered or regulated by the Texas Lottery Commission. These included video lottery terminals at certain locations, poker gaming, and various types of casino gaming. None of these bills was enacted.

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 multi-jurisdiction lottery game. In October 2003, with the unanimous approval of Texas Lottery Commissioners, the executive di-

rector of the agency signed an agreement with 10 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* draw 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 March 2012, an estimated \$654.8 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 \$640 million *Mega Millions* jackpot in March 2012. This jackpot was a world-wide record-breaking lottery jackpot that set numerous sales records for the Texas Lottery.

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 used that game change opportunity to promote the *Megaplier* game feature. For \$1 more per playboard, *Megaplier* provides players with the opportunity to increase their non-jackpot prize winnings by two, three or four times. Texas players who purchased the *Megaplier* feature had a chance 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." In January 2011, the *Megaplier* feature was enhanced. Players who purchased the *Megaplier* feature and win the second-tier prize automatically win \$1 million, regardless of the *Megaplier* number drawn.

The most recent change to *Mega Millions* was the cross-selling agreement reached between *Mega Millions* and MUSL states (explained in more detail in the *Powerball* section). This greatly expanded the population base for the *Mega Millions* game and had a significant impact on the sales levels and jackpot rolls related to the \$640 million jackpot in March 2012. The agency will continue to closely monitor this game in order to optimize sales and revenue performance.

Powerball

At the time the Texas Lottery joined the *Mega Millions* game in 2003, Texas made it known to both the *Mega Millions* and *Powerball* consortiums that Texas was interested in joining both games. That request was rejected at the time for several reasons, most notably the inherent rivalry and competition that existed between the games. Therefore, Texas chose to join the *Mega Millions* game primarily because of the Tuesday/Friday draw dates, which did not conflict with the Wednesday/Saturday draw dates for *Lotto Texas*.

Over time, with revenues in several states declining, a “changing of the guard” occurring in other states, and with Texas continuing to press the issue, the two consortiums began to warm to the idea of selling both games in 2008. An agreement in principle was reached following the North American Association of State and Provincial Lotteries (NASPL) meeting held in October 2009. On January 28, 2010, the largest lottery agreement in U.S. history was signed between MUSL, which operates *Powerball*, and the *Mega Millions* member states, creating the largest market ever in North America for jackpot games. Thirty-three jurisdictions, representing a combined population of 199 million people and 147,000 retail outlets, began to offer the two multi-jurisdictional mega-jackpot games. On Sunday, January 31, 2010, the Texas Lottery started sales of *Powerball* at its nearly 17,000 licensed retailer locations and the first *Powerball* drawing for tickets sold in Texas was held on

February 3, 2010. The market for these games has the potential to ultimately expand to 45 jurisdictions representing 291 million people. A new \$2 version of the *Powerball* game was approved by MUSL in June 2011 and the Texas Lottery Commission unanimously approved game rule changes in October 2011. Sales for the new *Powerball* game began January 15, 2012. The new game, enhanced with, improved jackpot odds, better overall odds of winning and higher starting jackpots, offers the potential for increased sales and revenue return.

The next logical step in these multi-jurisdictional games will be the development of a true “national” game, one that could potentially have a price point (greater than \$2).

Lotto Texas

Lotto Texas has been modified three times – the first time in July 2000, when the game changed from a 6-of-50 to a 6-of-54 matrix, and the second time in May 2003, when the game changed to a bonus ball-style, 5-of-44 plus 1-of-44 matrix. Both of these changes increased the odds of winning the jackpot in an attempt to create higher jackpots that generate 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 of more than \$500 million, “jackpot fatigue” is a problem faced by all jurisdictions, including Texas. Jackpot fatigue is the phenomenon in which 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 draw game product category can achieve significant sales, but without jackpots driving player spending, the draw game 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 while allowing players to play the in-state lotto offering 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 19-year tenure as the state’s multi-million dollar in-state jackpot game. Recognizing this, the agency makes an effort to ensure the game remains popular with players. The agency is considering potential add-on game concepts, such as a multiplier, an additional prize tier and/or other options, which will continue to keep the game fresh and provide additional or increased winning experiences for players.

Texas Two Step

Texas Two Step realized a record-setting jackpot in April 2006 when the jackpot climbed to an advertised \$2.9 million. *Texas Two Step* was introduced in May 2001 as a replacement for an underperforming \$2 draw 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*. However, the agency will closely monitor the performance of this and all of its jackpot draw games following the introduction of \$2 *Powerball* for any needed modifications or changes to the overall draw game product portfolio.

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 draw 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 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 draw games, over time the game has experienced sales declines. The agency is currently evaluating ways to renew interest in this niche of the agency’s draw game product portfolio. Modifications to this game also will be considered in the context of player participation and sales of the agency’s rolling jackpot games following the introduction of \$2 *Powerball*. Research groups will also likely be needed to gauge player reaction and interest in potential game changes.

Daily 4

Added to the draw game 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 draw game sales since they have been available. The *Pick 3* game experienced some cannibalization as anticipated with this game introduction. However, combined sales of *Pick 3* with Sum It Up and *Daily 4* with Sum It Up continue to exceed the previous sales of the *Pick 3* stand-alone game. A non-jackpot game similar in play style to *Pick 3*, *Daily 4* appears to be establishing a core player base, just as *Pick 3* has, without relying on large jackpots to generate sales and increased player 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 continued success of the game, the agency will consider both player and retailer promotions to support the *Daily 4* game.

Pick 3

Pick 3, a non-jackpot game, had realized a sales increase every year since its inception in October 1993 until the introduction of another daily numbers game, *Daily 4* in FY 2008. Although this game has experienced some cannibalization as expected due to the introduction of *Daily 4*, it remains the best-selling draw game, ahead of *Lotto Texas*, *Mega Millions* and *Powerball*, illustrating that non-jackpot style games are a critical component of the draw game product portfolio and are important in efforts to reach sales and revenue goals.

The Texas Lottery continually evaluates its product mix. In addition to the initiatives identified above, the agency is exploring opportunities to increase draw 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 instant game-launch strategy. In the late 1990s, approximately 25-30 games were introduced in a fiscal year. In recent fiscal years, the agency has introduced approximately 90 instant games each year. Introducing more games at smaller print runs keeps the product line new, fresh and exciting. In addition to the aggressive game-launch strategy, higher price-point games such as the \$50 game have allowed the agency to reach impressive sales levels. Instant games are currently available at the following price points: \$1, \$2, \$3, \$5, \$10, \$20 and \$50.

In FY 2009, the agency introduced a \$20 “Spotlight” or “Mega” instant game, *\$500,000,000 Blockbuster*. A Spotlight or Mega game is known in the industry as a game that typically has a larger than normal print-run with an increased prize payout. \$20 games in Texas are typically produced at a 3 million print quantity and a 72 percent payout. Utilizing industry best practices, *\$500,000,000 Blockbuster* was produced with a 33 million print-run and a slightly increased prize payout percentage. The larger print quantity and increased payout allowed for the creation of many “call-out” features on the front of the ticket that are appealing to players such as:

- “More than \$500,000,000 in prizes”
- “Win up to \$2.5 million instantly”
- “More than 75 percent payout”
- “50 cash prizes from \$1 million to \$2.5 million”

In order to communicate this important game information to the public, the Spotlight game featured a dedicated advertising campaign to support the launch in market. *\$500,000,000*

Blockbuster launched with a five-week advertising campaign that was coupled with a full suite of retailer point-of-sale pieces. This game has been very successful for the agency in terms of sales and revenue generation. Through March 2012, the game has generated \$581,859,480 in sales and revenue of \$86,364,945. Capitalizing on the success of \$500,000,000 *Blockbuster*, the agency introduced \$500 Million *Frenzy* in March 2011. This game was also well received by retailers and consumers, similar to its predecessor.

The agency's first \$10 Spotlight game, \$200 Million *Cash Spectacular*, was introduced in February 2012. A new \$20 Spotlight game, \$100 Million *Extreme Cash Blast*, is scheduled to launch in August 2012 to replace \$500,000,000 *Blockbuster*, which is reaching the end of its product cycle. Based on the success of the Spotlight game concept, the Texas Lottery will continue to evaluate Spotlight game offerings in the instant product category for introduction in the future.

Core (or base) games are games that are always available for sale because of their long term, ongoing popularity with players. Core games are important within the Texas Lottery's portfolio as anchors at various price points, mitigating the need to identify and produce additional offerings at a particular price point. Examples of current core games are \$1 *Find the 9's*, \$2 *Weekly Grand*, \$2 *Break the Bank*, \$2 *Bingo*, \$3 *Cashword*, \$5 *Monthly Bonus* and \$10 *Set For Life*. The Texas Lottery strives to identify unique products that both resonate with players and offer the potential to become core offerings. The agency recently has had tremendous success with its uniquely designed and positioned *Texas Lottery® Black* product offered at the \$10 price point. This game shows significant potential as a core offering. The Texas Lottery will continue to identify and bring to market products that it believes can achieve this level of player loyalty.

This overall instant product portfolio strategy has allowed the agency to realize annual instant

sales exceeding \$2.7 billion during each of the fiscal years 2006 through 2011.

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 a draw game ticket. In FY 2008, the agency began efforts to increase cross-play with the introduction of a scratch-off game that offered a draw game Quick Pick as a prize. Players presented their winning scratch-off to their lottery retailer and upon validation, the retailer's lottery terminal automatically generated a Quick Pick ticket for the specified draw game. This concept has proven to be successful and the agency will continue to leverage the successful scratch category to stimulate player exposure to the draw game 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 approximately 17,000 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 shopping centers, airports, drug stores and home im-

provement centers. The agency will continue to explore new avenues for retailer recruitment and retention.

Check-A-Ticket Terminals

Providing Texas Lottery consumers with the greatest level of security and protection possible is key to ensuring the integrity of the games. The agency acquired more than 10,250 Check-a-Ticket terminals to provide consumers with the ability to verify the winning status of instant or draw game tickets. In 2010, the Texas Lottery completed the deployment of an additional 5,000 Check-a-Ticket terminals as part of an effort to make this player functionality available to all retail locations.

Route Sales

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

The standard of clerk-assisted lottery sales does not fit a growing number of retail business models in which: 1) consumers have the option of self-checkout, 2) multiple entrances/exits exist and 3) the location is in a large-space venue such as a shopping mall, airport or “big-box” outlet. In addition, opportunities for providing easier access to lottery products also exist within venues where large populations spend extended time such as factories, cafeterias, hotels and hospitals.

To take advantage of these opportunities, a “route sales” option has been implemented on a pilot with new trade styles that allows the lottery operator to independently contract directly with the retailer to service and stock inventory for self-service equipment in environments where clerk assistance is limited or not available. The retailer remains responsible for all regulatory and payment responsibilities associated with being a lottery licensee.

There are challenges to this unique sales model:

- Providing for prize payments to players,
- Ensuring the retailer provides customer service to lottery players,
- Managing and securing ticket inventory, and
- Reconciling cash from the self-service sales equipment.

Preventing purchases by minors is also a priority and must be monitored by the licensee. The cost to the retailer of contracting for route sale would be dependent on the scope of services.

As these challenges are addressed on a case-by-case basis and a cost-effective model for route sales is developed, there is the potential for increased revenue. Two route sales pilot programs have been implemented with the lottery operator acting as the route sales vendor. The first pilot using the self-service equipment at five locations was conducted in 2010 and a subsequent pilot program with 25 locations began in 2011. The agency will closely monitor the route sales program and determine the feasibility of expansion in this area.

Legislation was filed, but not enacted, during the 82nd Legislative Session that would allow the lottery operator to license directly to sell lottery tickets via third party locations. Such licensing ability would likely expand the variety of route sales models that might be explored and piloted.

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 2011. Pull-tab sales increased each year from 2002 through 2011.

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 attitudes, behaviors, and perceptions as they relate (actually or potentially) to the Texas Lottery Commission and its products. The goal of market research is to provide supportive empirical information that may be used in decision making and product development and distribution. The Commission considers a diverse body of research as essential to understanding public attitudes and behaviors associated with the Texas Lottery, its products and services. It is committed to using varied methodologies to obtain an accurate and representative understanding of the Texas market, and qualitative and quantitative methods (or some combination thereof) are thus employed as needed. Final research reports for all projects are distributed to appropriate agency staff and posted on the Administration Division's intranet site.

The Texas Lottery Commission's research program evolves to respond to industry shifts and internal business needs and dynamics. Its fundamental purpose, however, is tied directly to its supportive role in the agency, with most research initiatives focusing on:

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

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

Demographic Study of Texas Lottery Players

The State Lottery Act 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 conducted the most recent state-mandated study, the 2011 Demographic Study of Texas Lottery Players, in December 2011.

Tracking and Segmentation Studies

The Texas Lottery Commission regards its public image highly and attempts to improve its understanding of that image through quarterly and annual public surveys. These surveys take the form of tracking and segmentation studies conducted by an independent vendor.

Quarterly tracking studies are used to solicit from Texas residents an understanding of vari-

ous issues ranging from lottery play behavior to general opinion of the agency. Other items measure player views on lottery game changes, the effects of advertising campaigns, the reasons for abandoning or beginning to play games, and so on. Tracking studies have at least two objectives: provide longitudinal data on public attitudes and behaviors; and, offer a quick means for getting at emergent concerns at the Texas Lottery. Approximately 1,200 Texas residents are surveyed each quarter.

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 agency. Segmentation and tracking reports are distributed regularly throughout the agency.

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 emerge in the Products Department. Research groups are put together to test instant ticket concepts and new draw game matrices. These studies occur about twice per year 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 decision makers.

Retailer Research Survey

The Research Surveys are conducted monthly by claim center personnel to collect information from lottery retailers on the nature and quality of the service they receive from the agency and

its lottery operator. The survey also collects observational data regarding lottery equipment and marketing pieces. All existing lottery retailers (roughly 17,000) are surveyed over a four-year period. Responses are compiled into biannual reports that identify and track general trends among retailers. 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 implementation of the new lottery gaming system; refresh of the agency's information technology infrastructure; and continued growth in the agency's Internet services. 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:

- Implementation of new lottery gaming system.
- Upgraded the internal control system (ICS) to interface with the new lottery gaming system.
- Refreshed laptop and desktop computers.
- Upgraded to Windows 7 Operating System.
- Upgraded to Microsoft Office 2010.
- Implemented VM Ware and have virtualized a portion of servers.
- Upgraded Personnel and Payroll System to include automated leave request and tracking.

- Converted the electronic check list system used by the draw operators to the new development tool set.
- Refreshed network firewalls and routers.
- Implemented new lottery game (\$2 *Powerball*) system requirements.
- Implemented a text and email notification system of winning lottery numbers for lottery players.
- Implemented the Instant Ticket Management System.
- Upgraded voice mail system.

Planned Technology Initiatives:

- Implement automated leave request and tracking to the entire agency.
- As with all entities, the Texas Lottery 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.
- Replace the storage area network.
- Upgrade email to Exchange 2008

Automation Efforts

- The agency is committed to expanding the use of electronic records management where it creates operational efficiencies and value for the state.
- Phase 2 of Instant Ticket Management System.
- Systems Conversion – vendor maintenance for the agency’s existing software platform will only be supported through 2013. As a result, multiple systems must be converted to a new toolset to ensure continued availability.

Electronic Filing for Charitable Bingo

Electronic filing of quarterly reports was made available to conductors, conductor/lessors, lessors, and accounting units. The CBOD is authorized to accept electronic payments of prize fees and taxes; however, the lack of funding and resources has prohibited the programming necessary to implement this activity. The ability of the CBOD to accept and process online payments would benefit both licensees and the division.

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 in 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 appropriately and effectively allocate its advertising dollars to reach the public and optimize revenue, and enhance awareness of Texas Lottery games. The Texas Lottery Commission’s advertising is

allocated among 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.).

Research from the University of Texas conducted in 2006 suggests that for each additional dollar in lottery advertising expenditures, an additional \$5 to \$25 in additional lottery sales can be anticipated.

While the Texas Lottery's advertising budget has diminished in nominal dollars from \$40 million in 1993 to \$32 million in 2011, the effects of inflation are even more pronounced. An advertising budget of \$40 million in 1993 dollars would equate to \$62.3 million in 2011 dollars adjusted for inflation.

Add to that the greatly expanded product mix, and it becomes apparent that 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 draw game (*Lotto Texas*) and two instant games. Today, the Texas Lottery offers seven (eight in September 2012) different draw games with three different add-on features, and approximately 85 to 90 instant games each year.

Furthermore, in 1993, players were easier to reach frequently via network television and radio advertising. Since then, the advertising industry has encountered dramatic change including the proliferation of new media choices for consumers. Just a few examples of new media include the introduction of the Internet and social media, growth in cable channels, and the launch of satellite radio. This market dilution means it is becoming more difficult to reach large groups of consumers with the same level of media expenditures.

Since 1993, the population of Texans over the age of 18 has increased by 45 percent from 12.6 million to 18.7 million in 2011. Additionally, the population of Texas has become more ethni-

cally diverse, reaching minority-majority status in recent years. The increased population and decreased advertising budget have combined to lower per capita advertising expenditures over this period by 46 percent from \$3.17 to \$1.71.

The agency adheres to specific measures to ensure appropriate communications with the public regarding Texas Lottery products. The agency's advertising reflects the Texas Lottery's mission and core values. Statutory provisions also affect the type of messaging the agency can use in its advertising. Section 466.110 of the Texas Government Code states that advertisements or promotions sponsored by the Texas Lottery must not be of a nature that unduly influences any person to purchase a lottery ticket or number. This general restriction can be broadly interpreted and, as such, has the impact of significantly limiting both the types of advertising messages and the media placement strategies employed in the agency's messaging. The agency is very respectful of and sensitive to the viewpoints of the approximate one-third of Texans who are not in favor of gaming in any form.

