

TEXAS LOTTERY COMMISSION

2017 COMPREHENSIVE BUSINESS PLAN AND ANNUAL REPORT



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TEXAS LOTTERY COMMISSION 2017 COMPREHENSIVE BUSINESS PLAN AND ANNUAL REPORT

SECTION 1: ANNUAL REPORT

OPENING LETTERS MESSAGES FROM THE CHAIRMAN & EXECUTIVE DIRECTOR

Commissioners: J. Winston Krause, Chairman Carmen Arrieta-Candelaria Peggy A. Heeg Doug Lowe **Robert Rivera**



TEXAS LOTTERY COMMISSION

Alfonso D. Royal III, Charitable Bingo Operations Director Gary Grief, Executive Director



The Texas Lottery continues to set new standards of excellence in fulfilling its mission to generate much-needed revenue for public education, veterans' assistance and other state causes. Since the inception of the Texas Lottery in 1992 through the end of the most recent fiscal year in 2015, the Texas Lottery has generated more than \$24 billion in revenue for the state of Texas.

The agency is committed to accomplishing its mission consistent with the provisions of the State Lottery Act and the policy direction of the Texas Legislature. In August 2015, four new appointments to the Texas Lottery Commission were made by Governor Greg Abbott. The members of the Commission understand their responsibility to provide oversight to ensure the agency is conducting its operations fully within this framework.

The Texas Lottery has consistently contributed more than \$1 billion annually to the Foundation School Fund, administered by the Texas Education Agency. Texas school districts use monies from the Foundation School Fund to pay for teacher salaries, utilities, furniture, equipment and other operational expenses. Some of these funds are also earmarked to deliver special program services like bilingual education, special education, compensatory education, gifted and talented education, and career and technical education. In 2009, the Legislature authorized veteran-themed scratch ticket games with proceeds dedicated to the Texas Veterans Commission administered Fund for Veterans' Assistance. Through Fiscal Year 2015, the Texas Lottery has generated more than \$52 million in revenue to the fund for the benefit of Texas veterans and their families.

This Comprehensive Business Plan and Annual Report illustrates the agency's recent achievements, but more importantly it details the goals and key performance factors that are used to measure current and future success. The Texas Lottery's success story is not just in the numbers, but in the statewide economic impact to our retailers, prizewinners, vendors, employees and, most importantly, public education and veterans' assistance programs.

J. Winston Krause, Chairman

Commissioners J. Winston Krause Chairman

Carmen Arrieta-Candelaria Peggy A. Heeg Doug Lowe Robert Rivera





The Texas Lottery Comprehensive Business Plan and Annual Report details the results of the Texas Lottery's most recent full fiscal year in 2015. Before you read more about the Texas Lottery, I want to share with you some key facts.

Fiscal Year (FY) 2015 was the 12th consecutive year that the Texas Lottery generated more than \$1 billion in contributions to the state of Texas and the fourth consecutive year that record revenue levels were achieved, primarily supporting two good causes dear to the hearts of many Texans: **Public** Education and Veterans' Assistance programs.

We continue to achieve the agency's mission to generate revenue for the Foundation School Fund and Fund for Veterans' Assistance through our focus on the agency's Core Value of Innovation. In FY 2015, we delivered

many new and unique products to our players. We also continue to work with our vendors to leverage technology to deliver innovation to the marketplace.

The agency again achieved record sales of \$4.529 billion. More importantly, revenue transfers for the year were \$1.225 billion to the Foundation School Fund and \$13.1 million to the Fund for Veterans' Assistance, representing the single largest transfer to both causes in the Texas Lottery's history. The Texas Lottery also paid out \$2.86 billion in prizes to lottery players and more than \$226 million in commissions and bonuses to our more than 17,000 valuable retailer partners.

Encouraging the public to "Play Responsibly" is also something we take seriously and the Texas Lottery proudly serves as a contributing member of the National Council on Problem Gambling (NCPE). Likewise, we take pride in our ability to effectively outsource certain functions to the private sector and appropriately manage large contracts, and, in doing so, encourage the use of Historically Underutilized Businesses (HUBs) in Texas.

Nationally and globally, the Texas Lottery continues to take a leadership role as a member of the two largest multi-jurisdictional lottery organizations, the North American Association of State and Provincial Lotteries (NASPL) and the Multi-State Lottery Association (MUSL). I am proud to serve as Chair of the MUSL Powerball Game Group and Director of Region IV for NASPL.

On behalf of our entire staff, I look forward to sharing more information with you about the Texas Lottery on the following pages.

Lary Shif

Gary Grief, Executive Director

2017 COMPREHENSIVE BUSINESS PLAN AND ANNUAL REPORT — TEXAS LOTTERY COMMISSION

TEXAS LOTTERY COMMISSION

Gary Grief, Executive Director

Alfonso D. Royal III, Charitable Bingo Operations Director

TEXAS LOTTERY COMMISSION OVERVIEW

Texas Lottery Commission History

The Texas Lottery was established through a vote of the Texas Legislature and Texas voters in 1991 and began sales operations on May 29,1992, under the oversight of the Texas Comptroller of Public Accounts. On September 1, 1993, the Texas Lottery Commission was created as a standalone agency to administer the Texas Lottery. The Legislature also transferred regulatory authority for charitable bingo to the Texas Lottery Commission on April 1, 1994.

The agency underwent Sunset reviews in both 2002 and 2004, but its Sunset bills failed to pass either time and the agency was continued in separate legislation. In 2012, the agency underwent Sunset review once again. The 83rd Legislature enacted the agency's Sunset legislation which continues the agency until September 1, 2025. Additionally, the legislation included a provision establishing a 10-member legislative review committee to study the impact of eliminating the state lottery along with studying certain aspects of charitable bingo. The legislative review committee issued its recommendations in a November 2014 report. One of its recommendations was that the Legislature should continue the Texas Lottery and the Texas Lottery Commission.

The State Lottery Act gives both the Commission and the executive director broad authority, together with the responsibility to exercise strict control and close supervision over all lottery games conducted in Texas to promote and ensure integrity, security, honesty and fairness in the operation and administration of the lottery. The five-member Commission sets policy, adopts all rules for the agency, approves major contracts 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 Commission member must have experience in the bingo industry.