Promotions

Events

The Promotions section of the Advertising and Promotions Department conducts various Texas Lottery promotional events and assists in facilitating retailer promotions throughout the state. In FY 2011, more than 51 promotional events and more than 1,277 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 promote its games, sell tickets and/or educate players about its games. The Texas Lottery Commission continues to use these promotional opportunities and explore new venues that can help sustain sales, educate consumers and promote 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 sales tips, and news about agency activities. The Retailer Service Center on the agency's website provides a broad base of information for retailers to aid with game sales, operation of equipment and financial reporting data to support business activities related to the lottery. The agency also holds a series of meetings throughout the year with retailers 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 and lottery operator vendor staff in each of the various statewide sales districts. The agency meets with retailers around the state each year. The retailers share best practices and tips for improved 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 service needs, policy input and product insights. The input gathered from the retailer links is extremely beneficial to the agency and has frequently resulted in the implementation of new innovations 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 retailers and lottery players.

Communicating with Charitable Bingo Licensees

The CBOD website 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 website 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; Bingo 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 website 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. Beginning in January 2011, a new email subscription service was launched allowing individuals to sign up to receive email or text update notifications regarding bingo advisory opinions, draft rulemakings, latest news, press releases, Commission activities and much more. Users will only receive updates on items to which they have subscribed. The subscription service is a free offering, and users may change their profile or unsubscribe at any time. There is also a very helpful set of FAQs that will address the user profile, security, use of information, how the email notification process will work and other useful information.

Public Service Initiatives

The agency's public service and media relations initiatives are key to communicating about the Texas Lottery Commission. The executive director and other agency personnel attend check

presentations, make presentations 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 communicate about the agency by providing updates about Texas Lottery issues, winners, and milestones achieved, and news from the CBOD. In addition, the agency attempts to leverage lottery and bingo industry news via the Media Relations Division in a manner that optimizes revenue. As an example, during the March 2012 record-breaking *Mega Millions* jackpot run to \$640 million, the agency was able to garner millions of dollars in free publicity and advertising for the Texas Lottery due to the efforts of the Media Relations Division in coordinating interviews with state and national media over the course of several days.

Texas Amber Alert Network

In spring 2003, the Texas Lottery joined the Texas AMBER Alert Network, bringing Texas Lottery retailers into the state's efforts to help locate abducted or missing children. Governor Rick Perry established the network 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 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 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.

Blue Alert Program

On August 18, 2008, Governor Perry signed an Executive Order implementing the Blue Alert program. Executive Order RP 68 established the creation of a Blue Alert program, enabling rapid distribution of vehicle information, related to offenders who flee after killing or seriously injuring federal, state or local law enforcement officers in the line of duty.

The Blue Alert Program is modeled after the AMBER Alert Network and the Silver Alert System, and uses the same infrastructure currently used by state and local law enforcement. All the following criteria must be met for activation of a Blue Alert:

- A law enforcement officer must have been killed or seriously injured by an assailant.
- The investigating law enforcement agency must determine that the assailant poses a

serious risk or threat to the public and other law enforcement personnel.

- A detailed description of the assailant's vehicle, vehicle tag or partial tag must be available for broadcast to the public.
- The investigating law enforcement agency or jurisdiction must submit a Blue Alert recommendation to the Governor's Division of Emergency Management (GDEM).

The Texas Lottery Commission officially joined the Blue Alert Program in September 2008. Though Executive Order RP 68 did not mention the agency by name, since the Texas Lottery was lending assistance in the AMBER Alert Network and the Silver Alert System through the DPS, the agency became a partner in the Blue Alert Program.

Endangered Missing Persons Alert Program

The Texas Department of Public Safety implemented the Endangered Missing Persons Alert Network as a means to assist law enforcement in the recovery of missing persons with an Intellectual Disability. The Texas Lottery Commission officially joined the Endangered Missing Persons Alert Program when it was implemented in September 2011. Though HB 1075 did not mention the agency by name, since the Texas Lottery was lending assistance in the AMBER Alert Network, Silver Alert System and the Blue Alert Program through the DPS, the agency became a partner in the Endangered Missing Persons Alert Program.

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 initiative reminds consumers that the Texas Lottery

Commission encourages conscientious participation in its games. The initiative 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, instant and draw game tickets, and news releases. The initiative features the agency's Play Responsibly Web page where players can find links to outside problem gambling resources.

Additionally, since 2004, the Texas Lottery has participated in the annual Problem Gambling Awareness Week campaign, a grassroots public awareness and outreach campaign presented by the National Council on Problem Gambling. The goal of this campaign, typically held every year in the second week of March, is to educate the general public and health care professionals about problem gambling and raise awareness about the help that is available both locally and nationally. The Texas Lottery's Media Relations Division produces and distributes a statewide news release regarding the campaign and reminds lottery and bingo players alike to play responsibly, and remain vigilant for warning signs of problem gambling.

Sign Your Ticket — Consumer Protection Campaign

The Texas Lottery Commission uses the agency's website and point-of-sale materials to educate the public on consumer protection issues. Specifically, the Sign Your Ticket information campaign reminds players about the importance of players signing tickets upon receipt. The agency's Media Relations Division further supported the campaign with a video news release. The Sign Your Ticket campaign was launched in May 2008 and continues with point of sale presence in the retail environment and periodic features on the agency's website.

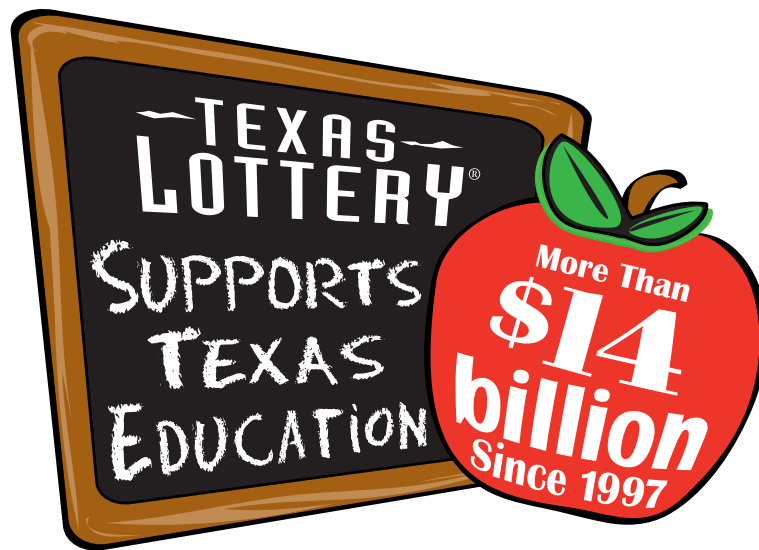
Texas Lottery Commission Website

The Texas Lottery Commission uses the agency's website, 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 webcasts of Texas Lottery drawings (both live and on-demand), information about Texas Lottery games and promotions, retailer programs, regular messages from the executive director of the Texas Lottery Commission, information about "Where the Money Goes" and "Sign Your Ticket", specific web pages dedicated to public service campaigns, Charitable Bingo forms, applications, reports, and links to agency adminis-

trative rules, and other documents and reports.

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 produces a "Where the Money Goes" brochure that details a complete percentage breakdown of each dollar of lottery sales. The brochure is widely disseminated to retailers, players and the general public, and is also available on www.txlottery.org. The agency also announces the attainment of significant contribution milestones on the home page of the agency's website.



TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2013 – 2017 Period

IV. EXTERNAL FACTORS AFFECTING SERVICES

A. Demographic Characteristics

Texas Lottery Players¹

Texas Lottery players were distributed variously within and across demographic categories in 2011. 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 55 years old. The average player age increased slightly compared to the previous Strategic Plan (2011-2015).

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 2009, the percentage breakdown for past-year players was 21 percent (<\$30,000), 44 percent (\$30,000-\$74,999), and 35 percent (>\$75,000). This distribution changed in 2011 with 24.2 percent (<\$30,000), 37.3 percent (\$30,000-\$74,999), and 38.4 percent (>\$75,000).

Past-year Texas Lottery players were, moreover, represented across all educational levels in 2011. Roughly 70 percent had at least some college, 43.7 percent held at least a college degree, and nearly 4 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 (2011-2015).

According to the 2011 *Demographic Study of Texas Lottery Players*, Texas registered lottery participation in general had been in decline over the past decade. Texas lottery participation in 2011 was one of the few exceptions to this trend; the participation rate increased by as much as seven percentage points (6.7) as compared to 2010. Roughly 40 percent of survey respondents in 2011 indicated they participated in any of the Texas Lottery games in the past year, compared to 33.8 percent in 2010.

The following highlights from the 2011 *Demographic Study of Texas Lottery Players* profile Texas Lottery players.

Household Income

The Texans most likely to play Texas Lottery games are those with an annual income greater than \$75,000 (38.4 percent), with the \$30,000-\$74,999 income category being the second largest player group (37.3 percent). In 2009, nearly 44 percent of players were concentrated in the middle-income categories of \$30,000-\$74,999 and 35 percent of players reported income greater than \$75,000. In 2011, the percentage of players reporting income of \$30,000-\$74,999 decreased to 37 percent, while the proportion of players reporting household incomes greater than \$75,000 increased to 38.4 percent.

Education

The distribution of Texas Lottery players across educational levels continued to exhibit a centralized pattern in 2011, with the majority

¹ All Texas Lottery demographic information comes from the *Demographic Survey of Texas Lottery Players* for the years cited herein unless noted otherwise. Available at: http://www.txlottery.org/export/sites/default/About_Us/Publications/Reports.html.

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of players gravitating toward the middle categories. For example, just over 83 percent of respondents reported holding high school or college degrees, or having some college. Roughly 57.4 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 more than 16 percent of the sample (3.68 percent and 12.96 percent, respectively). The largest proportions of lottery players had either “some college, no degree” (26.7 percent) or a college degree (30.78 percent).

Age

In 2011, the majority (55 percent) of Texas Lottery players were age 55 or older and roughly 90 percent were older than 35. The youngest demographic group, those aged 18 to 24, comprised the smallest percentage of Texas Lottery players (3.2 percent, down 2.4 percent of players in 2009).

Gender

In 2011, Texas Lottery players were somewhat more likely to be female (50.95 percent) than male (49.05 percent).

Race & Ethnicity

Texas Lottery players were predominately white (64.7 percent). Roughly 18.2 percent of Texas Lottery players identified themselves as of Hispanic origin.

Charitable Bingo Licensees

Total bingo attendance at licensed locations was more than 16 million in calendar year 2011.

In 2011, there were 1,678 charitable bingo licensees, including 1,277 conductors, 417 commercial lessors, 16 distributors and 18 manufacturers. Table 14 (see next page) shows the types of organizations licensed by calendar

year from 1986 through 2011 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 2011, with two exceptions—there were slight increases in 1992 and 1995.

From 1986 to 2011, the number of licensed conductor organizations peaked in 1989 with 2,033 conductors and declined each year, with the exception of a 2 percent increase from 1991 to 1992.

From 1986 through 2011, the number of licensed lessor organizations peaked in 1989 with 585 licensed lessors, and declined each year from 1989 through 2009, with three exceptions—there were slight increases in 1992, 1995 and 2007.

From 1986 through 2011, 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.

From 1986 to 2011, 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 2011, there were 18 licensed manufacturers.

The groups conducting charitable bingo include nonprofit organizations such as fraternal organizations, National Historical District Association, veteran organizations, religious societies, volunteer fire departments, groups supporting medical research programs and emergency medical services. 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 2011.

EXTERNAL FACTORS AFFECTING SERVICES

The number of licensed religious conductor organizations was at its highest in 1987 with 356 licensed organizations, and declined yearly with the exception of 2004 and 2005, which 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 organizations peaked in 1989 with 923 licensed organizations and shows yearly fluctuations from 1989, with the largest increase of 82 organizations from 2006 to 2007.

The number of licensed volunteer fire departments peaked in 1989, with 141 organizations and shows a steady decline to 51 licensed organizations in 2011.

TABLE 14
ORGANIZATIONS THAT APPLIED FOR AND WERE ISSUED A LICENSE
1986 - 2011

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%
2008	1,310	431	16	17	0	1,774	-.06%
2009	1,255	416	20	17	0	1,708	-3.72%
2010	1,254	418	18	17	0	1,707	-.06%
2011	1,227	417	16	18	0	1,678	-1.70%

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 - 2011

CALENDAR YEAR	RELIGIOUS	MEDICAL	FRATERNAL	VOLUNTEER FIRE DEPT.	VETERAN	EMS	NATIONAL HISTORICAL	TOTAL	% CHANGE
1986	303	75	533	93	447			1,451	
1987	356	81	692	130	517			1,776	22.40%
1988	351	83	717	135	527			1,813	2.08%
1989	326	100	923	141	543			2,033	12.13%
1990	301	78	776	129	560			1,844	-9.30%
1991	286	75	787	125	554			1,827	-0.92%
1992	278	75	822	125	563			1,863	1.97%
1993	267	67	807	120	550			1,811	-2.79%
1994	260	61	793	106	537			1,757	-2.98%
1995	256	62	821	101	535			1,775	1.02%
1996	244	61	799	89	514			1,707	-3.83%
1997	233	54	790	86	506			1,669	-2.23%
1998	217	50	791	74	484			1,616	-3.18%
1999	209	49	788	73	468			1,587	-1.79%
2000	195	53	757	73	458			1,536	-3.21%
2001	179	50	744	71	438			1,482	-3.52%
2002	175	44	744	71	413			1,447	-2.36%
2003	166	40	740	74	410			1,430	-1.17%
2004	168	38	743	71	399			1,419	-0.77%
2005	169	35	717	66	376			1,363	-3.95%
2006	160	32	721	64	341			1,318	-3.30%
2007	155	30	803	64	260			1,312	-0.46%
2008	149	30	815	61	255			1,310	-0.15%
2009	141	30	793	52	236	3		1,255	-4.20%
2010	141	301	793	52	236	3	1	1,254	-.08%
2011	131	30	792	51	219	3	1	1,227	-2.15%

1986 - 2002 Source is Texas Lottery Commission (CBS)

2003 - 2011 Source is Texas Lottery Commission (ACBS)

In 2009, the legislature authorized a new organization type, emergency medical services. Since the inception of this organization type, there have been 3 emergency medical services organizations licensed each of the three past years.

The number of licensed veteran organizations peaked 1992, with 563 licensed organizations and shows yearly declines from 1992 to 2011, with a low of 219 licensed organizations in 2011.

There has been one licensed National Historical District Association in each of the past two years.

Texas Lottery and State Demographic Trends and Impacts

According to the U.S. Census Bureau, in 2010 Texas remained the second-largest state in the United States ranked behind only California. California, Florida, and Texas were projected to account for nearly 46 percent of the total U.S. population growth between 2000 and 2030. Population growth in Texas was already evident in US Census Bureau population estimates for 2010. The population percent change from 2000 to 2010 was a reported 20.6 percent.

With reference to ethnicity and race, in 2004 Texas became one of the few states to be categorized a “majority-minority” state, with roughly 50.2 percent of its population being minority. By 2010, Non-Hispanic whites made up roughly 45.3 percent of the state’s population, Hispanics nearly 37.6 percent, African Americans roughly 11.8 percent, Asians about 3.8 percent, and American Indian and Alaska Native .7 percent.

Hispanic population growth and its age distributions 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.² Economic studies have suggested that Hispanic buying power is growing more steeply than any other group in the United States.³ The increase in Hispanic buying power is significant to Texas for several reasons. First, Hispanics comprised 37.6 percent of the 2010 Texas population, up from 35.6 percent in 2006, with continued growth expected. Second, Hispanic population growth in Texas has had a concomitant increase in earnings. The number of U.S. Hispanics earning more than \$50,000 increased nearly 130 percent between 1994 and 2000, 30 percent between 2000 and 2004, and another 23 percent between 2006 and 2008.⁴ 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. Finally, Texas had 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 were two of the top 10 U.S. metro areas with the highest concentrations of Hispanics.⁵

It can be expected that Texas lottery player demographics will shift as the state’s population grows and changes in the direction of youth and minority groups 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.

Charitable Bingo Trends and Their Impact

Table 16 (see page 68) shows a comparison of regular bingo sales and pull-tab sales for 1982 thru 2011. Some of the decline in 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.

Table 17 (see Page 69) shows attendance from 1982 through 2011. Attendance has shown a steady decline from 1992 to 2011, with a slight increase of .53 percent from 2008 to 2009. It appears that the introduction of the new style of instant event 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.

² Degross, Renee. 2005. “Home Depot Courts Hispanics. *The Atlanta Journal Constitution*. Feb. 15. Business section: p. D1.

³ Humphreys (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.”

⁴ Ibid. 2008. *American Community Survey*. “Median Household Incomes...” by ethnicity.

⁵ Diversity Best Practices WOW Facts. Year unknown.