MEET THE **COMMISSIONERS**



Carmen Arrieta-Candelaria



Doug Lowe







J. Winston Krause, Chairman



Peggy A. Heeg

Robert Rivera

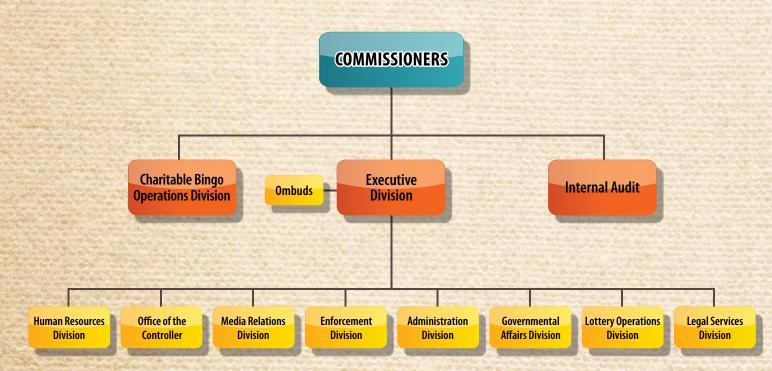


TEXAS MODEL - IT WORKS FOR TEXAS!

Management and Organizational Structure

The Texas Lottery is overseen by a five-member Commission that sets policy, adopts all rules necessary to administer the State Lottery Act, and performs all other duties required by law. The agency is comprised of 11 distinct operating areas, including 10 divisions (Administration, Charitable Bingo Operations, Enforcement, Executive, Governmental Affairs, Human Resources, Legal Services, Lottery Operations, Media Relations, and the Office of the Controller) and an outsourced Internal Audit function. The agency's organizational structure is depicted below.

Texas Lottery Commission Organizational Chart



What sets the Texas Lottery Commission apart from other North American lotteries is the unique public-private structure of the agency. The members of the original Implementation Task Force of the Texas Lottery were the architects of what has become known within the lottery industry as the "Texas Model." 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. This approach shifts 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 vendors to provide—directly or through subcontractors—a wide range of services statewide. This alliance with private enterprise enables the Texas Lottery to realize several key operational benefits:

- Incentivized sales organization
- Enhanced resource allocation capabilities associated with market change
- Greater flexibility in customer responsiveness

Using this public-private concept, the agency addresses a number of significant business functions through contractual arrangements with seven primary vendors. Each vendor provides a variety of services under the continuous supervision of Commission personnel. The Texas Model is illustrated in the chart below.

COMMISSION MEMBERS

EXECUTIVE DIRECTOR

LOTTERY COMMISSION STAFF

 Develop and approve Texas Lottery games License and regulate Texas Lottery retailers • Collect proceeds from ticket sales

 Redeem and pay prizes Conduct Texas Lottery drawings Enforce statutes

Scratch Ticket Manufacturing & Services	Advertising Services	Lottery & S
* ** Scientific Games International, Inc. * ** Pollard Banknote Ltd. * ** Sto Global Solutions Corporation d/b/a IGT Solutions Corporation & * ** • Manufacture and deliver rexas Lottery scratch ticket games according to marketing and security procedures of the Texas Lottery Commission	 * * * LatinWorks * * * Povelop and propose advertising plans consistent with the Texas Lottery's marketing strategy Develop and propose media plans Placement and purchase of broadcast, digital and out of home media Creative designs and production of point-of-sale items, posters, displays and other collateral materials and signage 	IGT Global Sc d/b/a IGT So - Lottery gam - Lottery gam - Lottery man - Telecommur - Retailer term - Marketing re - Field sales pu - Facilities and - Draw game t - Warehousing distribution - Ticket order and telemarl - Hotline supp

• Substantially reduced government capital investment necessary to operate the lottery • Significantly reduced workforce as compared to similarly sized lotteries (e.g., California and Florida)

- Provide information to the public Establish and enforce rules, policies and procedures
- Approve all advertising and marketing related initiatives

y Operations Services

* * * olutions Corporation

olutions Corporation * * *

- ing system
- agement system
- ications network
- inals
- esearch and promotions ersonnel and services
- nd vehicles
- ticket stock
- g, packaging and of scratch tickets
- processing
- ketina
- port system

Drawings CPA Services

* * * DK Partners, P.C. * * *

Observe all Texas Lottery drawings and certify that drawings are conducted according to official procedures

Drawings Studio & Production Services

* * * Elephant Productions, Inc. * * *

 Produce and broadcast all Texas Lottery drawings



EXECUTIVE SUMMARY

Commitment to Texans

The Texas Lottery Commission is unique among other Texas state agencies in that its ongoing operations combine for-profit performance expectations with fiscal accountability and regulatory oversight responsibilities as a government entity. Through its administration of Texas Lottery games, the Texas Lottery has a significant fiscal impact in our state.

Accordingly, the Commission is extremely respectful of its role and responsibilities as a vigilant steward of resources entrusted to it. It is also understood that the inherent challenges involved in sustaining its success necessitate more comprehensive planning than the state's standard five-year strategic planning process provides. This document is designed to complement that process and report on challenges and key performance factors that act as measures of the agency's performance.

It is also intended to address the Sunset Advisory Commission, Final Report with Legislative Action for the Texas Lottery Commission issued July 2013.

More than 20 years after the first ticket was sold, millions of players continue to enjoy Texas Lottery games every day. In fact, the Texas Lottery is the fifth largest lottery in North America.* But the Texas Lottery is not just about fun and games. The most important function of the Texas Lottery is to generate revenue for public education, veterans' assistance and other causes and programs of the state of Texas.

The Games of Texas remain extremely popular with Texas Lottery players. However, as a mature lottery, the agency must remain vigilant and responsive to industry trends and player interests if it is to continue its high level of support for Texas education, Texas veterans and other good causes in the coming years. Concurrently, the agency is respectful of and sensitive to the viewpoints of those Texans who are not in favor of gaming. Therefore, this document highlights FY 2015 results and lays out initiatives carefully designed to ensure continued optimal revenue generation for the state of Texas in FY 2017-2019, while being mindful of all viewpoints.

* Source: La Fleur's 2016 World Lottery Almanac (24th edition), "Worldwide Lotteries Ranked by 2015 Total Sales (excludes VLT Revenue)," p. 303.

VISION

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

MISSION

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.

CORE VALUES

- the development of our products and in the services that we provide.
- in working together to achieve our common goals.
- Commission and achieve challenging goals by focusing on our core values.

JINTEGRITY 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.

Sin 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. All proposed innovations must be authorized by Texas law, and do not include video lottery, casino gaming, internet-based lottery sales, fantasy sports, or any other activities not authorized by law.

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

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

Excellence - We strive for excellence by taking a position of leadership on issues that impact the

SCRATCH AND DRAW PRODUCT HIGHLIGHTS

August 27, 2015: The Texas Lottery Commission adopts amended draw game rules which allow for the introduction of the first Texas Lottery mobile app in 2016 with player convenience features such as check-a-ticket and the ability to store favorite numbers for draw game play.

August 17, 2015 : The Dallas Cowboys and Houston Texans games return with fresh ticket designs and unique experiential and merchandise prizes. Both games are offered at the \$5 price point.

August 3, 2015: The Set For Life suite of annuity games starts at the \$1, \$2, \$5 and \$10 price points.

May 18, 2015: \$500,000,000 Cash, the newest \$20 Spotlight game, is introduced with an ad campaign communicating that "the fun is in the zeros." This game generates over \$67 million in sales in FY 2015.

> **April 20, 2015:** The first *Super Ticket*[™] has phenomenal sales levels far surpassing any \$10 game in Texas Lottery history. This oversized ticket offers players 42 chances to win on one ticket and is well received by both players and retailers. Super *Ticket*[™] 7's yields over \$78 million in sales in FY 2015.

April 13, 2015: The draw breaks (period of time before a drawing when sales cease) for all Texas-based draw games are reduced by two minutes, from a 15-minute window to a 13-minute window. The reduction gives players two extra minutes to purchase tickets for their favorite draw games.

March 2015: A focused effort is placed on the agency's daily draw games, which are not jackpot dependent. Specifically, an advertising campaign is launched that includes TV, radio, outdoor, point-of-sale and digital supporting the agency's best-selling draw game, Pick 3[™]. The campaign is complemented with both retailer and player promotions.





Achieving our Breaking

Record Scratch Ticket Sales \$3.48 billion

Record Revenue Transfers to the Fund for Veterans' Assistance \$13.1 million

> *Record Revenue* Transfers to the State

Mission and Records!

Record Total Product Sales \$4.53 billion

Record Revenue Transfers to the Foundation School Fund \$1.225 billion

\$1.24 billion



March 16, 2015: Sales begin for the scratch ticket *Tetris*[®], the retro arcade game. It is supported by a game launch event held during Cinco de Mayo celebrations at Market Square in San Antonio on May 2. Festival-goers can stop by to play a jumbo version of Tetris Blitz, the lightning fast Tetris mobile game by Electronic Arts, live on an LED wall that is over 20 feet high!

VETERANS







October 20, 2014: The Holiday Game Book, offered at the \$20 price point featured \$54 million in total prizes with six different games inside, and was the agency's first game book introduction. The Holiday Game Book included four \$1 million top prizes and realized sales of more than \$69 million.

> November 3, 2014: The eleventh version of Veterans Cash was introduced to commemorate Veterans Day.



December 1, 2014: With traditionally themed games successfully generating revenue for the Fund for Veterans' Assistance, Hot 'n Spicy Tripler launches with its proceeds benefiting Texas veterans and their families.



December 15, 2014: Due to its success during the previous fiscal year, a refreshed multiplier suite of games with new ticket designs begins with the full introduction of five games launching by January 5. This suite of games receives advertising support and proves to be another hit with the \$20 100X The Cash and \$10 50X The Cash ranking as the two bestselling scratch ticket games for the fiscal year. 100X The Cash generates over \$158 million in sales.



February 11, 2015: The Powerball® jackpot rolls up to an advertised \$500 million. The actual jackpot was \$564.1 million, after all sales were totaled, which is the third largest jackpot for the *Powerball* game ever. The Texas Lottery sells one of three winning jackpot tickets for the drawing making this the second Powerball jackpot winner from Texas.



Powerball[®] and Mega Millions[®]

Powerball and Mega Millions are the two multijurisdictional, rolling jackpot games played across the nation. Each game has its own add-on multiplier feature that allows players to increase their nonjackpot prizes—Power Play® and Megaplier®. Due to the design of each base game, both Powerball and Mega Millions have the ability to generate jackpots in the hundreds of millions of dollars, which garner national media attention and player interest while having a dramatic impact on sales. Both Mega Millions and Powerball game sales performance are highly dependent on jackpot levels. Although the modifications to the Mega Millions game implemented in October 2013 successfully yielded large jackpots in FY 2014, this was not the case in FY 2015. The highest jackpot level achieved was \$321 million and Mega Millions sales declined. Powerball had a slight sales increase in FY 2015 due to a \$500 million jackpot in February 2015. In an effort to boost jackpots and create better overall odds of winning non-jackpot prizes, the Multi-State Lottery Association (MUSL) approved a new version of the game that started on October 4, 2015. The Power Play feature was also changed to include a 10X multiplier when advertised annuitized jackpots are \$150 million or less.

Lotto Texas[®]



Lotto Texas was the first draw game introduced in Texas in November 1992. It is Texas' original in-state rolling jackpot game with advertised annuitized jackpots starting at \$5 million and an add-on feature called Extral. The Extral feature was implemented in FY 2013 and has experienced continued growth in FY 2014 and 2015 as more players learn about the benefits of the new feature. Lotto Texas is a mature game that has experienced sales declines over time, but the game maintains a relatively loyal following. With the large jackpots often generated by the multi-jurisdictional games, smaller in-state rolling jackpot games like Lotto Texas often struggle to compete and be relevant. However, Lotto Texas maintains the fourth highest draw game sales position with FY 2015 sales totaling \$123.4 million.



Texas Two Step[®]

Texas Two Step is also an in-state rolling jackpot-style game similar to Lotto Texas but on a smaller scale, with jackpots starting at \$200,000. Texas Two Step has a loyal player base and experiences consistent sales at lower-level jackpots. Like other jackpot games, as the jackpot climbs, sales increase. Texas Two Step produces the most jackpot winners in Texas each year with FY 2015 boasting 28 winning jackpot tickets sold.

Cash Five[®]



Cash Five is the agency's five-digit daily game with a roll-down feature. 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. Cash Five was originally introduced in 1995 and was modified in 2002. It is also a mature game that has been experiencing sales declines. The agency has evaluated several game modification options and expects to conduct research in the spring of 2016. Until recently, other new game introductions and national draw game initiatives have taken precedence over *Cash Five* changes based on their revenue potential. However, with no new national initiatives currently scheduled, Cash Five has been slated for review and research testing. Results of research and financial analysis will determine whether a Cash Five game change is warranted. A determination to proceed with a game change will be evaluated in the context of other draw game initiatives and their potential sales and revenue impact.