EXTERNAL FACTORS AFFECTING SERVICES

**TABLE 16
COMPARISON OF BINGO CARD SALES TO PULL-TAB SALES
1982 – 2011**

YEAR	CARD SALES	CHANGE CARD SALES	% CHANGE CARD SALES	PULL-TAB SALES	CHANGE PULL-TAB SALES	% CHANGE PULL-TAB SALES
1982	\$66,488,368			\$-		
1983	\$163,172,680	\$96,684,312	145.42%	\$87	\$87	-
1984	\$217,137,488	\$53,964,808	33.07%	\$4,676,582	\$4,676,495	5375281.61%
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	\$492,662,092	(\$7,772,546)	-1.55%	\$140,391,468	(\$11,200,875)	-7.39%
1995	\$498,120,463	\$5,458,371	1.11%	\$139,769,085	(\$622,383)	-0.44%
1996	\$488,946,621	(\$9,173,842)	-1.84%	\$121,816,923	(\$17,952,162)	-12.84%
1997	\$491,756,262	\$2,809,641	0.57%	\$104,836,239	(\$16,980,685)	-13.94%
1998	\$506,642,255	\$14,885,993	3.03%	\$99,144,445	(\$5,691,794)	-5.43%
1999	\$510,317,138	\$3,674,883	0.73%	\$96,753,377	(\$2,391,068)	-2.41%
2000	\$493,414,252	(\$16,902,886)	-3.31%	\$89,353,141	(\$7,400,236)	-7.65%
2001	\$478,397,545	(\$15,016,707)	-3.04%	\$85,122,819	(\$4,230,323)	-4.73%
2002	\$468,107,354	(\$10,290,191)	-2.15%	\$88,979,503	\$3,856,685	4.53%
2003	\$445,876,396	(\$22,230,958)	-4.75%	\$129,825,563	\$40,846,060	45.91%
2004	\$430,908,286	(\$14,968,110)	-3.36%	\$173,828,243	\$44,002,680	33.89%
2005	\$410,842,204	(\$20,066,082)	-4.66%	\$223,189,408	\$49,361,165	28.40%
2006	\$404,772,215	(\$6,069,989)	-1.48%	\$253,552,957	\$30,363,549	13.60%
2007	\$385,245,447	(\$19,526,768)	-4.82%	\$272,958,293	\$19,405,336	7.65%
2008	\$379,825,563	(\$5,419,884)	-1.41%	\$305,748,049	\$32,789,756	12.01%
2009	\$374,586,845	(\$5,238,718)	-1.38%	\$318,705,419	\$12,957,370	4.24%
2010	\$372,246,282	(\$2,340,563)	-0.62%	\$327,184,837	\$8,479,418	2.66%
2011	\$362,196,484	(\$10,049,798)	-2.70%	\$343,730,429	\$16,545,592	5.06%

1986 - 2002 Source is Texas Lottery Commission (CBS)
2003-2011 Source is Texas Lottery Commission (ACBS)
Figures as of 2/26/2012. Unaudited.

B. Impact of Recent and Proposed Legislation

During the 82nd Legislative Session, the following legislation impacting the Texas Lottery Commission was enacted:

SB 626 – Relating to lottery winnings, including assignment of winnings, periodic payments of winnings, and the deduction of child support delinquency amounts from winnings paid to a prize winner. Enactment of this legislation clarifies provisions in the Lottery

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**TABLE 17
ATTENDANCE AT BINGO OCCASIONS
1982 – 2011**

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	33,839,680	(935,150)	-2.69%
1995	34,087,509	247,829	0.73%
1996	32,668,785	(1,418,724)	-4.16%
1997	31,062,881	(1,605,904)	-4.92%
1998	29,908,812	(1,154,069)	-3.72%
1999	27,916,597	(1,992,215)	-6.66%
2000	25,820,526	(2,096,071)	-7.51%
2001	24,385,464	(1,435,062)	-5.56%
2002	23,718,342	(667,122)	-2.74%
2003	22,749,669	(968,673)	-4.08%
2004	21,398,109	(1,351,560)	-5.94%
2005	19,908,409	(1,489,700)	-6.96%
2006	19,348,594	(559,815)	-2.81%
2007	17,926,344	(1,422,250)	-7.35%
2008	17,741,456	(184,888)	-1.03%
2009	17,834,924	93,468	0.53%
2010	17,624,287	(210,637)	-1.18%
2011	16,770,394	(853,893)	-4.84%

Figures as of 2/26/2011. Unaudited.
Source: Texas Lottery Commission

Act and Uniform Commercial Code as it relates to the assignment of prizes. It responds to recent court decisions and relieves the Texas Lottery Commission and the Office of Attorney General from burdensome and costly litigation. The bill permits the assignments of installment prizes by winners not delinquent in debt to the state and clarifies that delinquent debtors of child support or other debts may not assign a prize.

SB 1342 – Relating to the use of bingo proceeds by licensed authorized organizations, including the use of proceeds to provide health insurance or health insurance benefits to certain employees. This provides licensed charitable organizations the ability to provide health insurance benefits paid from bingo proceeds to employees.

HB 1 – General Appropriations Act. A reduction in General Revenue appropriations required Bingo’s administration budget to be reduced by 27 percent and also required a reduction of 12 full time equivalents by the Charitable Bingo Operations Division. HB 1 also authorized funding of \$2.5 million for the redesign of the Automated Charitable Bingo System contingent upon a temporary licensing fee increase.

HB 2728 – Related to the operation and regulation of charitable bingo. Clarifies the allowance for the transfer of commercial lessor licenses and also clarifies the term “crime of moral turpitude.”

During the 82nd Legislative Session, the following bills potentially impacting the Texas Lottery Commission were filed, but were not enacted:

HB 382 – Related to poker gaming. Would have established poker gaming to be regulated by the Texas Lottery Commission. Would have established licenses for charity operators, commercial operators, and Indian tribes. The Texas Lottery Commission would establish separate division and division director.

HB 700 – Related to consolidating the Texas Lottery Commission, Racing Commission and TABC. Would have created new Texas Alcoholic Beverage and Gaming Commission. Governed by five commissioners with knowledge of bingo, greyhound racing, horse

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racing, and general business. Separate divisions for lottery, bingo, racing and alcoholic beverages.

HB 1955 – Related to contracting with or licensing a lottery operator. Would authorize the Texas Lottery Commission to contract with or license the lottery operator to act as retailer. Passage of this bill would have permitted the lottery operator to service certain retail establishments with lottery tickets in a manner similar to a vending route operator.

HB 2111 – Related to operation of video lottery terminals (VLTs). SB 1118 is companion bill. Would have authorized VLTs at pari-mutuel tracks and permit Indian tribes to offer VLTs. Would have been regulated by the Texas Lottery Commission.

HB 2424 – Related to video lottery terminals at bingo premises. SB 1212 is companion bill. Would have permitted VLTs at bingo halls; number of machines to be based on bingo license class. Would have been regulated by the Texas Lottery Commission.

HB 3042 – Related to lottery ticket to benefit breast cancer efforts. Would have required the Texas Lottery Commission to introduce a new game with the net revenue used for breast cancer research, education and patient support.

HB 3282 – Related to authorization of 24-number bingo games. Would have introduced a new bingo game with stored value card-minding devices. Would have exempted prizes of \$25 or less from current statutory limit of \$2,500 per occasion.

HB 3575 – Related to casino gaming on Indian tribal lands. The Texas Lottery Commission and the state would enter into a 25-year compact with tribes. Tribes would transfer to the Texas Lottery Commission a percentage to be determined of gross gaming revenue.

HB 3576 – Related to casino gaming on Indian lands and pari-mutuel tracks. The Texas Lottery Commission and the state would enter into a 25-year compact with tribes. Tribes would transfer to the Texas Lottery Commission a percentage of gross gaming revenue. The Texas Lottery Commission would also derive revenue from casinos at pari-mutuel tracks.

HJR 28 – Related to creating the Texas Gaming Commission and regulating gaming at various locations throughout the state. Would have created the Texas Gaming Commission. Would have required Governor to call special session to authorize gaming legislation. Would have authorized gaming at: coastal barrier islands, dredge spoil islands, pari-mutuel track, and municipalities of at least 675,000 population.

HJR 41 – Related to local option elections for eight-liners. Would have authorized local option elections to authorize or prohibit eight-liner machines. Regulatory structure would have been determined by Legislature.

HJR 43 – Related to local option elections for gaming. Would have authorized county option elections to authorize or prohibit various types of gaming. Regulatory structure would have been determined by Legislature.

HJR 111 – Related to video lottery terminals at pari-mutuel tracks and on tribal lands. Companion is SJR 33. Would have authorized the operation of video lottery terminals (VLTs) at pari-mutuel tracks and on tribal lands. No regulatory structure provisions were contained in HJR.

HJR 112 – Related to casino games and slot machines. Companion is SJR 34. Would have authorized establishment of Texas Gaming Commission (TGC). Revenue to the state would

have been directed to property tax relief fund. TGC would license and regulate up to eight pari-mutuel tracks, up to six casinos at destination location projects in urban areas and up to two casinos at gulf island tourist locations and Indian tribal casinos.

HJR 113 – Related to gaming by Kickapoo Traditional Tribe of Texas. Tribe would have paid state 3 percent of revenue. No regulatory structure provisions were included in HJR.

HJR 119 – Related to authorization of VLTs at bingo locations. Companion is SJR 35. Would have authorized video lottery terminals at bingo halls to be regulated by the Texas Lottery Commission. Would have provided a defense to prosecution for operation of VLTs by tribes.

HJR 133 – Related to gaming on tribal lands. Would have authorized gaming by the Tigua Indian tribe in El Paso County. No regulatory structure provisions were contained in the HJR.

HJR 147 – Related to authorizing gaming. Legislature would have established a regulatory structure and authorized gaming at resort destinations, pari-mutuel tracks, and on tribal lands.

HJR 151 – Related to casino gaming by Indian tribes. Would have authorized casino gaming on tribal lands or within five miles of tribal lands as regulated by the Texas Lottery Commission.

HJR 152 – Related to casino gaming at tracks and by tribes. Would have established the Texas Lottery Commission as gaming regulator. Would have authorized casino gaming on tribal lands or within five miles of tribal lands. Would have authorized casino gaming at pari-mutuel tracks.

SB 780 – Related to lottery tickets to benefit the Texas GRANT program. Would have required the Texas Lottery Commission to introduce a new lottery game with the net

revenue used for five scholarships annually for college tuition and fees.

SB 1344 – Related to unclaimed lottery prize funds. Would have amended State Lottery Act related to unclaimed prize funds. Would have continued current dedication of funds with all remaining unclaimed prize funds directed to the Foundation School Fund rather than general revenue.

Federal Legislation Pending

Several bills have been filed during the current session of Congress that would address various aspects of Internet gambling. At the time of publication, all bills remain pending. None has passed the committee hearing stage.

H.R. 1174 – The Internet Gambling Regulation, Consumer Protection, and Enforcement Act – would authorize federal licensees to conduct all types of gambling interstate other than sports betting. States would be given a period of time in which to opt out of provisions of the act.

H.R. 2366 – The Internet Gambling Prohibition, Poker Consumer Protection, and Strengthening UIGEA Act of 2011 – would authorize interstate poker only, and then only when played by two or more people playing against each other and not against the “house.” States would be given a period of time in which to opt out of provisions of the act.

S. (Number to be assigned) by Senator Harry Reid – The Internet Gambling Prohibition, Poker Consumer Protection, and Strengthening UIGEA Act – is the senate companion bill to H.R. 2366.

C. Other Legal Issues

Impact of Current and Outstanding Court Cases

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 restricted 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 to the Third Court of Appeals, which upheld the District Court's ruling that the UCC prevailed over the State Lottery Act. The Commission filed a petition for review in the Supreme Court, which heard oral argument and upheld the judgment of the District Court and the Third Court of Appeals. Beginning in December 2010, assignments were filed with the Travis County District Court assigning the last two years of prize payments, which were approved by the Court based upon the Supreme Court's ruling. In the subsequent 2011 legislative session, the State Lottery Act was amended to follow the ruling by the passage of Senate Bill 626.

Claim for Child Support Payments and Assigned Lottery Payments

In 1994, an individual claimed a lottery jackpot prize that was to be paid out in annual

installments until 2014. The prizewinner divorced in 1998 and was ordered by the divorce court to pay monthly child support and to deposit an amount annually in a fund for the children. In 1999, the legislature passed the State Lottery Act assignment statute and the prizewinner assigned all of the future payments, except for the last two years. Shortly thereafter, the prizewinner ceased making either the monthly or the annual court ordered child support payments. In 2005, the court found the prizewinner to be delinquent in child support payments. In 2008, the Office of the Attorney General, Child Support Division (CSD) served notice of the Child Support Lien and a Writ of Withholding on the Commission for an amount in excess of \$170,000. CSD claimed that the assignment, per the assignment court order, was subject to offsets or withholding required by the State Lottery Act, or other law. The State Lottery Act requires the Commission to withhold certain child support payments from the winnings. The Assignee, Great-West, made a competing claim for the funds as assigned. The Commission filed a Petition in Interpleader and paid the funds into the registry of the Travis County District Court. (A supplement petition was also filed due to claims for additional funds as of September 2009.) Cross-Motions for Summary Judgment were heard by the District Court in September 2009. The Court ruled in favor of CSD and Great-West's motion for rehearing was granted, but the court, after hearing additional arguments, again ruled in favor of CSD. Great West filed an appeal with the Third Court of Appeals. The Third Court reversed the District Court's ruling and rendered judgment granting Great-West's summary judgment on its claims to the interpleaded funds and awarded them to Great-West. As a result, the State Lottery Act was amended in the 2011 legislative session by Senate Bill 626 to amend the assignment statute to specifically require the prize winner to confirm in an affidavit that he or she is not delinquent in child support payments at the time they request Court approval of the assignment.

Liability for Stolen and Claimed Lottery Tickets

Willis Willis filed suit against the Texas Lottery Commission (TLC), GTECH, the lottery operator, and a licensed sales agent. The undisputed facts include that Willis purchased a *Mega Millions* ticket in May 2009. Willis handed his lottery tickets to Pankaj Joshi, an employee of the licensed sales agent. Willis had not signed the back of the lottery ticket and did not retrieve his lottery ticket from Joshi. Joshi claimed the lottery ticket purchased by Willis and submitted it to the Texas Lottery Commission. Joshi's signature was the only one found on the back of the lottery ticket, which is a bearer instrument. The ticket had not been reported stolen prior to Joshi claiming the prize. After Joshi was paid the prize, the Texas Lottery Commission received a complaint about Joshi and began an investigation that identified Willis as the purchaser of the lottery ticket claimed by Joshi. The results of the investigation were provided to the Travis County District Attorney's office, which filed charges against Joshi. As of this date, through the actions of the District Attorney's office in recovering funds from Joshi's bank accounts, some money has been returned to Willis. The Texas Lottery Commission maintains that the ticket is a bearer instrument and that the Texas Lottery Commission is prohibited by statute from paying the prize twice. As a result, Willis filed the suit for negligence in May 2011, and has since amended his claim to include collateral estoppel, breach of contract and/or promissory estoppel, and alternatively pleaded quasi-contract. The Texas Lottery Commission has raised sovereign immunity, but the Court has allowed limited discovery to allow Willis the opportunity to dispute the sovereign immunity defense. Willis also pleaded waiver of sovereign immunity by the Texas Lottery Commission's conduct, personal injury from the use or misuse of tangible personal property and the performance of proprietary functions. This case is still pending.

Attorney General Opinions

Eight-Liner Machines at a Bingo Hall (Attorney General Opinion GA-0913)

On February 27, 2012, the Office of the Attorney General issued an opinion on whether an eight-liner machine that dispenses tickets for prizes redeemable only at the bingo hall in which the machine is located is a "gambling device" within the meaning of section 47.01(4) of the Penal Code. The opinion concluded that because the eight-liner machines described in the request issue tickets redeemable for items that do not constitute noncash merchandise prizes, toys, or novelties, the machines do not meet the standard for the illegal gambling device exception provided in subsection 47.01(4)(B), Penal Code. Accordingly, the eight-liner machines are illegal gambling devices under the Penal Code. Further, the opinion found that if an eight-liner machine is designed, made or adapted as anything other than a pure amusement device, the machine cannot meet the requirement of subsection 47.01(4)(B) and is therefore illegal.

Bingo Gift Certificates (Attorney General Opinion GA-0812)

On October 22, 2010, the Office of the Attorney General issued an opinion on whether bingo gift certificates and similar items constitute "noncash merchandise prizes, toys or novelties" under section 47.01(4) (B) of the Penal Code and whether certain business practices, which may be used by charities that conduct bingo to maximize their net proceeds, comply with chapter 2001, Occupations Code, and other applicable law. The opinion concluded that Texas courts have repeatedly considered the legal status of eight-liner machines that award gift certificates redeemable at retail establishments or tickets redeemable for further play and have determined that those machines are gambling devices and

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do not meet the requirements for exclusion under subsection 47.01(4)(B) of the Penal Code. Further, the opinion found that similarly, a device that awards bingo cards or paper, card-minding devices and pull-tab bingo, or gift certificates redeemable for the same, is not rewarding a player exclusively with “noncash merchandise prizes, toys, or novelties,” under subsection 47.01(4)(B) of the Penal Code.

Authority to Conduct Second-Chance Drawings and Any Game of Chance via the Internet (RQ-1037-GA)

On January 19, 2012, the Office of the Attorney General received a request for an opinion regarding the Texas Lottery Commission’s authority to conduct second-chance drawings for losing tickets via the Internet and to conduct any game of chance via the Internet. Promotional second-chance drawings are a common feature within the U.S. lottery industry. In a typical second-chance promotional drawing, a player with a non-winning scratch-off ticket may enter the ticket in a drawing for a “second chance” to win a prize. No payment is required to enter a second-chance drawing. Second-chance drawings are not a feature of every Texas Lottery scratch-off game, but are typically offered as an add-on promotion, with no additional cost to the player, in connection with certain scratch-off games.