DRAW GAME OVERVIEW SUMMARY OF TLC DRAW GAME PORTFOLIO



Pick 3[™] and Daily 4[™]

Pick 3 and Daily 4 are the Texas Lottery's three- and four-digit daily numbers games drawn four times a day, six days a week. *Pick 3* has consistently been one of the best-selling draw games and that was true again in FY 2015 as *Pick 3* surpassed all other draw games including both multi-jurisdictional rolling jackpot games. Pick 3's sales success, \$251.6 million this past year, illustrates that non-jackpot style games are well-received by players and are a critical component of the portfolio for reaching sales and revenue goals. Daily 4 has experienced sales growth every year since its introduction in 2007. While sales of the Daily 4 game have increased, there have been slight annual declines in *Pick 3* sales performance. It is believed that *Pick 3* players are migrating to *Daily 4*, a trend being experienced in other lottery jurisdictions around the country. Both games have an add-on feature, Sum It Up![®], which provides players with a chance to win even if they don't win on the base game. A new play type called "1-Off" is being considered for both Pick 3 and Daily 4. Player and retailer research will be conducted in 2016 to determine the level of interest in the new play type. If research results and financial analysis are favorable the play type will be evaluated for inclusion in the draw game portfolio in 2017.



TEXAS LOTTERY

All or Nothing[™]

All or Nothing, with its unique hourglass payout design that offers two ways to win the \$250,000 top prize, is an innovative draw game and different from other draw games in the Texas portfolio. All or Nothing, introduced in September 2012, features very good overall odds (1 in 4.5) and 10 ways to win a prize. All or Nothing is a unique game where players can win the top prize by matching all of their numbers or none of their numbers to the twelve numbers drawn. Sales for the All or Nothing game have not returned to levels seen for the game prior to suspension of sales in 2013 due to a game design issue brought to the agency's attention by IGT Solutions Corporation. To increase awareness and trial of All or Nothing, it will be included in a planned draw game package called Lone Star Lineup that will feature multiple Texas Lottery daily draw games sold together. Lone Star Lineup is planned to launch in the fall of 2016.

Texas Triple Chance"

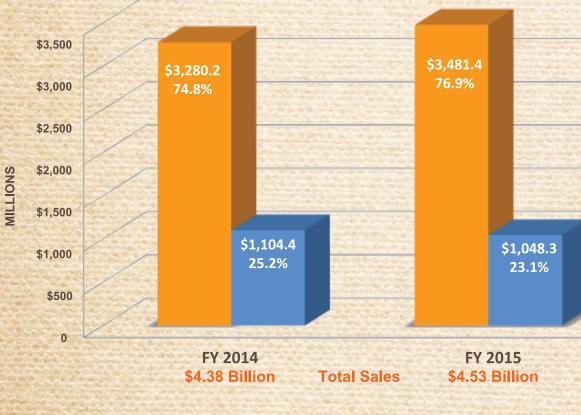
The agency's ninth draw game, Texas Triple Chance, was introduced on September 27, 2015. Texas *Triple Chance* is a game that also had a delayed launch due to the need to support national draw game initiatives, specifically the *Powerball* game changes noted in this section. This \$2 game offers players three Chances (sets of numbers) to win up to \$100,000 in every play. Texas Triple Chance was launched using the advertising slogan "It's As Easy as 1-2-3!" to convey the simplicity of game play. This was also the first game to launch with its own how-to-play video that could be watched by scanning a QR code printed on in-store point-of-sale pieces. Players select 7 numbers from 1 - 55 while the agency draws 10 numbers from 1 - 55. If the player matches 3 or more numbers in any one *Chance*, the player wins a prize! The top prize of \$100,000 can be won by matching all 7 numbers in any one *Chance* to the numbers drawn. *Texas Triple Chance* features the best overall odds of any draw game—1 in 3.6.

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SALES AND REVENUE **PRODUCT SALES PERFORMANCE CHARTS**

Texas Lottery FY 2015 Sales Comparison

through 08/31/2015 (in Millions)



Scratch Tickets Draw

Sales Comparison

For FY 2015, the Texas Lottery recorded \$3.48 billion in scratch ticket sales, an increase of more than \$200 million and the highest scratch ticket sales in Texas Lottery history. Draw sales concluded the fiscal year with \$1.05 billion in total sales, a decline of approximately \$56 million that can mainly be attributed to a lack of large jackpots on the Mega Millions multijurisdiction game.

Total product sales for FY 2015 set an all-time sales record of over \$4.53 billion, exceeding the sales record set in FY 2014 by \$145.1 million.

through 08/31/2015 (in Millions)

Draw \$1,048.3 23.1%

Fiscal Year Sales: \$4.53 Billion

Sales by Game

In FY 2015, scratch tickets represented approximately 77 percent of total sales and draw games represented approximately 23 percent of total sales. This product mix is typical for Texas where scratch tickets have accounted for the majority of total sales for many years. Scratch tickets have many qualities that aid in marketing them to potential players including, but not limited to, a variety of price points, game themes, and play styles.

SALES AND REVENUE **PRODUCT SALES PERFORMANCE CHARTS**

Texas Lottery FY 2015 Sales by Game

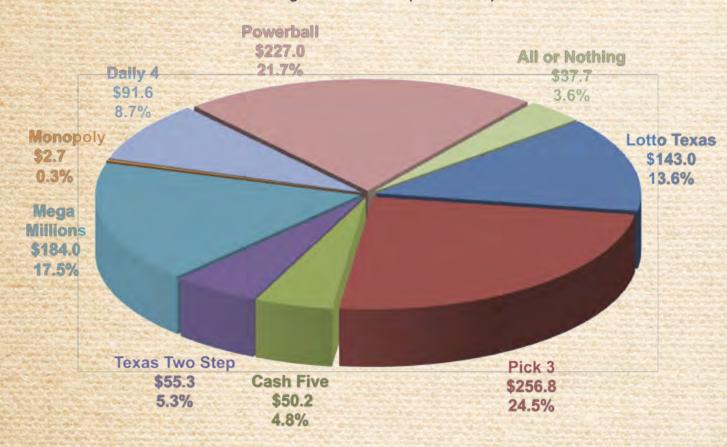
> Scratch \$3,481.4 76.9%

SALES AND REVENUE **PRODUCT SALES PERFORMANCE CHARTS**

SALES AND REVENUE PRODUCT SALES PERFORMANCE CHARTS

Texas Lottery FY 2015 Draw Sales by Game

through 08/31/2015 (in Millions)



Fiscal Year Draw Sales: \$1.05 Billion*

Note: add-on feature sales are grouped with the sales for the base games. * May not sum due to rounding

Draw Sales by Game

For FY 2015, Pick 3 was the best-selling draw game followed by Powerball and Mega Millions. Lotto Texas, the agency's oldest draw game, was the fourth highest-selling draw game. Pick 3, drawn four times a day, six days a week, is a daily numbers game that does not rely on jackpot levels to drive sales. Daily 4, similar to Pick 3 in game attributes and style of play, continued its year-over-year sales growth with a \$3.1 million gain and total sales of just under \$92 million.