In October 2011, in an effort to streamline operations, increase efficiency and maximize player participation, the Texas Lottery Commission made changes to its promotional second-chance drawing procedures, including a logistical change in the method a player must use to enter a non-winning scratch-off ticket in a drawing. This logistical change requires players to enter non-winning tickets via a portal on the Texas Lottery website. Although players who choose to participate in promotional second-chance drawings now are required to use the Internet to enter their non-winning scratch-off tickets, the promotional drawings are not

conducted via the Internet. The entries are collected from a database on one computer, and then loaded on to a separate computer that is not connected to the Internet. It is this second, stand-alone computer that utilizes a random number generator to conduct the drawing. The drawings occur live at the Texas Lottery Commission drawings studio where they are conducted in accordance with Texas Lottery Commission drawing standards and, as required by law, are open to the public. The Internet is not used for the purchase of a ticket, the issuance of a ticket, the selection of winners in a drawing, or the awarding of prizes.

The Texas Lottery Commission has said it strongly believes that conducting lottery drawings via the Internet and the sale of lottery tickets via the Internet are both policy decisions best determined by the Texas Legislature. In the absence of express authority, the Texas Lottery Commission has no intention of pursuing Internet lottery sales or conducting drawings via the Internet.

The Texas Lottery was invited to submit a brief in response to the request for opinion. The Texas Lottery’s brief was submitted to the OAG on February 22.

Other Legal Issues

Powerball

The Texas Lottery Commission joined with the other 11 *Mega Millions* states in a reciprocal agreement with the Multi-State Lottery Association (MUSL), a non-profit, government-benefit association owned and operated by its 33-member lottery jurisdictions. This agreement allowed Texas to participate in the sale of *Powerball* lottery tickets in Texas. Since Texas and the other *Mega Millions* states did not join as members of MUSL, the *Powerball* game is conducted in accordance with the MUSL rules

and procedures. This arrangement creates an external factor that may affect the *Powerball* services provided through the Texas Lottery Commission. Legal issues could arise pursuant to this arrangement.

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 and the Economy

As with any sales oriented business, the Texas Lottery Commission's ability to generate revenue may be affected by a myriad of economic variables, including changes in the cost of living, fluctuating interest rates, shifts in discretionary dollars, economic swings, inflation, and so on. The United States recently experienced one of what some claim was the worst recession since the 1930s-era depression. Throughout the recession, various economic conditions may have weighed negatively on and/or been associated with Texas Lottery sales variations. These conditions included, but were not limited to, rising gasoline prices and worsening retail sales, diminishing consumer confidence, accelerating unemployment, and continuing declines in home building.

These economic trends affected Texas lottery participation, as is evidenced by data gathered in the Lottery's Player Segmentation Studies. To gauge the effect of the economic environment on lottery participation and spending, the Texas Lottery has included a series of questions in Segmentation Studies conducted since 2008. Respondents are asked

whether current economic conditions affected their lottery purchases and how have purchases of lottery games changed (spending more, less, the same, have stopped purchasing). Twenty-eight percent of 2009 respondents reported that recent economic conditions had affected their lottery purchases; this figure increased in 2010 to 31 percent and in 2011 to 33 percent. Among respondents that reported an effect on their lottery purchases, in both 2009 and 2010, 7 percent claimed to be spending less money. In 2011, 55 percent of the respondents reported spending less money. In 2011, 34 percent of respondents claimed to have stopped playing altogether. This was a slight decline from 37 percent in 2010.

Finally, interest rates have a direct impact on the advertised size of *Lotto Texas*, *Mega Millions* and *Powerball* 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.

Texas Lottery and Competition

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 seventh among the top 10 states in 2005 that generated casino trips in the last 12 months.⁶ Harrah's found that southern states,

⁶ *Harrah's Survey 2006: Profile of the American Casino Gambler*. 2006. Published by Harrah's License Company, LLC. No publication city listed.

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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, La., Las Vegas, Nev., and Shreveport/Bossier City, La., 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.⁷ 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 2007.⁸

Domestically, however, evidence suggested that Oklahoma casinos were competing effectively for Texas' gaming population. Choctaw and Chickasaw Native American Indian Nations in Oklahoma expanded along the Texas border since Oklahoma's 2004 referendum gave tribes 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."⁹ The potential impacts on the Texas Lottery are, however, unknown in terms of gaming opportunities in Mexico and other border regions.

Charitable Bingo

Charitable attendance peaked in 1991 and has been in steady decline since that period until 2009, with an increase of .53 percent from 2008 to 2009. Even with approval of the new style of play pull-tab games that increased total gross receipts each year from 2002 to 2011, attendance declined each year.

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 CBOD could also quantify the number of licensed conductors in Texas. The reported attendance numbers on the quarterly reports are cumulative, not individual; therefore, it cannot 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, there has been no noticeable increase in attendance or in the number of licensed conductors since the introduction of card minders.

⁷ Castillo, Mariano. 2006. "Mexico's Casinos Up the Ante for Texas." *San Antonio Express-News*. Metro section, 1/16/2006.

⁸ 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>.

⁹ 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 2013 – 2017 Period

V. INTERNAL FACTORS AFFECTING SERVICES

A. Long-Range Business Planning

The *Texas Lottery Commission Comprehensive Business Plan for FY 2012-2015* was prepared by the management of the agency and reviewed by all divisions within the agency.

Major initiatives of the Texas Lottery Commission are guided by the agency business plan to ensure their cost effectiveness. The business plan includes a specific description of each program, key management initiatives and the related challenges and opportunities inherent in those initiatives. The Commission reviews the business plan routinely to assess the overall performance and value of each project. Projects that fail to meet financial objectives are adjusted or terminated. The agency business plan builds on other planning efforts made by the agency and ensures that business planning continues into the future.

B. Employee Attitudes Toward the Organization

The Texas Lottery Commission's employees rate the agency as a good place to work, according to results of the 2012 Survey of Employee Engagement (SEE). The SEE, formerly called the Survey of Organizational Excellence, was administered in February 2012 by the University of Texas at Austin Institute for Organizational Excellence. The Texas Lottery Commission's overall score exceeded the 2010 survey benchmark scores for all other state agencies taking the survey, as well as for state agencies with a similar mission as well as agencies of similar size.

The employees' response rate was 83 percent, the agency's highest response rate ever, and higher than the average response rate for all state agencies, as well as for state agency size and mission peer groups in the 2010 survey. The high response rate shows positive employee involvement, in addition to denoting a high degree of confidence that the survey results accurately reflect employee perceptions.

Areas of strength noted in the survey reflect that Texas Lottery Commission employees intrinsically like their jobs, their benefits, their physical work environment, and their opportunities for career and personal development. They feel the agency responds well to external influences that play a role in defining its mission, vision, services, and products. Employees indicated that they are generally satisfied and engaged in their jobs.

Employees perceived almost all the measured issues more positively than negatively, with the exception of perceptions regarding pay. However, the agency's pay construct score was higher than those of all state agencies in the same organization size category and same mission category. No survey areas were identified as areas of significant concern.

Survey scores can be seen as evidence that action plans put into place in response to results of previous surveys have continued to be successful. Positive trending of survey scores over the past six years may result in part from actions taken by the Commission in previous years, including: adopting a new Personnel Handbook; creating an agency Ombudsman position; giving employees additional avenues

to voice their concerns or complaints; and initiating a new employee performance evaluation system.

The Texas Lottery Commission operates in an ever-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 its salary and benefits administration, and by providing training opportunities, promotion opportunities, advanced technology, and benefits like its Employee Assistance Program and tuition reimbursement program.

C. Capital Asset Strengths and Weaknesses

One of the most significant capital asset strengths continues to be 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 website continues to be 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*. Two instant ticket games, Dallas Cowboys and Houston Texans, feature Internet-entry promotional second-chance drawings where non-winning tickets are entered via the Luck Zone player site. This player convenience has been well received and resulted in increased entries in these drawings. The agency is also exploring opportunities to communicate with consumers through social media. The agency is actively evaluating the launch of a Facebook presence and will continue to explore other social media tools that will allow the agency to connect with and engage consumers regarding Texas Lottery products.

In FY 2012, the agency replaced existing uninterrupted power supply (UPS) units for the

lottery drawings studio and business resumption center. The UPS units protect mission critical equipment from temporary loss of electricity. The UPS for the lottery drawings studio was originally installed in 2000 and the UPS for the business resumption center was originally installed in 1998. The units were at the end of their estimated useful life and required regular maintenance and repairs. Additionally, due to changes in business requirements and the addition of equipment, the existing UPS units were at the maximum level of their designed operating range.

In FY 2014, the agency will need to replace its laptop and desktop computers, and in early FY 2016, the agency will need to replace its storage area network equipment. This equipment is currently leased through statewide contracts and will be reaching the end of its life cycle. The 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.

During the 2013-2014 biennium, the Charitable Bingo Operations Division will need to redesign and convert the Automated Charitable Bingo System (ACBS). The ACBS supports the critical functions needed in the administration and management of Charitable Bingo in Texas. Since its implementation, there have been numerous changes to business process, including system application changes. Vendor maintenance of the current ACBS platform toolset will only be supported through 2013. The Commission previously proposed temporary fee increases to pay for needed enhancements to an aging computer system. This proposal was withdrawn after protests by bingo licensees and consultation with the members of the House Appropriations Committee. In order to meet the ongoing needs of the Charitable Bingo Operations Division, it is vital that the existing system be redesigned and converted to ensure its continued availability.

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2013 – 2017 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 2011, the Texas Lottery generated more than \$62.3 billion in sales and returned more than \$19.2 billion in revenue to the state of Texas. Of that amount, more than \$13.6 billion went to the Foundation School Fund. More than \$36.4 billion was returned to players in the form of lottery prizes. Licensed Texas Lottery retailers earned approximately \$3.1 billion in commissions and \$103.8 million in bonus and incentive payments.

Since the first licenses were issued in 1982 through calendar year 2011, gross receipts from the conduct of charitable bingo have totaled more than \$16 billion. Bingo prizes awarded have been in excess of \$11 billion, and charitable distributions have totaled more than \$1 billion.

Performance Measures

During FY 2011, the Texas Lottery Commission attained within 5 percent or exceeded targeted performance for 10 of its 12 key performance measures, including five of five of its key outcome measures, and five of its seven output and efficiency measures, as indicated in Table 18 (see page 80).

Lottery Retailer Satisfaction

The “retailer satisfaction” measure continues to rate near 95 percent “good to excellent” and less than 1 percent in the “poor to very poor” rating categories due to efforts to enhance communication between retailers, the Texas Lottery Commission, and the lottery operator, as well as continued responsiveness to retailer issues. In recent years, several initiatives have been implemented to provide enhanced customer service to licensed retailers. Ongoing improvements to the Web-based Retailer Services Center, available to retailers at www.txlottery.org/rsc, include online license renewals and specific reports useful in helping retailers manage inventory and financial matters related to the lottery.

To welcome new applicants to the lottery and provide basic information on the agency’s processes, a retailer welcome packet was developed and, since 2011, has been mailed to all new retailers upon approval of their license application. In an effort to facilitate prospective licensees’ access to information on becoming a lottery retailer, a Spanish-language recruitment brochure was introduced in November 2011 and added to the variety of English-language information already available on the Texas Lottery website.

The implementation of player ticket self-check technology reduces retailer labor transaction time in processing ticket inquiries and validations by minimizing player questions on the prize amount of potential winning tickets.

EVALUATION AND OPPORTUNITIES

**TABLE 18
KEY PERFORMANCE MEASURES
FISCAL YEAR 2011**

KEY PERFORMANCE MEASURES	TARGETED 2011 PERFORMANCE	ACTUAL PERFORMANCE	% OF TARGET
OUTCOME MEASURES			
PERCENT OF RETAILERS SATISFIED WITH LOTTERY COMMISSION	93.00%	96.45%	103.71%
STATE REVENUE RECEIVED PER ADVERTISING DOLLAR EXPENDED	\$31.53	\$32.05	101.65%
PERCENTAGE OF COMPLAINTS REFERRED FOR DISCIPLINARY ACTION	33.33%	16.04%	48.12%
NET BINGO GAMES REVENUE RECEIVED BY CHARITABLE ORGANIZATIONS (MILLIONS)	\$31.20	\$30.94	99.17%
PERCENTAGE OF ORGANIZATIONS WHO MET THE STATUTORY CHARITABLE DISTRIBUTION REQUIREMENT	99.00%	98.74%	99.74%
OUTPUT MEASURES			
NUMBER OF RETAILER BUSINESS LOCATIONS LICENSED	16,500.00	16,817.00	101.92%
DOLLAR AMOUNT OF ADVERTISING BUDGET SPENT ON TELEVISION (MILLIONS)	\$11.45	\$11.04	96.42%
NUMBER OF LICENSES ISSUED TO INDIVIDUALS AND ORGANIZATIONS	7,000.00	9,273.00	132.47%
NUMBER OF BINGO COMPLAINTS COMPLETED	126.00	187.00	148.41%
NUMBER OF DAYS TO ALLOCATE PAYMENTS TO LOCAL JURISDICTIONS	12.00	12.00	100.00%
EFFICIENCY MEASURES			
AVERAGE COST PER SURVEY ISSUED	\$1.67	\$2.19	131.14%
PERCENTAGE OF ADULT TEXANS AWARE OF LOTTERY ADVERTISING	64.00%	58.84%	91.94%

Additionally, Texas Lottery Commission and lottery operator personnel continue to reach out to retailers in small group settings called Retailer Links meetings held throughout the state each year reaching retailers in more than 60 cities and towns from 2006 through March 2012. Links meetings provide retailers the most current information on Texas Lottery policies and game initiatives while offering an open forum for soliciting feedback and addressing retailer concerns. Retailers view these meetings as a positive means of furthering communication between the Texas Lottery Commission, the lottery operator and lottery retailers.

With the award of a new lottery operator contract, all retailers received new sales terminals in 2011 which provided improved transaction times, thus reducing retailer labor costs. The new contract also provided for new playstations with space for player Check-a-Ticket devices reducing the space requirements for lottery at the retail location. Retailers were also provided with electronic monitors for displaying player transactions, lottery marketing messaging, and other important lottery and non-lottery (e.g. Amber Alerts, etc.) messaging. The addition of electronically updated jackpot signage at retailers offers them the convenience of providing their

customers with accurate information with no additional time or labor investment.

Charitable Bingo Licensee Satisfaction

The CBOD's efforts to increase communication with licensees through initiatives such as the *Bingo Bulletin* and the Bingo 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 Bingo Training Program.

Table 19 shows the results of the responses to the survey question rating the quality of customer service provided by the CBOD by calendar year.

**TABLE 19
CBOD TRAINING SURVEY
CALENDAR 2000-2011**

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%
2008	1,126	96%
2009	1,325	91%
2010	328	95.7%
2011	374	97.1%

Charitable Bingo Milestones

Since the publication of the agency's FY 2011-2015 Strategic Plan, the CBOD attained the following milestones:

- In FY 2010 and 2011, the following Charitable Bingo Administrative Rules were amended, as seen in Table 20 (see page 82).
- In FY 2010 and 2011, nine new Charitable Bingo Administrative Rules were adopted by the Commission, as seen in Table 21 (see page 83).

Operational Continuity

In 2001, the agency awarded a 10-year contract to GTECH Corporation for the provision of lottery operations and services. The contract which supports the agency's core business functions provides a variety of goods and services related to the administration and operation of the 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. This contract expired August 31, 2011, and was worth an estimated \$1 billion.

Planning for the procurement, award and transition of a new lottery operator started in September 2008 and included an in-depth assessment of the business needs, evaluation of the marketplace, development of a Request for

EVALUATION AND OPPORTUNITIES

TABLE 20
AMENDED CHARITABLE BINGO ADMINISTRATIVE RULES
FISCAL YEAR 2010-2011

RULE NUMBER	TITLE	EFFECTIVE DATE OF AMENDMENT
§402.101	ADVISORY OPINIONS	JULY 5, 2010
§402.102	BINGO ADVISORY COMMITTEE	JANUARY 28, 2010
§402.103	TRAINING PROGRAM	JANUARY 28, 2010
§402.201	PROHIBITED BINGO OCCASION	MARCH 9, 2010
§402.203	UNIT ACCOUNTING	MARCH 9, 2010
402.203	UNIT ACCOUNTING	APRIL 24, 2011
402.205	UNIT AGREEMENTS	APRIL 24, 2011
402.400	GENERAL LICENSING PROVISIONS	MAY 2, 2010
402.401	TEMPORARY LICENSE	MARCH 9, 2010
402.402	REGISTRY OF BINGO WORKERS	MARCH 9, 2010
402.403	LICENSE FOR CONDUCT OF BINGO OCCASIONS AND TO LEASE BINGO PREMISES	MAY 2, 2010
402.404	LICENSE FEES	MAY 2, 2010
402.405	TEMPORARY AUTHORIZATION	MARCH 9, 2010
402.406	BINGO CHAIRPERSON	DECEMBER 9, 2009
402.409	AMENDMENT FOR CHANGE OF PREMISES OR OCCASIONS DUE TO LEASE TERMINATION OR ABANDONMENT	JANUARY 28, 2010
402.422	AMENDMENT TO A REGULAR LICENSE TO CONDUCT CHARITABLE BINGO	JANUARY 28, 2010
402.501	CHARITABLE USE OF NET PROCEEDS	APRIL 24, 2011
402.506	DISBURSEMENT RECORDS REQUIREMENTS	JULY 5, 2010
402.600	BINGO REPORTS	JULY 5, 2010
402.604	DELINQUENT PURCHASER	APRIL 24, 2011

Proposal (RFP), and finally a thorough evaluation of the bids and selection of a new lottery operator. On December 14, 2010, the agency signed a new contract with GTECH. Highlights of the contract include: potential savings to the state of Texas of over \$18 million annually, or more than \$160 million through the life of the

contract and installation of the latest technology and retailer/player equipment and new tools that will allow the Texas Lottery to bring exciting new lottery games and promotions to market more quickly (see Appendix H for more information on the lottery operator contract).

TABLE 21
ADOPTED CHARITABLE BINGO ADMINISTRATIVE RULES
FISCAL YEAR 2010-2011

RULE NUMBER	TITLE	EFFECTIVE DATE OF AMENDMENT
§402.202	TRANSFER OF FUNDS	MAY 2, 2010
§402.212	PROMOTIONAL BINGO	MARCH 9, 2010
§402.408	DESIGNATION OF MEMBERS	MAY 2, 2010
§402.410	AMENDMENT OF A LICENSE-GENERAL PROVISIONS	FEBRUARY 10, 2009
§402.411	LATE LICENSE RENEWAL	JANUARY 28, 2010
§402.412	SIGNATURE REQUIREMENTS	MARCH 16, 2009
§402.420	QUALIFICATIONS AND REQUIREMENTS FOR CONDUCTOR'S LICENSE	DECEMBER 9, 2009
§402.424	AMENDMENT OF A LICENSE BY TELEPHONE OR FACSIMILE	MARCH 16, 2009
§402.450	REQUEST FOR WAIVER	JULY 5, 2010
§402.451	OPERATING CAPITAL	JULY 5, 2010
§402.452	NET PROCEEDS	JULY 5, 2010
§402.453	REQUEST FOR OPERATING CAPITAL INCREASE	JULY 5, 2010
§402.514	ELECTRONIC FUNDS TRANSFERS	JULY 5, 2010
§402.604	DELINQUENT PURCHASER	FEBRUARY 10, 2009

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 via tracking and annual segmentation studies

conducted by the agency's market research firm. Several questions gauge the public's perception of the Texas Lottery as detailed below.

The 2011 segmentation study found that of the 1,200 Texas residents surveyed, 47 percent held a positive overall opinion of the Texas Lottery, while 32 percent responded negatively (see Table 22 on page 84).

EVALUATION AND OPPORTUNITIES

TABLE 22
ANNUAL SEGMENTATION SURVEY RESULTS
2008-2011

HOW WOULD YOU DESCRIBE YOUR OVERALL OPINION OF THE TEXAS LOTTERY (COMMISSION*)?				
	2008	2009	2010	2011
POSITIVE	44%	51%	47%	47%
NEGATIVE	35%	32%	32%	31%
NEUTRAL	21%	17%	21%	23%
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.				
	2008	2009	2010	2011
AGREE	57%	58%	54%	54%
DISAGREE	25%	25%	28%	28%
NEUTRAL	21%	20%	18%	20%
WHERE DO YOU THINK PROFITS FROM THE TEXAS LOTTERY GO?*				
	2008	2009	2010	2011
EDUCATION	46%	42%	45%	44%
GENERAL FUND	13%	9%	15%	10%
POLITICIAN'S POCKETS	8%	7%	13%	10%
ROAD REPAIR	4%	5%	6%	6%
OVERALL, HOW SATISFIED ARE YOU WITH THE GAMES PROVIDED BY THE TEXAS LOTTERY?				
	2008	2009	2010	2011
PERCENT SATISFIED	64%	67%	63%	66%

Source: Ipsos Reid annual segmentation studies: 2008-2011

National and International Comparisons

Texas Lottery National Ranking

According to sales summaries provided by *La Fleur's Magazine*, the Texas Lottery was the fourth-ranked lottery in the United States for overall total sales in calendar year 2011, behind the New York, Massachusetts and Florida lotteries.

TABLE 23
TOP 10 U.S. LOTTERIES
CALENDAR YEAR 2011

STATE LOTTERY	SALES (\$ MIL.)
NEW YORK	6,840.0
MASSACHUSETTS	4,597.5
FLORIDA	4,217.7
TEXAS	3,863.4
GEORGIA	3,820.8
PENNSYLVANIA	3,647.6
CALIFORNIA	3,306.7
NEW JERSEY	2,652.8
OHIO	2,629.0
ILLINOIS	2,405.1

Source: *La Fleur's Magazine*, January/February 2012

Texas Lottery International Ranking

Based on calendar year 2011 sales, the Texas Lottery ranked 15th among lotteries worldwide, according to *La Fleur's Magazine*. International lotteries claimed the first seven positions in sales, while the New York, Massachusetts and Florida lotteries were ranked eighth, 13th and 14th, as shown in Table 24 on the next page.

Industry Resource

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

Agency staff members are frequently called upon to speak at state and national conferences concerning gaming. In addition, agency execu-

TABLE 24
INTERNATIONAL LOTTERY RANKINGS
CALENDAR YEAR 2011

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

Source: *La Fleur's Magazine*, March/April 2012

tive management hold leadership positions within their respective industry organizations.

The executive director is an active member of the North American Association of State and Provincial Lotteries (NASPL), currently serving on the Vendor Relations Committee, as chair of the Accounting Subcommittee and as second vice president for NASPL, and served as a member of the Cross-Sell Committee for the *Mega Millions* consortium, representing the *Mega Millions* states in the cross-sell initiative for the selling of both *Mega Millions* and *Powerball* tickets nationwide. In September 2010, the executive director assumed the role of lead director for *Mega Millions* and most recently assisted in discussions with MUSL (*Powerball*) regarding a price increase for *Powerball*.

The director of the CBOD is also an active member of the North American Gaming Regula-

tors Association (NAGRA) and served as co-chair on the Charitable Gaming Committee from 2003 thru 2009 and as a member of the Board of Directors from 2009 to present, serving as secretary, vice-president, president and current past president. 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

The agency's Internal Audit function evaluates the various processes, programs, and responsibilities of the agency. Throughout the year, internal audits provide both formal and informal recommendations to improve controls to better ensure agency goals and objectives are met. Agency management is committed to developing and taking effective corrective actions.

Recent Audits

In September 2010, the State Auditor released an audit report on the CBOD. The scope of the audit covered January 1, 2007, to December 31, 2009. The objective of this audit was to determine whether the agency's CBOD had controls to verify that proceeds are distributed for charitable purposes in compliance with state laws and agency rules. The overall conclusion was that bingo halls distributed game proceeds for charitable purposes and remitted 5 percent of prize fees to the state as required. In addition, the agency has policies and procedures to help ensure that it licenses only qualified entities to conduct bingo games. However, the agency

should increase its financial monitoring of bingo halls to help ensure that they comply with all applicable laws and regulations. Monitoring bingo halls' financial information and inventories would provide additional assurance that bingo halls report accurate information to the agency and comply with requirements.

The CBOD has implemented all recommendations of this audit within its direct control. However, several key recommendations, which are dependent on programming changes, have not been implemented and are dependent upon redesign of the ACBS system.

The State Auditor's Office will be commencing a follow-up audit to evaluate whether management has taken corrective actions to address selected recommendations from their September 2010 report. The follow-up audit objectives will be to determine the implementation status of prior State Auditor's Office recommendations and to make selected site visits to verify the implementation status that the agency has reported. The expected release date for this follow-up audit is July 2012.

C. Future Challenges and Opportunities

Through the agency's long-range, strategic and business planning processes, agency staff have identified several potential opportunities to positively impact the agency's key areas of activity: economic development, maintaining a culture of compliance and trust, developing innovative games and products, applying new technologies and fostering public awareness of agency activities.

Texas Lottery Revenue Opportunities

In order to retain player interest and continue generating revenue for the Foundation School Fund, the Texas Lottery must continue to work to drive innovation within its portfolio of traditional lottery games. The agency continues to explore new game opportunities and enhancements to existing game products that hold the greatest long term potential for revenue generation. The following section contains a summary of many current initiatives under review or currently being implemented. Some of these opportunities would require legislative authority. The Texas Lottery Commission remains neutral as to changes in legislation and presents these opportunities for informational purposes only.

Draw Games and Instant Games

Draw Games

Texas Lottery staff is currently reviewing changes to several existing draw games. A new draw game and other possible game modifications being evaluated by product are detailed below.

New draw game – In March 2012, the Texas Lottery Commission approved a new \$2 draw game called *All or Nothing*. The new non-jackpot game features four drawings per day, attractive prizes and good overall odds of winning. *All or Nothing* is slated to debut in the fall of 2012.

National Game – The next logical step for the lottery industry as a result of the *Powerball/Mega Millions* cross-sell initiative is a true "national" game that, while still under individual state control, could potentially have a higher price point, contain elements of social media, and potentially reach a new generation of lottery players. Preliminary discussions and research have already begun on this initiative.

Lotto Texas – The agency is considering add-on features such as a multiplier, additional prize tiers, and other potential options.

Pick 3 and Daily 4 – The agency is considering additional game drawings.

Cash Five – The agency is considering additional game drawings and possible game redesign options.

There are many innovative and extended play add-on promotional features in the lottery industry that could be added to a number of the current draw 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:

Green Ball – A feature involving a separate drawing that is held immediately following a regular game drawing. The agency has run this promotion twice for the *Pick 3* game. Additional launches for *Pick 3* and/or on other games are being considered. With the deployment of new video display equipment in Texas Lottery retailer locations, the agency is considering running this promotion again in the future as it will be easier to communicate details about this promotion to players.

Kicker/Spiel – A feature in which additional numbers are randomly printed at the bottom of a player's draw game ticket. If the Kicker numbers match the winning numbers drawn, the player can win prizes based on how many number are matched.

Combo Purchases/Package Play – A way to market existing draw games by selling products in packages and promoting 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

Texas Lottery staff continues to evaluate strategies to bring entertaining instant game products to its customers. The strategies outlined below are either cornerstones of the existing game portfolio design that are under evaluation for further use or new industry concepts that have arisen that merit evaluation for introduction in Texas.

Spotlight Game Offerings –In FY 2009, the agency introduced a \$20 “Spotlight” or “Mega” instant game, *\$500,000,000 Blockbuster*. A Spotlight or Mega game is known in the industry as a game that typically has a larger than normal print-run with an increased prize payout. Capitalizing on the success of *\$500,000,000 Blockbuster*, the agency introduced *\$500 Million Frenzy* in March 2011. This game was also well received by retailers and consumers, similar to its predecessor.

Based on the success of the Spotlight game concept, the Texas Lottery is currently evaluating Spotlight game offerings at other price points in the instant product category. New offerings have been issued at the \$10 and \$20 price points during FY 2012, and other price point offerings will be evaluated for introduction in the future.

Market Testing of Modified Prize Structures and Increased Print Quantities

– Similar to the Spotlight game concept, the Texas Lottery is researching the use of larger print quantities with certain games that allow for either larger top prizes and/or increased number of mid-level and top prizes. The Texas Lottery is utilizing in-market testing to evaluate consumer responsiveness to these new game structures.

Consolidation of Price Points – The Texas Lottery has a broad diversity of price points from \$1 to \$50. This includes price points with typical monetary denominations (\$1, \$5, \$10, \$20 and \$50), but it also includes non-typical denominations (\$2 and \$3). The Texas Lottery periodically evaluates these non-typical denominations to determine their continued interest from consumers. The agency discontinued its \$25 and \$30 price point offerings some years ago based on these reviews, and the \$7 price point was recently discontinued. This price point served as a niche game offering associated with a 7's themed play style, but the performance of the \$7 price point did not kept pace with offerings at the \$5 price point. The agency is expanding offerings at both the \$5 and \$10 price points associated with the discontinuation of the \$7 price point.

Products Geared to Appeal to New Players

– As a mature, 20-year old lottery, the Texas Lottery recognizes that in order to remain relevant and continue to grow as a revenue generating entity, it must attract new players. The Texas Lottery must also achieve this goal within the framework of its traditional lottery (instant and draw) game offerings.

The *Texas Lottery® Black* game is an example of a traditional lottery game that the agency was able to position uniquely with potential consumers. The *Black* ticket concept was different for the Texas Lottery in terms of its

look and feel. Past games had always used brightly colored, attention-getting tickets to attract consumers. This ticket was designed to be visually striking with its black-on-black design and gold lettering, allowing it to stand out in the crowded retail market place. In order to position the new game as a trendy, premium, 'must-have' game, *Texas Lottery® Black* required specially crafted marketing and advertising support. In coordination with the agency's advertising vendors, the game launched with an integrated multi-media advertising campaign utilizing radio promotions, magazine and newspaper, out-of-home, including outdoor billboards, and point-of-sale materials, positioning the product in sleek, unexpected placements and executions.

The agency will continue to explore similar new product initiatives that have the potential to reach a new group of players.

Licensed/Branded Property Products – As noted above, the Texas Lottery must create products that will engage new consumers. Well-recognized brands and licensed properties that have strong consumer affinity can be leveraged to appeal to consumers that may have lapsed in their lottery participation or that have not considered lottery product trial in the past. The Texas Lottery considers these offerings to be an important part of its product portfolio and works to identify brands that would be well received by consumers.

Texas Lottery Luck Zone Player Site – Product innovation is not always limited to the attributes and qualities of the product itself. Innovation can occur in extensions of the product such as offering promotional second chance drawings for merchandise and experiential prizes. The Texas Lottery has offered a number of games over the years that include this unique merchandise/experiential prize feature that appeals to a particular player segment.

The Texas Lottery closely monitors both consumer trends and developments within the lottery industry. Numerous lottery jurisdictions operate Internet-based players clubs that offer promotional second-chance drawing features and an array of other player services.

In the past, the Texas Lottery has offered its promotional second-chance drawings via mail-in entry. However, the Texas Lottery recognizes that technology has changed the way that consumers desire to interact with organizations. The agency has recently launched three games, *Dallas Cowboys*, *Houston Texans* and *Elvis*, which feature Internet-entry promotional second-chance drawings where non-winning tickets are entered via the Luck Zone player site. This player convenience has been well received and resulted in increased entries in these drawings. The Texas Lottery will monitor the ongoing success of the Luck Zone with an eye toward expanded player services over time.

Market Testing of Unique Production Features for Instant Games – While many of the game design changes made by instant ticket manufacturers have been subtle and not resulted in major changes to the product category, instant ticket manufacturers continue to develop new production methods that can be marketed to consumers. One example that the agency has leveraged successfully is a production method where the latex overprint on the ticket is scented and emits a fragrance (e.g., peppermint or chocolate) when scratched. This scent can be combined with the theme of the game to make the product uniquely appealing for the player.

Another recently introduced production method permits play areas to appear on the front and back of the ticket. This option offers players more play action without the need to increase the physical size of the ticket. The agency will continue to evaluate

this and other added-value features for use in Texas that may increase player enthusiasm for games and therefore increase game sales and revenue.

National Premium Game – State lotteries do not compete head-to-head for lottery business, presenting a unique opportunity for industry cooperation to develop and bring the best games to market. Led by the efforts of state lottery directors in the *Mega Millions* consortium and Multi-State Lottery Association (MUSL), an agreement was reached between the groups allowing for cross-selling of both multi-jurisdictional jackpot games (*Mega Millions* and *Powerball*). This effort has led to a new level of cooperation between U.S. lottery organizations to design and bring new products to market that will appeal to lottery consumers. A group of lottery directors, along with representatives of the lottery vendor community, are currently in discussions on the design and development of a hybrid instant ticket/draw game that would be offered across lottery jurisdictions. This game would have benefits and features that come with significantly larger production runs and the leveraged resources of the participating organizations. The concept, still in the formative stages, includes innovative new scratch ticket art schemes, a coordinated national marketing campaign, some components of existing draw games, and, while not “selling” tickets on the Internet, using the Internet to “connect” players via social media (e.g., Facebook and Twitter). The Texas Lottery is participating in these discussions and will bring this game to market if it is deemed to be beneficial to the mission of the agency.

The industry recognizes each of the concepts listed below as legal game options. The following game concepts 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 appear to be 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 added-value play 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.

New Lottery Equipment, Services and Technology

The Texas Lottery Commission recently completed a competitive procurement (RFP) process for the agency’s lottery operations and services contract and entered into an agreement with GTECH Corporation (see Appendix H for more information on the lottery operator contract). The new contract features numerous operational enhancements including:

- All new retailer/player facing sales and marketing support equipment
- A comprehensive update and refresh

of the gaming system, equipment and infrastructure supporting the operation of the lottery

- Enhanced player and retailer Web-based support services
- Higher levels of security and redundancy, and expanded capacity to handle the extremely high transaction volumes generated daily by the Texas Lottery
- Enhanced inventory management systems
- Changes and improvements to the lottery operator sales and marketing team with an increased focus on retailer recruitment and personalized marketing for major lottery retailers
- Route sales support
- Expanded marketing and sales organizational retail support
- Enhanced mobile in-field sales support solution
- Warehousing inventory management automation
- Comprehensive system-based service level monitoring (SLM)
- Sales transactional communication redundancy for top revenue generating locations

The successful implementation of these innovative services and solutions will yield enhanced service and support to retailers and players and create a platform from which to grow sales and revenue.

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.

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,

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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 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 2008 were \$982.4 million, and in Texas, pull-tab ticket sales were \$305.5 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 most common are raffles, Texas Hold 'Em poker tournaments and "Las Vegas" types of games. The Texas Lottery Commission does not currently have oversight of these activities.

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 a civil 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 criminal 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. In the 82nd Legislature, Regular Session, HB 382, 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.

In the North American Association of Fundraising Ticket Manufacturers (NAFTM) 2010 Annual Report of Charity Gaming in North America, 20 jurisdictions reported raffle gross receipts and 23 jurisdictions reported gross receipts from "raffle" and "other" gaming activities. Raffles gross receipts for 2010 ranged from \$187,000 (New Foundland) to \$284 million (Ontario). In many jurisdictions, 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 section from the Charitable Bingo website.

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.