An advertised \$500 million Powerball jackpot in February 2015 coupled with a few other triple-digit jackpots throughout the fiscal year led to Powerball being the second bestselling draw game representing a \$4.9 million sales gain over the previous year. Powerball jackpots in 2014 were substantially lower than anticipated, thus the jackpot levels reached in fiscal year 2015 created the year-over-year sales gain.

Scratch Ticket Sales by Price Point

\$10 price

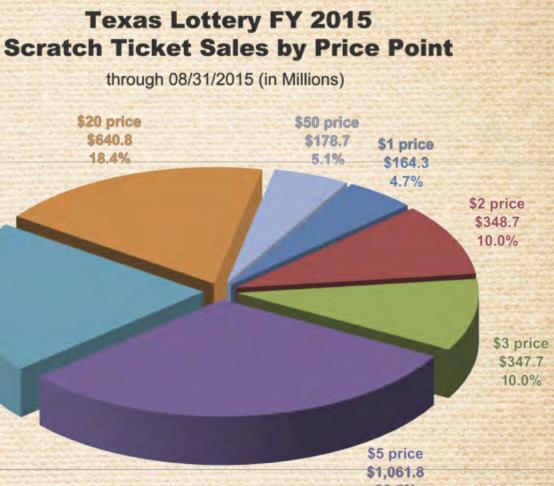
\$739.2 21.2%

\$20 price

\$640.8

18.4%

The Texas Lottery realized \$3.48 billion in scratch ticket sales during FY 2015. The \$5 price point continues to be the best-selling price point totaling over \$1 billion in sales. The \$10 and \$20 price points were the next best-selling price points, respectively. Both of these price points include Spotlight games, which feature larger print runs and a significant quantity of appealing high-tier prizes compared to other scratch ticket games. Spotlight game offerings helped contribute to the sales success realized at these two price points. In addition to Spotlight games, both of these price points also had new product launches during FY 2015. The \$10 *Super Ticket*[™] 7's and the \$20 *Holiday Game* Book were very successful unique product initiatives that contributed to the scratch ticket sales record achieved during the year.



30.5%

Fiscal Year Scratch Ticket Sales: \$3.48 Billion

BENEFITING TEXANS

Since 1992, the Texas Lottery has generated more than \$24 billion in revenue for good causes in the state of Texas, including education, veterans' services and other important state programs. Through strict adherence to our vision, mission and core values, the Texas Lottery is dedicated to ensuring that these benefits continue.

The Texas Lottery Supports Texas Education. Since 1997*, the Texas Lottery has contributed \$18 billion to the Foundation School Fund, which supports public education in Texas. In FY 2015, the Texas Lottery transferred \$1.225 billion, its single largest annual contribution to date, to the Foundation School Fund.

The Texas Lottery Supports Texas Veterans. In 2009, legislation was passed directing the Texas Lottery to offer a scratch ticket game benefiting the Texas Veterans Commission Fund for Veterans' Assistance (FVA). Since that time, the Texas Lottery has contributed more than \$52.1 million for veterans programs. The FVA makes grants available to eligible charitable organizations, local government agencies and Veterans Service Organizations that provide direct services to Texas veterans and their families. More than 90 percent of the revenue contributed to the fund is derived from the sales of the Texas Lottery veterans' games. The first game was introduced in FY 2010 and since that time, additional games have been launched with the proceeds supporting the fund. In FY 2015, \$13.1 million was transferred to the Texas Veterans Commission.

The Texas Lottery Supports Other State Programs. As authorized by the Texas Legislature, other Texas Lottery funds, such as unclaimed prizes, contribute to other causes such as the multicategorical teaching hospital at the University of Texas Medical Branch at Galveston.

The chart to the right provides a breakdown of an average dollar spent on lottery games and illustrates "Where the Money Goes" based on FY 2015 financial results.



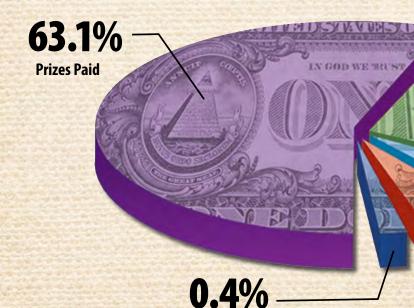
SUPPORTING TEXAS EDUCATION AND VETERANS

*Prior to 1997, the proceeds were allocated to the General Revenue Fund and were contributed for the benefit of all state programs.



That's a Winning Story for Texas Education and Veterans.

Where the Money Goes:



Fund for Veterans' Assistance and Other State Programs (including unclaimed prizes)

Percentage totals are rounded. \$13.1 million was transferred to the Texas Veterans Commission.



(Foundation **School Fund**)

5.5% Retailer

Commissions

4.0% Lottery Administration

Information reflects audited FY15 figures

PLAYERS

The Texas Lottery strives to consistently deliver on its core value of Innovation in offering new and entertaining lottery products to its players. We offer our players a wide selection and diversity of products. Whether it is a new draw game or the latest scratch ticket game we want our players to have fun when they choose to play the *Games of Texas*. We strive to provide exemplary service to the people of Texas and we seek feedback that we use in the development



of our products. Players embraced the games offered by the Texas Lottery with record sales levels in FY 2015. They experienced the excitement of playing and the joy of winning with over \$2.86 billion in prizes paid.



SUPPORTING TEXAS EDUCATION AND VETERANS





RETAILERS

The Texas Lottery had 17,403 licensed retailers statewide offering lottery products at the end of FY 2015. The dedicated lottery retailer community is the critical bridge between the lottery and its players. Lottery retailers work tirelessly to manage inventory, merchandise and sell lottery games, pay prizes and educate the public on how to play the Games of Texas.

The Texas Lottery reached record sales and revenue levels in FY 2015 through the hard work of its licensed retailers. Lottery retailers reaped the benefits of their efforts by earning record-breaking commissions of \$226.67 million. Retailers also earned an additional \$19.76 million in sales performance-based incentive payments and \$2.12 million in bonuses for selling certain prizewinning tickets during the year. All told, retailers earned approximately \$248.55 million in FY 2015.





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SOCIAL RESPONSIBILITY

The Texas Lottery's mission is to generate revenue for the state of Texas through the responsible management and sale of entertaining lottery products. Responsible Gaming (i.e., responsible management and sale of lottery products) lies at the heart of the agency's commitment to providing its products to the public in an appropriate manner. The agency's mission must also be achieved while maintaining public confidence and trust that the agency's games are conducted fairly and securely with a constant focus on "Integrity and Responsibility," one of the agency's core values. The agency's focus on integrity and responsibility is supported by several key initiatives designed to protect and enhance the security of lottery games, systems, drawings and operational facilities. The goal is to provide optimum protection for lottery players, lottery retailers and to ensure the sale and validation of lottery tickets are performed in compliance with agency rules.

The agency accomplishes this through a number of regulatory and educational activities serving the social responsibility standards of the agency and its customers. Specific areas of emphasis include vendor and licensee compliance, consumer protection, jurisdictional complaint monitoring/ hotline support, retailer surveys and inspections, investigation of complaints or questionable activities related to lottery games, close supervision and monitoring of lottery drawings and ticket validations, and implementation of the agency's Play Responsibly initiative.



Enhanced consumer protection strategies include the deployment of more than 16,000 devices which provide lottery players with the ability to check the winning status of scratch and draw game tickets prior to validation by a retailer. These devices include counter-top Check-a-Ticket terminals as well as self-service lottery vending

machines. To facilitate player access and convenience, the agency coordinates with the lottery oper-



The Sound of Winners!

The Reals Luliary share industry and consuming an advance audition from on terminals when Schell are reasoned. One of five default tores all size reary time is a schell to addation or incyairs. This less papers large the allocat of the winning and schell the Schell and schelling Schell. The tores also help reduce errors, improve communication and resonance incommon and relation.



Within the Lottery Operations Division, the Security Department ensures the security and integrity of lottery drawings and ticket validations. The Security Department monitors lottery drawings and validation processes to ensure that they are conducted in compliance with applicable laws, rules, regulations, policies and procedures. The Security Department works with the Austin Claim Center to verify and confirm the legitimacy of high-dollar draw game prizes, and all questionable claims are submitted to the Security Department for review and investigation. The Security Department also works closely with the scratch ticket manufacturers, scratch ticket testing vendor and the Products Department to ensure that all scratch tickets sold to the public are fully tested, secure and of the highest quality.

TWITTER

The "Security Spotlight" page on the Texas Lottery website features consumer protection tips and information on how to avoid lottery-related scams. Information is also available regarding resources for reporting suspicious activity.

The Texas Lottery continues to expand existing programs and initiatives to protect and enhance the security of 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 various aspects of lottery sales including prize validation and payments. ator to evaluate high-volume locations that merit placement of multiple self-check devices. Additionally, customer displays and distinct audible tones at sales terminals provide player verification of the prizewinning status of tickets validated by retailers. The agency is focused on creating an environment where players can participate in the games and independently verify the winning or non-winning status of their tickets as well as the value of prizes won.



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SOCIAL RESPONSIBILITY (CONT'D)

The Texas Lottery has initiated a significant number of consumer protection-related initiatives in recent years. Several of these initiatives are listed below.

- Dual validation receipts (one Player Copy and one Retailer Copy)
- "Sign Your Ticket" public awareness campaign
- PDF 417 barcode on scratch tickets for self-check equipment
- One-step validation Secure Shield[™] barcode on scratch tickets
- Player-activated terminals for self-checking winning status of tickets
- Self-check terminal locator on website
- Enterprise Series MultiMedia (ESMM) monitor display of validation messages to player
- Terminal inquiry/validation tones
- Security Spotlight on website
- Development and implementation of monitoring tools and reports related to validation and claim activity
- Membership in the National Council on Problem Gambling (NCPG) and participation in NCPG initiatives

• Membership in the World Lottery Association (WLA) and support of the organization's Responsible Gaming Principles

Encouraging responsible participation in lottery games is a top agency priority. The agency helps bring awareness to this issue through its ongoing Play Responsibly public

VHAT ARE THE SIGNS OF A GAMBLING PROBLEM?

information initiative focused on reminding consumers that the Texas Lottery Commission encourages conscientious participation in its games. The initiative was 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, scratch and draw game tickets and media releases. The initiative features the agency's Play Responsibly website page where consumers can find helpful information and links to outside problem gambling resources. The agency website also provides retailers with a training video to assist in identifying signs of problem

As a member of the National Council on Problem Gambling (NCPG), the North American Association of State and Provincial Lotteries (NASPL) and the World Lottery Association (WLA), the Texas Lottery actively supports the Responsible Gaming initiatives of all of these organizations. Since 2004, the Texas Lottery has participated in the annual Problem Gambling Awareness Month campaign, a grassroots public awareness and outreach effort of the NCPG. The goal of this campaign 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.

In 2014, the agency expanded its focus on Responsible Gaming by leveraging training resources (video training and print education materials) recently developed by NCPG and NASPL to provide dedicated training to its entire customer support team. These training tools have also been incorporated into retailer classroom training and training materials for lottery sales representatives employed by the lottery operator. The training focuses on identifying the signs of problem gambling along with critical helpline and counseling resources to combat problem gambling. In addition, the Texas Lottery produces and maintains distribution of a Play Responsibly pamphlet available at Texas Lottery retail locations and the agency's 16 statewide claim centers. The pamphlet contains information about problem gambling and resources for obtaining assistance.

Also, the agency was recognized by the WLA in 2015 and awarded Level 2 Certification in recognition of its efforts to promote Responsible Gaming.

The agency is developing a mobile application that will launch in 2016 providing a convenient platform to expand the public's access to Texas Lottery game information and enhance the provision of player support services. The application will feature "Check Your Ticket" functionality providing an added layer of consumer protection as players will have the ability to conveniently verify the winning status of tickets on their mobile device. Neither this platform, nor agency social media initiatives offer ticket sales or game participation. All purchases of lottery games must occur at a licensed lottery location or from the Texas Lottery. The Texas Lottery does not propose enabling the sale of tickets over mobile devices or the Internet. The focus of the application is on information access and service convenience to lottery customers.

The Texas Lottery is committed to these various initiatives to ensure a socially responsible playing environment for lottery players. The agency continues to identify and implement evolving strategies for consumer protection. With advancements in technology, the Texas Lottery continues to add to the significant level of security in place to protect consumers and support retailer licensees related to Texas Lottery games.

gambling and options for assisting customers.