Currently, licensees can file their quarterly reports online, but cannot pay prize fees and taxes electronically because the CBOD lacks the funding necessary to develop the online payment system. It would enhance convenience and efficiency for both licensees and the CBOD if the electronic payment option were authorized.

Lottery Product Distribution Expansion

The Texas Lottery retailer base is made up of approximately 17,000 licensees. Although the base contains a variety of trade styles, convenience and grocery stores are the dominant trade-style segments. Together, these two trade styles comprise approximately 90 percent of retailers and more than 95 percent of Texas Lottery sales. Convenience and grocery stores are considered to be traditional lottery trade styles. Other common retail trade styles – such as general merchandise, pharmacy and “big box” – are typically categorized as non-traditional lottery trade styles, as they have not broadly adopted the lottery category as a standard product offering.

The Texas Lottery must continue to work to maintain its presence and relationship with traditional lottery trade styles, while actively pursuing opportunities to expand into non-traditional lottery trade styles.

There are several challenges to expanding lottery distribution channels. Independently owned retailer establishments are often focused on offering higher profit-margin products that can be more easily correlated to bottom-line revenue. As lottery products produce lower profit margins than many other retail products, prospective retailers' interest in adding the lottery category can be limited. Also, the instant product category can present operational concerns associated with inventory control/shrinkage and the potentially labor-intensive nature of lottery products can serve as barriers to interest.

Recruiting chain establishments in non-traditional lottery trade styles presents other challenges. The Texas Lottery, lottery operator and North American Association of State and Provincial Lotteries (NASPL) representatives have consistently identified the following barriers to recruiting national corporations

representing new trade styles—ability to offer self-service and route sales models, lack of standardized licensing and accounting processes across all jurisdictions, and the availability of new technologies providing back-office accounting and real time connectivity to sales information. Additionally, some retailers perceive that selling lottery products may not align with their business model.

Many prospective retail trade styles are best suited for player-controlled, self-service sales due to consumer traffic patterns and trade-style business models. These different sales methods require unique equipment and support that are not a part of the traditional clerk-assisted transaction model typical to the lottery industry for decades. During the 82nd Legislature, HB 1955 was filed to permit the Texas Lottery Commission to contract with or license a lottery operator as a retailer. This bill would have facilitated the self-service and route sales styles of business models mentioned above, but it did not pass.

In order to successfully pursue broader distribution channels for its products, the Texas Lottery must meet the needs and concerns of potential new businesses and trade styles. The Texas Lottery recently completed a new lottery operations and services procurement which provides key infrastructure and support to position the agency for future recruitment success (see Appendix H for more information on the lottery operator contract). Key among these is a fully refreshed equipment platform for retail featuring state-of-the-art player-activated, self-service equipment; dedicated lottery operator personnel focused solely on individual and small chain business recruitment opportunities; lottery operator support for route sales licensing models that mitigate business overhead related to retailer lottery participation; and new systems that will allow the Texas Lottery to provide its licensees with Web-based accounting and sales information detail far beyond current capabilities.

The Texas Lottery is also continuing to work with NASPL and the Petroleum Convenience Alliance for Technology Standards (PCATS) to create lottery industry standards for transmitting financial and inventory data to retailers. These standards should remove one of the more significant obstacles to recruiting national specialty/general merchandise and big-box stores.

The agency and lottery operator staff will continue to actively work together to enhance retailer recruitment efforts to increase the Texas Lottery's overall presence in a broader array of trade styles. These efforts have already begun to show promise as recent pilot programs have been initiated with non-traditional lottery trade styles and discussions are underway with other businesses previously hesitant to embrace the lottery category.

Reaching New Demographic Markets

The markets for lottery draw games 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 lotteries in mature markets to grow sales and revenue at rates that satisfy stakeholders.

The Texas Lottery Commission will continue to use information gathered from its marketing research to expand product offerings that appeal to existing market segments, enhancing products to appeal to individuals who are not frequent lottery players, and 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 continued focus of existing staff and dedication of agency resources.

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 industry wide analyses. Research staff also analyze gaming products that are currently legally authorized for commercial development. R&D sources include vendors, scholarly and trade journals, industry analyses, consumer research/ 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 protect 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 certain top level or jackpot prizes are claimed, it is the agency's practice to make the names of the claimant public via a news release. Section 466.022 of the State Lottery Act provides that

EVALUATION AND OPPORTUNITIES

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.

Advertising Dollars

Table 25 details the challenges associated with advertising and communicating effectively with the public regarding Texas Lottery products.

**TABLE 25
TEXAS LOTTERY ADVERTISING OVERVIEW
APRIL 2012**

	FISCAL YEAR 1993	FISCAL YEAR 2011
IMPACT OF INFLATION	<p>\$40 MILLION ADVERTISING BUDGET</p> <p>12.6 MILLION TEXANS 18 OR OLDER</p> <p>\$3.17 AD SPEND PER CAPITA</p>	<p>\$32 MILLION ADVERTISING BUDGET</p> <ul style="list-style-type: none"> • \$40 MILLION IN 1993 DOLLARS EQUATES TO \$62.3 MILLION IN 2011 • ADJUSTED FOR INFLATION, \$32 MILLION IN 2011 EQUATES TO 20.5 MILLION IN 1993 DOLLARS <p>18.7 MILLION TEXANS 18 OR OLDER</p> <p>\$1.71 AD SPEND PER CAPITA</p> <ul style="list-style-type: none"> • \$3.17 AD SPEND PER CAPITA IN 1993 DOLLARS EQUATES TO \$4.94 IN 2011 • ADJUSTED FOR INFLATION, \$1.71 IN 2011 EQUATES TO \$1.10 IN 1993 DOLLARS
INCREASE IN PRODUCTS	<p>TWO PRODUCTS:</p> <ul style="list-style-type: none"> • LOTTO TEXAS • 2 SCRATCH-OFF GAMES 	<p>EIGHT-PLUS PRODUCTS:</p> <ul style="list-style-type: none"> • LOTTO TEXAS • SCRATCH-OFF GAMES (APPROX. 90 LAUNCHED ANNUALLY) • PICK 3/SUM IT UP • CASH FIVE • TEXAS TWO STEP • MEGA MILLIONS/MEGAPLIER • DAILY 4/SUM IT UP • POWERBALL/POWER PLAY
PRODUCT LIFE CYCLE	<p>LOTTERY PRODUCT WAS BRAND NEW, GENERATING IMMENSE EXCITEMENT AND INTEREST.</p>	<p>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.</p>
FREE MEDIA EXPOSURE	<p>EXTENSIVE COVERAGE OF WINNERS, GAMES AND BALL DRAWINGS.</p>	<p>EXTREMELY LIMITED COVERAGE OF POSITIVE NEWS STORIES LIKE WINNERS AND ALMOST NO COVERAGE OF LIVE DRAWINGS.</p>
TEXAS POPULATION MAKE-UP	<p>CAUCASIANS MADE UP THE SIGNIFICANT MAJORITY OF THE POPULATION.</p>	<p>POPULATION IS MUCH MORE DIVERSE WITH A MAJORITY MINORITY POPULATION.</p>
MEDIA PROLIFERATION	<p>PLAYERS WERE EASY TO REACH FREQUENTLY VIA TV AND RADIO ADVERTISING.</p>	<p>THE ADVERTISING INDUSTRY HAS ENCOUNTERED DRAMATIC CHALLENGES WITH THE PROLIFERATION OF NEW MEDIA CHOICES FOR CONSUMERS, INCLUDING THE INTRODUCTION OF THE INTERNET AND SOCIAL MEDIA, GROWTH IN CABLE CHANNELS, AND THE LAUNCH OF SATELLITE RADIO, ALL FACTORS THAT LIMIT ADVERTISING EXPOSURE. THIS MARKET DILUTION MEANS IT IS BECOMING MORE DIFFICULT TO REACH LARGE GROUPS OF CONSUMERS WITH THE SAME LEVEL OF MEDIA EXPENDITURES.</p>
PAY AT THE PUMP	<p>SINCE 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.</p>	<p>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.</p>

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 email management policies. The agency is also continuing to evaluate and prioritize new initiatives for the agency's document management center.

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 2011, the Texas Lottery Commission paid more than \$40.7 million in contracts and subcontracts 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.

E. Human Resources Strengths and Weaknesses

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 WorkIn-Texas online job bank (www.workintexas.com); the Texas Workforce Commission; a TDD Phone

Line for the hearing impaired; the agency's 24-hour job line, website and intranet site.

To retain skilled employees, the agency invests resources into offering competitive salaries and developmental training. Additionally, the agency provides training and continuing education opportunities 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 2006, the agency's turnover rate was 6.1 percent, while

the average turnover rate for all state agencies was 15.8 percent. The rate rose slightly in 2007 to 9.2 percent, but has gradually declined incrementally in 2008, 2009, and 2010. Human Resources continues to work with agency managers to emphasize workforce and succession planning. This process involves closely monitoring staff turnover and building a talent pool within the agency that will contribute to the current and future success of the agency.

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

**TABLE 26
TURNOVER RATES**

YEARS	2006	2007	2008	2009	2010
TEXAS LOTTERY	6.1%	9.2%	5.7%	5.0%	4.0%
STATEWIDE	15.8%	17.4%	17.3%	14.4%	14.6%

Source: SAO Electronic Classification Analysis System

AGENCY GOALS, OBJECTIVES AND MEASURES TEXAS LOTTERY COMMISSION

Agency Strategic Plan Appropriation Structure for Fiscal Years 2013 – 2017

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 new 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. Cooperate with local law enforcement agencies to solve crimes involving stolen lottery tickets.

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(s)

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 advertising (millions)

Dollar amount of advertising budget spent on radio advertising (millions)

Dollar amount of advertising budget spent on television advertising (millions)

Dollar amount of advertising budget spent on other advertising (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

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

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

AGENCY GOALS, OBJECTIVES AND MEASURES

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 website containing relevant information relating to regulatory requirements.

Output Measures:

Number of individuals receiving education

Efficiency Measures:

Average cost of Bingo 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

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.

AGENCY GOALS, OBJECTIVES AND MEASURES

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.

TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2013 – 2017 Period

Technology Resources Planning

A. Technology Assessment

Key factors that will influence the Texas Lottery Commission's technology decisions over the next five years include the continued growth and refinement of Internet services, protecting the security of the network and data, and refreshing the agency's technology infrastructure. The agency is committed to a proactive approach with regard to its technology resources and the development of solutions required by both internal and external factors. Agency staff also ensure that these solutions are closely aligned with statewide technology goals.

Planned Technology Initiatives

- **Internet Services** – The Texas Lottery Commission will continue to make improvements to its websites, www.txlottery.org and www.txbingo.org, in order to more effectively communicate agency information and provide additional services to customers. Internet initiatives include expanding the Web business portal to add new and more detailed reports and additional data formats like XML and PDF, and continue to work with the Department of Information Resources (DIR) and NICUSA to make the Lottery Retailer Application process available online at www.texas.gov.
- **Security** – As with all entities, the Texas Lottery Commission continues to be confronted with the latest security threats and continually considers changes to help protect the security of the network and data. Planned security initiatives include registering all agency laptops with Computrace software so that laptops can be located if lost or stolen, encrypt all agency laptops, annual participation in DIR's network and through website penetration testing services, and conducting a biannual agency-wide security review.
- **Technology Infrastructure** – The agency's storage area network (SAN) and server leases will expire in FY 2013. A new SAN lease will be negotiated; however as a cost saving measure, the agency has adopted a strategy of purchasing servers. The agency has moved towards "virtualizing" servers, in order to more effectively leverage hardware resources and reduce the agency's physical footprint.
- **Operational Initiatives** – To increase operational efficiency and enhance effectiveness, other planned initiatives include the expanded use of electronic records management and implementation of a browser-based system using handheld bar-code readers to track information related to mail and packages received at the agency.

Statewide Technology Goal 1

Strengthen and Expand the Use of Enterprise Services and Infrastructure.

- 1.a The Texas Lottery Commission will continue to leverage managed services to reduce costs, improve budget predictability and ensure its technology refresh is responsive to customers' needs. Managed services have helped the agency keep pace with technology's rate of change and align with the Statewide Technology Goal to strengthen and expand the use of enterprise services. The agency has procured a number of managed services through DIR contracts, including TEX-AN services (e.g., long distance, data and PRI circuits, toll-free services), DIR's Internet connectivity and domain name resolution services, and the DIR's centralized network security filtering and reporting service. Additionally, the agency uses the DIR store to procure training, to purchase hardware and software, and for staff augmentation services.
- 1.b Prior to the implementation of any new technology project and/or procurement, the agency conducts an analysis to identify other initiatives that may be leveraged to optimize existing infrastructure and reduce operating costs.

These include adhering to Texas Administrative Code (TAC) Part 202 guidelines and conducting biannual agency-wide security studies and risk assessments. Other security measures include annual external network penetration tests, regularly scheduled preventative maintenance, including anti-virus updates for all network and workstation equipment, and annual information security training for all staff. The agency cooperates with the DIR's network security operations center (NSOC) by participating in the network traffic control program and information security training that is coordinated by the DIR's Security Division. Additionally, the agency maintains a backup facility to support recovery and business continuity activities, and has a comprehensive business continuity plan which is periodically reviewed and tested.

- 2.b The Texas Lottery has a dual approach to identity management that includes both physical and logical access privileges. Physical access to all Texas Lottery facilities is controlled with privileges granted at the operating unit level. Logical access privileges are granted using the "principal of least privilege." Procedures exist for ensuring appropriate review and approval of any changes to an individual's assigned access privileges.

Statewide Technology Goal 2

Secure and Safeguard Technology Assets and Information

- 2.a The Texas Lottery Commission has developed an Information Resources security plan that is firmly aligned with the state's Enterprise Security Plan. The agency ensures the security and availability of its technology assets and information by implementing a number of security measures.

Statewide Technology Goal 3

Serve Citizens Anytime, Anywhere

- 3.a Providing access to agency information in formats that are highly usable and adhere to state accessibility standards is an ongoing initiative at the Texas Lottery Commission. Links to both the Texas Lottery and Charitable Bingo websites are published

on texasonline.com and the Texas Lottery is also working with DIR, GTECH (the lottery operator) and NICUSA to make the Lottery Retailer Application process available online. The Texas Lottery also provides lottery results via email and text messaging as a free subscription service.

- 3.b The agency will continue to make improvements to its websites to ensure that they provide current and comprehensive agency information in a highly accessible and usable fashion.

using handheld bar-code readers to track information related to mail and packages received at the agency.

- 4.d The agency plans to expand the use of RSS feeds and XML when exchanging information with business partners and customers. Additionally, the agency provides information on its websites about a number of health and emergency related services, such as AMBER/Silver/Blue Alerts, the Problem Gambling Hotline and Texas Homeland Security.

Statewide Technology Goal 4

Pursue Excellence and Foster Innovation across the Enterprise

- 4.a The Texas Lottery Commission has integrated technology in the workplace to enable a more flexible and responsive environment—one that supports online training initiatives, teleconferencing, and the sharing of information through an agency-wide intranet and newsletter.
- 4.b The agency will continue to use the Texas Project Delivery Framework for developing applications on a standardized platform in order to benefit from the consistent process and skill set. The agency has been evaluating cloud computing for email and voice mail and plan to implement a solution in collaboration with the Texas Department of Information Resources.
- 4.c Plans are underway to create an internal, browser-based application to track information resources inventory, such as laptops and printers. Additionally, staff plan to complete implementation of an internal, browser-based system

B. Technology Alignment Initiative

The Texas Lottery Commission recognizes the importance of staying current with technology in order to increase operational efficiency and enhance the agency's effectiveness. The agency is committed to deploying innovative technologies that will deliver world-class services to our players and customers. Please see the agency's Technology Alignment on the following pages.

TECHNOLOGY RESOURCES PLANNING

Texas Lottery Technology Alignment

A.

1. Initiative Name: Storage Area Network (SAN) Refresh	
2. Initiative Description: The current lease of the SAN expires in FY 2013. The agency intends to negotiate a new lease for a SAN with increased storage capacity.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name: SAN Refresh	Status: In Progress
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
Objective A.1 related to the operation of the Lottery. Objective B.1 related to the enforcement of Bingo laws.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.	
<ul style="list-style-type: none"> • P2 <input type="checkbox"/> Data Management • P3 <input type="checkbox"/> Data Sharing • P4 <input type="checkbox"/> Infrastructure 	<ul style="list-style-type: none"> • P9 <input type="checkbox"/> Security and Privacy
6. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:	
<ul style="list-style-type: none"> • Connect <input type="checkbox"/> N/A • Innovate - N/A • Trust <input type="checkbox"/> the SAN ensures agency data is captured and stored in a secure method. • Deliver <input type="checkbox"/> the SAN supports business operations by allowing the agency's workforce to connect and share data in a secure method. 	
7. Anticipated Benefit(s): Replacing the outdated SAN equipment will result in the following operational efficiencies:	
<ul style="list-style-type: none"> • reduced outages and downtime for equipment maintenance; • reduced footprint and energy consumption; • improved management interface; and • increase in available storage. 	
8. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	
Capabilities - the agency has in-house technical staff that has previously replaced outdated SAN equipment.	

B.