The Texas Lottery's Comprehensive Business Plan and Annual Report for FY 2017 was prepared by the agency's management team and approved by the Texas Lottery Commission. The agency originated its formal business planning process in response to the Sunset Advisory Commission's recommendations in 2004. Over the last decade, the business plan has become a key driver of the Texas Lottery's operational and strategic planning. During the agency's most recent Sunset Review, the Sunset Advisory Commission recommended additional enhancements to the agency's business planning process. Additionally, the 83rd Legislature enacted HB 2197, the Lottery Commission Sunset bill, which includes a statutory requirement to develop a comprehensive business plan. The statutory provision, Section 466.028 of the Texas Government Code is detailed below:

Sec. 466.028. COMPREHENSIVE BUSINESS PLAN. (a) The commission shall develop a comprehensive business plan to quide the commission's major initiatives. The plan must at a minimum include: (1) specific goals for the agency; and (2) an evaluation of: (A) the agency's overall performance; (B) the effectiveness of specific programs and initiatives; (C) the ongoing efficiency of agency operations; (D) the amount of lottery revenue that is generated for state purposes other than the payment of prizes; and (E) the factors affecting the amount of lottery revenue received and disbursed, including ticket sales and administrative efficiency. (b) The commission, as frequently as the commission determines appropriate, shall review the comprehensive business plan and at least annually hold a public meeting to discuss the plan or updates to the plan.

Added by Acts 2013, 83rd Leg., R.S., Ch. 993 (H.B. 2197), Sec. 2, eff. September 1, 2013.

The Texas Lottery has been successful in producing more than \$1 billion in revenue for the state of Texas each year for the last 12 years, with the primary beneficiary being the Foundation School Fund. However, not unlike other lottery jurisdictions around the country with mature product portfolios and limited opportunities for portfolio expansion, the Texas Lottery faces ongoing challenges to maintain and increase future revenue for the state. Numerous factors can affect lottery performance, such as the product mix and design of games offered, number and quality of lottery retailers, and agency administrative efficiency. While the most recent Sunset review determined that the Texas Lottery is generally high performing when compared to other states, the agency recognizes that there are challenges ahead in continuing to meet high expectations based on past performance.

With a focus on improved accountability and performance measurement, this report continues the best of the Texas Lottery's past business planning practices incorporating key performance measurement tools to ensure that progress is being made in achieving critical agency goals and to allow opportunities for improvement to be quickly identified. The following section of the report walks through 10 key performance factors and associated goals for FY 2017, all of which will drive significant program decisions and major initiatives for the agency. Management believes that these key performance factors are major determinants of the Texas Lottery's future success.

TEXAS LOTTERY COMMISSION

2017 COMPREHENSIVE BUSINESS PLAN AND ANNUAL REPORT

SECTION 2: BUSINESS PLAN **KEY BUSINESS PERFORMANCE FACTORS**

OPENING NARRATIVE

PERCENTAGE OF RETAILERS SATISFIED WITH THE TEXAS LOTTERY

Background

The Texas Lottery has a unique relationship with its licensed retailers. Selling lottery products is a licensed, regulated activity and lottery licensees must meet strict standards of conduct both personally and in the sale of lottery products to meet and maintain compliance with the agency's licensing requirements. At the same time, lottery retailers are the primary distribution channel for selling the state's lottery products to consumers and are critical to the ultimate success of the Texas Lottery in generating revenue for the state. Retailer satisfaction with the Texas Lottery lies at the heart of retail support for the lottery and its products.

Retailer satisfaction begins with the agency's regulatory responsibilities which encompass a thorough licensing review of every potential retailer to ensure only qualified businesses receive licenses. The agency must efficiently implement these review processes to enable businesses to complete and/ or continue licensure in order to offer lottery products at a time consistent with their business needs. The agency also focuses heavily on retailer education to ensure that licensees fully understand the responsibilities and business impact of being a lottery retailer. A variety of training initiatives and collateral materials focus on licensee rules and requirements, financial and accounting procedures, lottery products and equipment operation.

The Texas Lottery dedicates extensive resources to support licensed retailers in their day-to-day relationship with the agency and consumers. This begins with licensure and continues throughout a retailer's history with the agency. Each new licensee receives comprehensive training prior to the start of ticket sales and refresher training for employees or for new games is provided as needed. The agency provides ongoing support for its retailers via two toll-free hotlines. The first is a technical support hotline, specified under contract with the lottery operator, providing retailers with support for equipment operational issues 24 hours a day, seven days a week. The lottery operator hotline staff also supports retailers with time-sensitive needs, such as reporting ticket theft or damage and ordering scratch tickets.

The agency's second hotline supports all aspects of the agency's regulatory functions related to retailer licensing and accounting matters and is available during agency business hours Monday through Friday. Agency staff enters and updates retailer information, coordinates ownership transfers and lottery terminal moves, processes license terminations, performs retailer records maintenance, and responds to all licensee account questions. This includes routine interactions with retailers on Electronic Funds Transfers (EFTs), sweep amounts, account adjustments, account reconciliations and final balances due. The staff also works closely with retailers to ensure prompt payment following a non-sufficient fund

EFT bank account sweep. The agency's hotline also responds to inquiries from potential licensees and provides current licensees with information and instruction on the portfolio of games offered for sale.

The agency has also consistently invested significant time and resources in the area of technological support for its retail licensees. In the interest of providing enhanced customer service to licensed retailers, the agency converted from the web-based Retailer Services Center to the new online Lottery Services Portal (LSP), available to retailers in 2015. LSP provides existing and potential retailers with the convenience and ability to apply for or renew a lottery license, manage their lottery license information and access to download numerous reports for managing ticket inventory and financial matters related to the lottery.

Player ticket self-check (Check-a-Ticket) technology was introduced at licensed retail locations in 2008, reducing retailer labor and transaction time in processing ticket inquiries and validations by minimizing player questions on the prize amount of potential winning tickets. Additionally, Texas Lottery and lottery operator personnel continue to reach out to retailers in group settings called Retailer Links meetings each year, reaching retailers in more than 80 cities and towns across the state since the inception of the program in 2006. 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 among the Texas Lottery, the lottery operator and lottery retailers.

Current state-of-the-art lottery sales terminals provide retailers with efficient transaction times, thus reducing retailer labor costs. Retailers have the option to display lottery player information via one of two available playstation styles, each designed to provide brand-identifiable, compact merchandising. By designating space in their retail environment for a playstation, retailers are able to provide players easy access to playslips and game information away from the sales counter thus reducing transaction time at the register. Retailers are encouraged to display the lottery's Enterprise Series Multi Media (ESMM) monitor near the point of purchase to increase player awareness of lottery games and features. Over 90 percent of retailers feature an ESMM, which also displays player transaction information and important non-lottery messaging including AMBER, Silver, Blue and Endangered Missing Person Alerts. Electronically updated, dual-jackpot signs in two sizes offer retailers the convenience of providing their customers with the most current Powerball and Mega Millions information with no additional retailer time or labor investment.



Regardless of the issue being addressed, the agency's focus remains squarely on our core value of "Customer Responsiveness" in providing exemplary service. To ensure that the agency is delivering on this commitment, the agency surveys its retailer base to determine the level of satisfaction with the services being provided. The agency has a target of 95 percent satisfaction levels (measured as scores of "good" or "excellent"). In the four most recent fiscal years (FY 2012 - 2015), the agency has exceeded this target.