1. Initiative Name: Server and Network Refresh	
2. Initiative Description: The Server and Network Refresh technology initiative supports the agency's core business functions. Each fiscal year, a percentage of the agency's virtualized servers and network equipment are refreshed based on the estimated useful life of the equipment and/or maintenance requirements.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name: Server/Network Refresh	Status: In Progress
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
Objective A.1 related to the operation of the Lottery. Objective B.1 related to the enforcement of Bingo laws.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.	
• P3 <input type="checkbox"/> Data Sharing	• P7 <input type="checkbox"/> Network • P9 <input type="checkbox"/> Security and Privacy
6. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:	
<ul style="list-style-type: none"> • Connect <input type="checkbox"/> N/A • Innovate - N/A • Trust <input type="checkbox"/> the servers and network ensures agency data is captured and stored in a secure method. • Deliver <input type="checkbox"/> the servers and network supports business operations by allowing the agency's workforce to connect and share data in a secure method. 	
7. Anticipated Benefit(s): Replacing the outdated server and network equipment will result in the following operational efficiencies:	
<ul style="list-style-type: none"> • reduced outages and downtime for equipment maintenance; • reduced footprint and energy consumption; and • enhanced disaster recovery mechanisms. 	
8. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	
Capabilities - the agency has in-house technical staff that has previously replaced outdated servers and network equipment.	

TECHNOLOGY RESOURCES PLANNING

C.

1. Initiative Name: Security	
2. Initiative Description: The agency continues to be confronted with the latest security threats and considers changes to protect network security and data. Planned security initiatives include registering all laptops with Computrace, encrypting all agency laptops, participation in DIR's network and website penetration testing services, and conducting a biannual security review.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name: Security	Status: In Progress
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
Objective A.1 related to the operation of the Lottery. Objective B.1 related to the enforcement of Bingo laws.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.	
• P2 <input type="checkbox"/> Data Management	• P6 <input type="checkbox"/> Mobility • P9 <input type="checkbox"/> Security and Privacy
6. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:	
<ul style="list-style-type: none"> • Connect <input type="checkbox"/> N/A • Innovate - No leveraging across agencies • Trust <input type="checkbox"/> ensuring the agency's technology infrastructure and data is secure. • Deliver <input type="checkbox"/> ensures the integrity, security and availability of agency data. 	
7. Anticipated Benefit(s): The planned security initiatives will result in the following operational efficiencies:	
<ul style="list-style-type: none"> • ability to remotely wipe hard drives of laptop data; • ability to locate lost or stolen laptops; • data maintained on agency laptops will be encrypted so in the event of a loss, no data can be accessed; and • security testing and reviews will allow the agency to identify possible security risks and put procedures in place to mitigate the risks. 	
8. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	
Capabilities - the agency has an in-house security administrator to continuously monitor, assess and mitigate security threats to the agency's technology infrastructure.	

D.

1. Initiative Name: Telecommunications – Voice Mail	
2. Initiative Description: Replace the agency's existing voice mail system which has reached end of life.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name: Voice Mail	Status: In Progress
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
Objective A.1 related to the operation of the Lottery. Objective B.1 related to the enforcement of Bingo laws.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.	
<ul style="list-style-type: none"> • P1 <input type="checkbox"/> Cloud • P2 <input type="checkbox"/> Data Management 	<ul style="list-style-type: none"> • P4 <input type="checkbox"/> Infrastructure • P6 <input type="checkbox"/> Mobility
6. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:	
<ul style="list-style-type: none"> • Connect <input type="checkbox"/> N/A • Innovate <input type="checkbox"/> N/A • Trust <input type="checkbox"/> provides telecommunication access to agency services. • Deliver <input type="checkbox"/> allows agency staff to connect with the general public and co-workers. 	
7. Anticipated Benefit(s): Replacing the agency's existing voice-mail system will result in the following operational efficiencies:	
<ul style="list-style-type: none"> • reduced outages and downtime for equipment maintenance; and • provide newer technology which will allow agency staff to receive voice mail messages through email. 	
8. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	
None	

TECHNOLOGY RESOURCES PLANNING

E.

1. Initiative Name: Business Portal	
2. Initiative Description: Currently new applications to be a lottery retailer are only accepted by mail, fax, or hand delivery. This initiative will allow not only existing retailers to renew their applications but also allow for anyone desiring to complete an application to be a lottery retailer to apply online. This initiative will also expand the data/reports that retailers would have available online.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name: Business Portal	Status: In Progress
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
Objective A.1 related to the operation of the Lottery.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.	
• P5 <input type="checkbox"/> Legacy Applications	• P8 <input type="checkbox"/> Open Data
6. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles: <ul style="list-style-type: none"> • Connect <input type="checkbox"/> this initiative allows new and existing retailers to apply for a lottery license or renew an existing license. • Innovate <input type="checkbox"/> N/A • Trust <input type="checkbox"/> Lottery Retailers would have online access to their data and application status. • Deliver <input type="checkbox"/> allows workforce to process lottery retailer applications more timely. 	
7. Anticipated Benefit(s): Expanding the agency's business portal will result in the following operational efficiencies: <ul style="list-style-type: none"> • better customer service; • more transparent application process; and • faster application processing for customers. 	
8. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	
Capabilities <input type="checkbox"/> the agency currently has a portal for retailers to conduct business. This initiative will expand services provided through the existing portal.	

F.

1. Initiative Name: Website	
2. Initiative Description: The agency will continue to make improvements to its websites, in order to more effectively communicate agency information and provide additional services.	
3. Associated Project(s): N/A	
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
Objective A.1 related to the operation of the lottery. Objective B.1 related to the enforcement of Bingo laws.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.	
<ul style="list-style-type: none"> • P2 <input type="checkbox"/> Data Management • P3 <input type="checkbox"/> Data Sharing 	<ul style="list-style-type: none"> • P8 <input type="checkbox"/> Open Data
6. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:	
<ul style="list-style-type: none"> • Connect <input type="checkbox"/> this initiative will provide the public access to more data and functionality on the website. • Innovate <input type="checkbox"/> N/A • Trust <input type="checkbox"/> more data and information on the website provides a better understanding (clear and transparent) of lottery services. • Deliver <input type="checkbox"/> the website connects the agency's customers (players, legislators, news media, vendors, etc.) with relevant and timely data. 	
7. Anticipated Benefit(s): Updating and expanding the agency's website will result in the following operational efficiencies:	
<ul style="list-style-type: none"> • better customer service; • transparency into agency operations; and • marketing of new products. 	
8. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	
Capabilities <input type="checkbox"/> the agency currently has a full service website. This initiative will expand services and data provided to the general public.	

TECHNOLOGY RESOURCES PLANNING

G.

1. Initiative Name: Email	
2. Initiative Description: The agency will examine moving email to the cloud.	
3. Associated Project(s): Name and status of current or planned project(s), if any, that support the technology initiative and that will be included in agency's Information Technology Detail.	
Name: Cloud Computing	Status: In Progress
4. Agency Objective(s): Identify the agency objective(s) that the technology initiative supports.	
Objective A.1 related to the operation of the Lottery. Objective B.1 related to the enforcement of Bingo laws.	
5. Statewide Technology Priority(ies): Identify the statewide technology priority or priorities the technology initiative aligns with, if any.	
• P1 <input type="checkbox"/> Cloud • P3 <input type="checkbox"/> Data Sharing • P4 <input type="checkbox"/> Infrastructure	• P6 <input type="checkbox"/> Mobility
6. Guiding Principles: As applicable, describe how the technology initiative will address the following statewide technology guiding principles:	
• Connect <input type="checkbox"/> N/A • Innovate <input type="checkbox"/> N/A • Trust <input type="checkbox"/> N/A • Deliver <input type="checkbox"/> allows workforce access to email, unified messaging and fax services in the office and remotely.	
7. Anticipated Benefit(s): Moving the agency's email to the cloud will result in the following operational efficiencies:	
• reduced costs; • reduced complexity; • increased security; • increased availability; and • better disaster recovery processes.	
8. Capabilities or Barriers: Describe current agency capabilities or barriers that may advance or impede the agency's ability to successfully implement the technology initiative.	
None	

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APPENDIX A

Texas Lottery Commission

Description of Strategic Planning Process

The Texas Lottery Commission's 2013-2017 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.

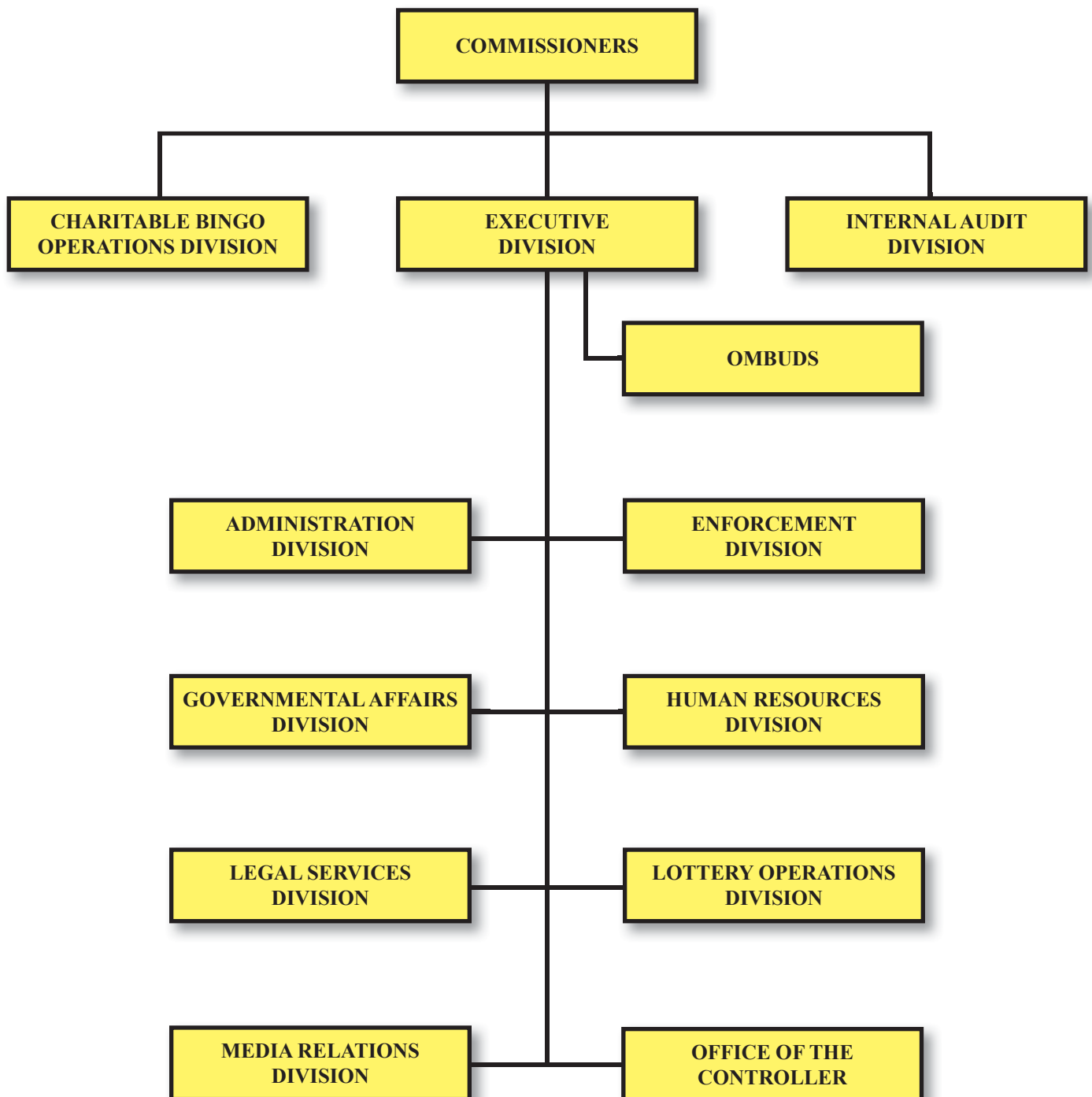
The planning process began in December 2011 when the executive director designated an information specialist from the Media Relations Division as project manager for the development of the strategic plan. The project manager subsequently developed a detailed work plan and timeline, and identified a project 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 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, as well as the Technology Resources Planning section.

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 2013-2017 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 2013-2017



APPENDIX C

Texas Lottery Commission
Outcome Projections
FY 2013-2017

	2013	2014	2015	2016	2017
Lottery Outcomes					
Percent of Retailers Satisfied with the Texas Lottery Commission	95.00%	95.00%	95.00%	95.00%	95.00%
Per Capita Net Lottery Sales	149.24	147.01	144.81	142.67	140.56
Percentage of Net Lottery Sales Spent on Agency Administration	5.22%	5.14%	5.14%	5.14%	5.14%
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	0.83%	0.83%	0.83%	0.83%	0.83%
State Revenue Received per Advertising Dollar Expended	33.26	33.26	33.26	33.26	33.26
Percent of Licensees with No Recent Violations	98.00%	98.00%	98.00%	98.00%	98.00%
Percent of Retailer Surveys Completed	85.00%	85.00%	85.00%	85.00%	85.00%
Percent of Eligible Players Served	34.00%	34.00%	34.00%	34.00%	34.00%

	2013	2014	2015	2016	2017
Charitable Bingo Outcomes					
Percentage of Licensees with No Recent Violations	93.00%	93.00%	93.00%	93.00%	93.00%
Percentage of Bingo Audits Referred for Disciplinary Action	60.00%	60.00%	60.00%	60.00%	60.00%
Percentage of Complaints Referred for Disciplinary Action	10.00%	10.00%	10.00%	10.00%	10.00%
Percent of Documented Complaints Completed Within Six Months	82.00%	82.00%	82.00%	82.00%	82.00%
Net Bingo Games Revenue Received by Charitable Organizations (Millions)	\$27.00	\$26.00	\$26.00	\$26.00	\$26.00
Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement	97.00%	96.00%	96.00%	96.00%	96.00%
Percentage of Organizations Receiving an Audit	2.40%	2.40%	2.40%	2.40%	2.40%
Percentage of Organizations Receiving an Inspection	21.54%	21.54%	21.54%	21.54%	21.54%

APPENDIX D

Texas Lottery Commission

Performance Measure Definitions

FY 2013-2017

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:

No.

Desired Performance:

Higher than target.

Goal A: Lottery**Outcome Measure A.1.b: Per Capita Net Lottery Sales****Short Definition:**

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

Purpose/Importance

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

Source/Collection of Data:

The annual ticket sales amount is reported in the Lottery's 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:

No.

Desired Performance:

Higher than target.

Goal A: Lottery

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

Short Definition:

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

Purpose/Importance:

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

Source/Collection of Data:

The annual ticket revenue and the operating cost amounts are obtained from the Lottery's 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:

No.

Desired Performance:

Lower than target.

Goal A: Lottery**Outcome Measure A.1.d.: Percentage of Bad Debt to Lottery Sales****Short Definition:**

This measure calculates the ratio (in percent) of Certified Bad Debt to total lottery sales at the end of the fiscal year. Certified Bad Debt includes amounts that have been delinquent or in bankruptcy for at least 12 months at the end of the fiscal year and accounts that have an outstanding debt of \$10,000 or more that have been delinquent for up to 180 days.

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:

Retailer Services staff review reports generated from the Retailer Management System and the Internal Control System (ICS) for eligible delinquent accounts. Retailer Services staff acquires the total lottery sales from the Office of the Controller.

Method of Calculation:

The method of calculation uses the Certified Bad Debt described in the definition and total lottery 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 Certified Bad Debt by the total value of the lottery 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:

No.

Desired Performance:

Lower than target.

Goal A: Lottery**Outcome Measure A.1.f: State Revenue Received Per Advertising Dollar Expended****Short Definition:**

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

Purpose/Importance:

This performance measure is intended to demonstrate the correlation between net revenue to the state and advertising dollars spent by the Texas Lottery Commission.

Source/Collection of Data:

The net revenue to the state and advertising expenditures are obtained from the Lottery's 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:

No.

Desired Performance:

Higher than target.

Goal A: Lottery

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

Short Definition:

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

Purpose/Importance:

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

Source/Collection of Data:

The number of active and licensed retailer locations licensed at the end of the reporting period is taken from 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:

No.

Desired Performance:

Higher than target.

Goal A: Lottery**Outcome Measure A.1.h: Percent of Retailer Surveys Completed****Short Definition:**

This measure shows the Lottery's intent to solicit meaningful feedback from retailers.

Purpose/Importance:

Surveys assist the agency in assessing the levels of satisfaction with the Texas Lottery Commission.

Source/Collection of Data:

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:

No.

Desired Performance:

Higher than target.

Goal A: Lottery

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

Short Definition:

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

Purpose/Importance:

This performance measure 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 quarterly 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 percentage is calculated by taking the number of people per quarter responding that they have participated in a lottery game in the past month 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:

No.

Desired Performance:

Higher than target.

Goal A: Lottery

Strategy A.1.1. Lottery Operations

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

Short Definition:

The number of denials or revocations of licenses reflects businesses that do not comply with the Lottery Act or an applicable rule. Revocations of licenses are defined as orders received from a hearing on licensees that do not comply with the Lottery Act or an applicable rule. 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:

No.

Desired Performance:

Lower than target.

Goal A: Lottery**Strategy A.1.1. Lottery Operations****Output Measure A.1.1.c: Dollars Collected Via the Debt Set-off Program (Thousands)****Short Definition:**

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

Purpose/Importance:

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

Source/Collection of Data:

Various state agencies provide either to the Commission or to the Comptroller of Public Accounts the taxpayer identification numbers of those individuals with outstanding debts. The information is placed in a database within the Commission's prize payment system. One of the pieces of information provided by prize winners on a completed TX Lottery Winner Claim Form is his/her taxpayer identification number. Upon entry into Enterprise Series (ES), the number provided by the winner is checked against the database for a match. If a match is found, a message is returned indicating a debt to the state and the prize payment is reduced appropriately by the amount owed. A daily report of any set-offs is automatically generated by ES and provides the Office of the Controller (OC) 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 OC 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:

No.

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:

No.

Desired Performance:

Higher than target.

Goal A: Lottery

Strategy A.1.1. Lottery Operations

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

Short Definition:

This measure reports the average cost per new license application processed 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 Enterprise Series (ES). 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.

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 in ES 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 collected by the Lottery's 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:

No.

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 Enterprise Series (ES) 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 ES. 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 ES 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:

No.

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 retailer visits conducted 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.

Method of Calculation:

Lottery Sales Representatives (LSRs) record retailer visits electronically by logging onto the lottery sales terminal at each retailer location using their LSR ID and password. Each login is recorded in the Enterprise System (ES). 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.

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:

No.

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:

No.

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 investigation 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:

No.

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 investigation 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.

Calculation Type:

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.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.

Calculation Type:

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.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 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 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.

Calculation Type:

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.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.

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:

No.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo

Outcome Measure B.1.a: Percentage of Licensees with No Recent Violations

Short Definition:

This measure reports the ratio (in percent) of Bingo organizations that have not incurred 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, Investigation or Audit. A bingo organization is considered licensed if it is active on the last day of 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 and Compliance Activity Monitoring Program systems.

Method of Calculation:

This measure reports the ratio (in percent) of currently licensed Bingo organizations that have not incurred a 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, available resources 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 and Compliance Activity Monitoring Program systems.

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 Program (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 Program (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:

No.

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 required charitable distribution.

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:

No.

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:

No.

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 Program (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:

Revised.

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 and Distributors.

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:

No.

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 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 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 that have been approved, 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:

Revised.

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:

No.

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:

No.

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. Total the percentage of monthly salaries for the Data Entry Clerk, Administrative Technician, and Licensing Examiners. Multiply the sum by three for the three months in the quarter. Add the postage for mailing renewal notices and other licensing mail. Divide the sum by the total number of licenses and amendments 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 and distributors 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:

No.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo**Strategy B.1.2. Bingo Education and Development****Output Measure B.1.2.a: Number of Individuals Receiving Education****Short Definition:**

This measure reports the number of individuals completing the Bingo Training Program via in person, video, website, 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 Bingo 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 Bingo Training Program (BTP).

Data Limitations:

Yes; information timely submitted by individuals that complete the BTP training via means other than seminars provided by staff members.

Calculation Type:

Cumulative.

New Measure:

Revised.

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 Training Class

Short Definition:

This measure reports the costs associated with presenting a Bingo 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 Training Program (staff hours, travel expenses, supplies, materials, postage and equipment) divided by the total number of Bingo Training Programs conducted, in dollars.

Data Limitations:

None.

Calculation Type:

Non-cumulative.

New Measure:

No.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo**Strategy B.1.3. Bingo Law Compliance Field Operations****Output Measure B.1.3.a: Number of Inspections Conducted****Short Definition:**

This measure reports the total number of Bingo inspections, including 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 Program (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 will be captured from the Automated Charitable Bingo System.

Method of Calculation:

The total number of audits completed by Audit staff for the fiscal year. An audit is considered completed on the day the final audit report is issued.

Data Limitations:

None.

Calculation Type:

Cumulative.

New Measure:

No.

Desired Performance:

Higher than target.

Goal B: Charitable Bingo**Strategy B.1.3. Bingo Law Compliance Field Operations****Output Measure B.1.3.c: Number of Bingo Complaints Completed****Short Definition:**

This measure reports the number of Bingo complaints completed by the Charitable Bingo Operations Division and the Enforcement Division.

Purpose/Importance:

This measure is important because it allows the Charitable Bingo Operations Division the ability to identify problem areas and allocate resources.

Source/Collection of Data:

The number of bingo complaint investigations completed by either the Charitable Bingo Operations Division or Enforcement Division is stored in the Compliance Activity Monitoring Program 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 approved.

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:

No.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo**Strategy B.1.3. Bingo Law Compliance Field Operations****Output Measure B.1.3.e: Number of 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 investigations and completions.

Source/Collection of Data:

A resolved investigation is noted in the Automated Charitable Bingo System (ACBS) and Compliance Activity Monitoring Program (CAMP) case management tracking system when completed.

Method of Calculation:

The average time is measured by the number of days from the date each Bingo complaint case is assigned to an individual until the investigation is completed, divided by the total number of complaint investigations completed for the quarter.

Data Limitations:

The complexity of the allegation(s) made may impact the number of days it takes 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:

Revised.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo**Strategy B.1.3. Bingo Law Compliance Field Operations****Efficiency Measure B.1.3.b: Average Cost per Bingo Complaint Completed****Short Definition:**

This measure reports the average cost per Bingo complaint completed by the Charitable Bingo Operations Division and the Enforcement Division.

Purpose/Importance:

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

Source/Collection of Data:

The number of investigations completed by the Charitable Bingo Operation Division and Enforcement Division and the travel cost per investigation is stored in the Compliance Activity Monitoring Program (CAMP) case management tracking system .

Method of Calculation:

The average cost is determined from the total salary expense and travel costs during the quarter, for the individuals assigned to bingo complaints, divided by the number of completed Bingo complaint investigations within the quarter.

Data Limitations:

Costs per completed investigations are difficult to project based on current economical fluctuations and legislative changes. Additionally, the location of the investigation, suspect or witnesses may in some cases, impact the costs of performing investigations.

Calculation Type:

Non-cumulative.

New Measure:

Revised.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo

Strategy B.1.3. Bingo Law Compliance Field Operations

Efficiency Measure B.1.3.c: Average Time to Conduct 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:

No.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo**Strategy B.1.3. Bingo Law Compliance Field Operations****Efficiency Measure B.1.3.d: Average Time to Complete Bingo Background Investigations (Days)****Short Definition:**

This measure reports the average time for each Bingo Background investigations to be completed by the Enforcement Division within the quarter.

Purpose/Importance:

This measure assists in determining the efficiency and timely completion of bingo background investigations completed by the Enforcement Division.

Source/Collection of Data:

A completed bingo investigation is noted on the investigative report as approved. The number of days to complete an investigation from the date assigned until the approval date is recorded in the Enforcement Case Management system.

Method of Calculation:

This measure is calculated by recording the number of days from the date each bingo background investigations is assigned to an investigator until the investigations is closed by approval by the Enforcement Division Director or designee divided by the total number of bingo background investigations completed for the quarter. The date a bingo background investigation is assigned to an investigator and approved by the Enforcement 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:

No.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo**Strategy B.1.4. Bingo Prize Fee Collection and Accounting****Output Measure B.1.4.a: Number of Days to Allocate Payments to Local Jurisdictions****Short Definition:**

This measure determines the actual number of business days between the first day of the month following 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 first day of the month following 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 first day of the month following the Texas Bingo Conductor's Quarterly return due date to the date the allocation payments are released to local jurisdictions.

Data Limitations:

None.

Calculation Type:

Non-cumulative.

New Measure:

No.

Desired Performance:

Lower than target.

Goal B: Charitable Bingo

Strategy B.1.4. Bingo Prize Fee Collection and Accounting

Output Measure B.1.4.b: Percentage of Licensees Who Fail to Pay 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 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:

No.

Desired Performance:

Higher than target.

APPENDIX E

Texas Lottery Commission Workforce Plan FY 2013-2017

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.

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.

**TABLE E-1
POSITION ALLOCATION, BY DIVISION**

DIVISION	FTE
ADMINISTRATION	68
CHARITABLE BINGO OPERATIONS	33
ENFORCEMENT	16
EXECUTIVE	3
GOVERNMENTAL AFFAIRS	4
HUMAN RESOURCES	7
INTERNAL AUDIT	6
LEGAL SERVICES	16.5
LOTTERY OPERATIONS	127
MEDIA RELATIONS	7
OFFICE OF THE CONTROLLER	22
TOTAL	309.5

Source: Texas Lottery Commission

II. Current Workforce Profile (Supply Analysis)

A. Critical Workforce Skills

The Texas Lottery Commission has 309.5 full-time equivalent (FTE) positions allocated to accomplish the work performed in each of its divisions. Although the agency has many talented and qualified employees, there are knowledge bases, skill sets, and abilities that are critical to the agency's key business functions, and that also are critical to the agency's mission. They 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 2, 3 and 4. The agency's workforce composition at the end of FY 2011 was: 11.8 percent African American, 29.2 percent Hispanic, 56.2 percent White and 2 percent Asian. During the same time period, the agency's staff was 63.8 percent female and 36.2 percent male, and 79 percent of the workforce was more than 40 years of age.

TABLE E-2
AGE OF EMPLOYEES
(FY 2011 AVERAGE)

LESS THAN 30	4%
BETWEEN 30 AND 40	17%
BETWEEN 40 AND 50	36%
BETWEEN 50 AND 60	31%
MORE THAN 60	12%

Source: Uniform Statewide Payroll/Personnel System (USPS)

TABLE E-3
EMPLOYEE ETHNIC AND GENDER REPRESENTATION (FY 2011 AVERAGE)

GENDER	AFRICAN AMERICAN	HISPANIC	WHITE	ASIAN	INDIAN	TOTAL
FEMALES	8.51%	20.36%	33.74%	1.22%	0	63.83%
MALES	3.34%	8.82%	22.49%	1.22%	.3%	36.17%
TOTAL	11.85%	29.18%	56.23%	2.44%	.3	100%

Source: Uniform Statewide Payroll/Personnel System (USPS)

TABLE E-4
WORKFORCE DIVERSITY DATA (FY 2011 AVERAGE)

JOB CATEGORY	AFRICAN AMERICAN	HISPANIC	FEMALE
OFFICIALS AND ADMINISTRATORS (12)	8%	17%	50%
ADMINISTRATIVE SUPPORT (52)	15%	40%	83%
PROFESSIONALS (103)	11%	17%	54%
PARAPROFESSIONALS (134)	13%	37%	69%
TECHNICIANS (28)	7%	21%	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. The agency's turnover rate has been below that of the state's average. Table E-5 compares the agency's turnover rates with that of the state average turnover rate for the past five years.

**TABLE E-5
TURNOVER RATES**

YEARS	2006	2007	2008	2009	2010
TEXAS LOTTERY	6.1%	9.2%	5.7%	5.0%	4.0%
STATEWIDE	15.8%	17.4%	17.3%	14.4%	14.6%

Source: SAO Electronic Classification Analysis System

D. Retirement Eligible Employees

In FY 2013 through 2017, approximately 101 current employees are projected to be eligible to retire based on the rule of 80 – years of age and years of service adding up to 80 – and at least 10 years of state service. An additional three current employees who will not qualify to retire under the rule of 80, are projected to have at least 10 years of service and be eligible to retire and receive health insurance benefits at age 65. Approximately 13 other current Texas Lottery Commission employees are projected to be eligible to retire at age 60 – with a minimum of five years of service – and receive at least the minimum annuity, but no health insurance, from the Employees Retirement System.

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 2013 – 2017 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 alternative work schedules, tuition reimbursement, merit salary 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 used 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 F

Texas Lottery Commission

Summary of 2012 Survey of Employee Engagement

The Texas Lottery Commission participated in the Survey of Employee Engagement (formerly called the Survey of Organizational Excellence) in 2012, and the agency's overall score remained stable.

The Texas Lottery Commission has been participating in the survey since 1994. One of the values of participating in multiple iterations of the Survey of Employee Engagement (SEE) is the opportunity to measure organizational change over time. The employee response rate for the 2012 survey was 83 percent—the agency's highest ever, and a rate that was above the 2010 benchmark participation rates for all participating state agencies, all state agencies in the category group with similar mission, and all state agencies in the same size category. A high response rate shows positive employee involvement, and denotes a high degree of confidence that the survey results accurately reflect employee attitudes.

The SEE measures employee perceptions about the workplace through a series of statements that employees respond to on a scale of one to five. The Texas Lottery Commission's overall survey score was also higher than those of its benchmark peer groups. Responses are grouped into 14 statistical constructs. Agency-wide results show that employees perceived almost all the measured issues more positively than negatively, with the exception of perceptions regarding pay. However, the agency's pay construct score was higher than those of all state agencies in the same organization size category and same mission category.

In particular, agency-wide scores indicated that employees intrinsically like their jobs, their benefits, their physical work environment, and their opportunities for career and personal development. They feel the agency responds well to external influences that play a role in defining its mission, vision, services, and products. Employees indicated that they are generally satisfied and engaged in their jobs.

Management has applied a proactive approach in responding to the results of these surveys, including identifying strategies to improve on identifiable elements contributing to the lower scoring constructs. This year, as in past years, the results of the SEE were posted on the agency's Intranet. All levels of staff are invited to discuss and comment on the survey results. Management has consistently shown a willingness to use the survey results when making changes that are intended to improve operations and the working environment at the agency.

APPENDIX G

Texas Lottery Commission

Historically Underutilized Business (HUB) Plan

FY 2013 – 2017

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

A.1. OBJECTIVE: To meet or exceed the Commission's annual procurement utilization goals in the categories related to the Commission's current strategies and programs:

Procurement Categories*	FY 2012 Agency HUB Goals**
Special Trade Construction	32.7%
Professional Services Contracts	23.6%
Other Services Contracts	24.6%
Commodity Contracts	21.0%

** The Commission does not have any strategies or programs relating to "Heavy Construction" or "Building Construction."*

***In accordance with Texas Government Code 2161.123, the Agency establishes HUB goals at the beginning of each fiscal year.*

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 2010 to 2011, the Texas Lottery Commission's overall HUB utilization increased by nearly five percentage points. During this report period, the Commission expended more than \$40.7 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. In addition, the Commission's inclusion of the HUB Subcontracting Plan in its large contracts has had a positive impact on HUB subcontracting. The FY 2011 Annual Statewide HUB Report ranked the Texas Lottery Commission 19th in the state in terms of overall expenditures. However, the Texas Lottery Commission ranked number three by overall HUB percentage of the 19 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 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 20 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 Commission continues to consistently exceed its statutory goal of a 20 percent minority business retailer base. During FY 2011, minority retailers numbered 7,173, which represented 42.65 percent of the Commission's total Lottery retailer base. FY 2011 was the fifth consecutive year during which the Commission maintained a minority retailer level of over 40 percent.

APPENDIX H

Texas Lottery Commission

New Lottery Operator Contract Procurement Process

On December 14, 2010, the Texas Lottery signed a new nine-year contract with GTECH Corporation for lottery operations and services. Under the terms of the new lottery operator contract, the state of Texas will realize potential savings of more than \$18 million annually beginning September 1, 2011, or more than \$160 million through the life of the contract, based on current ticket sales levels.

The contract was the culmination of an extensive competitive procurement process. Significant resources and capital investments are required to provide and operate lottery services, and the agency obtained those goods and services at an extremely competitive price. The new contract has an estimated value of approximately \$83 million annually and \$750 million over the initial nine-year contract term. In addition to the initial nine-year term, the contract includes options for three two-year extensions.

The procurement process started in September 2008, and included an in-depth assessment of the business needs and an evaluation of the marketplace. A detailed Request for Proposals (RFP) was issued in January 2010. All three of the major companies in the world that provide lottery operator related goods and services, GTECH Corporation, INTRALOT, Inc. and Scientific Games International, Inc., submitted comprehensive bids in response to the RFP. An evaluation team consisting of senior agency managers along with the Director of Texas Procurement and Support Services (TPASS) from the Comptroller of Public Accounts, conducted a thorough evaluation of the bids, and worked diligently to ensure that the resulting contract would meet the agency's needs and those of its retailers and players, while employing state-of-the-art technology.

Consistent with the Texas Lottery's commitment to a fair and transparent procurement process, all procurement documents subject to open records requirements in Texas, with the exception of those involving proprietary information and lottery security, have been posted on the Texas Lottery website.

NEW LOTTERY OPERATOR CONTRACT HIGHLIGHTS

New Contract signed with GTECH December 14, 2010:

- Nine-year initial term; worth an estimated \$937 million
- Supports all core business functions and the agency's mission of generating revenue for the Foundation School Fund

Potential Savings:

- \$18 million annually
- \$160 million through initial term

Benefits:

- New state-of-the art operating system, terminals and communications network
- Changes and improvements to the lottery operator sales and marketing team
- New tools allowing the agency to more effectively market and promote new and existing games

The new lottery operator contract with GTECH provides the agency with the tools needed to fulfill its mission of generating revenue for the Foundation School Fund, while providing significant cost savings to the state. In addition to the more than \$160 million in potential savings under the new contract, other highlights include:

- GTECH's latest generation of technology and retailer/player equipment with faster, easier to use terminals and a more reliable telecommunications network, including new player communication displays;
- Higher levels of security and redundancy, and expanded capacity to handle the extremely high transaction volumes generated daily by the Texas Lottery;
- A new, more efficient lottery game management system featuring enhanced levels of service to support lottery players and retailers;
- New system tools that will allow the Texas Lottery to bring exciting new lottery games and promotions to market more quickly in response to consumer demand.

LOTTERY OPERATOR CONTRACT PROCUREMENT TIMELINE

- **September 2008 thru June 2009** – Business processes review and use case development
- **July 2009 thru December 2009** – Request For Proposals (RFP) development
- **January 4, 2010** – Issued RFP
- **June 30, 2010** – Three proposals received
- **July 2010 thru December 2010** – Proposal review and contract negotiation
- **December 14, 2010** – Contract signed

LOTTERY OPERATOR CONTRACT CONVERSION

Phase One: December 15, 2010 – October 2, 2011

- All new retailer facing equipment (i.e. terminal, lottery signs, playstations, etc.)
- New lottery gaming system
- New communications network
- Additional Lottery Sales Representatives and Promotions staff
- RFID tracking for instant tickets

Phase Two

- New lottery gaming software features, enhancements and upgrades



2013-2017



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