Challenges and Opportunities

The Texas Lottery has been very successful over time in achieving a high level of success in its retailer satisfaction measure. The agency's continued positive relationship with its retailers is maintained through consistent, rigorously applied licensure standards for all retailers and a continued focus on exceptional customer service. However, the retail business environment is dynamic and ever-changing and so too must be the service that the agency delivers to its retailers. Success is ensured by communicating regularly with the diverse lottery retail base and understanding their challenges and needs effectively. With this base of knowledge, the lottery must address current needs and also anticipate future retailer requirements and expectations for lottery business continuity, efficiency and growth.

Key Initiatives and Goals

The Texas Lottery recognizes that the success of its retailer licensees is inextricably tied to the agency's achievement of its mission to generate revenue for the state through the responsible management and sale of entertaining lottery products. Timely, effective support and exceptional service are necessary to ensure retail success and the staff is committed to delivering against these standards. The agency is focused on ongoing efforts to continue to expand and enhance the retail Lottery Services Portal. Current efforts are focused on expanding on the existing robust reporting tools and on the introduction of a web-based training module, Lottery Learning Link, which will provide retailers with quick access to refresher training on specific lottery topics from terminal functionality to game features. Through our "Customer Responsiveness" commitment, the staff is intent on continuing to exceed our goal of a 95 percent retailer satisfaction level.

PERCENTAGE OF LICENSEES WITH NO RECENT VIOLATIONS

Background

The Texas Lottery is committed to maintaining the public trust by protecting and ensuring the security of lottery games. This performance metric reports the ratio (by percentage) of currently licensed, active lottery retailer locations that have not incurred a violation within the current fiscal year to the total number of licensed, 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 Administrative Rules by a lottery retailer that

Lottery retailers are the primary point of interaction for lottery customers for both lottery purchases and the validation and payment of lottery prizes. These lottery transactions, by their nature and volume, represent several potential risks in the area of consumer protection and also represent numerous opportunities for misunderstandings between lottery players and retailers. The agency has developed numerous tools and programs to monitor these transactions, limit opportunities for misunderstandings and investigate potential wrongdoing on the part of its licensees.

Ensuring a low number of licensees with recent violations is a function of strict standards for licensure, and effective licensee support functions including strong education programs stressing ethical standards and the consequences of rule violations. Also, the agency's initiatives for reducing violations include the deployment of best-in-class transactional support technology, rigorous compliance monitoring and focused enforcement efforts in circumstances involving unethical or inappropriate licensee behavior.

The agency has embarked on numerous consumer protection initiatives to provide additional protection for lottery consumers and ensure retailers comply with rules related to prize validations. The centerpiece of these efforts was initiated by the agency in 2004 with the introduction of the Compliance Activity Monitoring Process (CAMP) hotline. The hotline provides consumers with a mechanism to notify the Texas Lottery Commission of jurisdictional concerns. CAMP staff monitors complaints and violations of the State Lottery Act (and Bingo Enabling Act) and administrative rules. An automated system provides the ability to track all complaints and violations from initial intake or discovery to final disposition, which facilitates trend analysis and reporting. The program is publicized via the agency website and signage in retailer locations.

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

- Dual validation receipts (one Player Copy and one Retailer Copy)
- Split/floating validation numbers (VIRN) on scratch tickets
- Removing validation codes from scratch tickets
- "Sign Your Ticket" campaign
- Player-activated terminals for self-checking winning status of tickets
- Self-check terminal locator on website
- Terminal inquiry/validation tones
- Player transaction display devices at point of purchase
- Security Spotlight on web page

results in the suspension or revocation of the retailer's license. This metric is an indicator of licensed retailer adherence to state laws and administrative guidelines. This metric reflects (1) how effectively the Texas Lottery is in communicating with retailers regarding statutes and rules, and (2) how effective



- Purchase day, date and time printed on draw game tickets
- Monitoring of validation activity at retail
- Secure Shield[™], one-step validation barcode on scratch tickets

The agency has established a progressive disciplinary process for retailer violations of the State Lottery Act and Lottery Administrative Rules. Every effort is made to ensure 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 inconveniencing or disrupting the daily business activities of 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. 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 while implementing secure technologies and processes that

enhance confidence for both players and retailers in conducting lottery transactions.

The agency has set a target of 98 percent for the percentage of licensees with no recent violations and has consistently seen compliance exceed this goal.

Challenges and Opportunities

Without confidence in the security and integrity of lottery games, consumers might choose not to play and retailers might not fully support the agency's sales, marketing and merchandising initiatives. The Texas Lottery is focused on creating a culture of compliance and trust among its retailers and players. This requires that the agency remain ever vigilant in all areas of its operations to prevent the actions of individuals who would exploit gaps or weaknesses, if they existed, in the agency's operational security.

Key Initiatives and Goals

The agency has been able to leverage advancements in technology to refine and enhance the level of sophistication of its resources and tools for monitoring and supporting transactions at retail. The agency's lottery gaming system offers an expansive data warehouse of all aspects of lottery transactions and system activities that can be leveraged by the agency through enhanced reporting tools to ensure secure operations. The Security Department and Enforcement Division are at the forefront of leading the agency in these initiatives.

These same technological advancements have led to a number of the initiatives listed above. The agency will closely monitor these advancements to identify new opportunities that will further enhance the security of both the lottery playing and selling experiences.

The Texas Lottery will also continue to alert consumers about security issues via its Security Spotlight section on the agency's website. The agency is confident that through vigilant attention to all aspects of licensee support, monitoring and continued transactional enhancement the Texas Lottery will continue to achieve a goal of 98 percent of the active licensee base having no recent violations.

PERCENTAGE OF BAD DEBT TO LOTTERY SALES

Background

The Texas Lottery must deliver secure and entertaining lottery products to its players to generate sales and ultimately revenue for the state of Texas. However, it is equally important to revenue generation that the agency effectively collect sales proceeds from its retail licensees. A retailer licensee's accounting relationship with the Texas Lottery involves a weekly collection process for the prior week's sales of draw game tickets and settlements of scratch ticket packs. Retailers must deposit funds associated with these sales transactions (net of retailer commissions) to their bank account to be electronically swept and collected.

The Texas Lottery provides a substantial level of support regarding a retailer's financial commitments to ensure retailer success. Retailers have numerous reports available on their sales terminals and on the agency's web-based Lottery Services Portal that provide information about all of their transactional activity and balances due. The agency also interacts daily with retailers on Electronic Funds Transfers (EFTs), sweep amounts, account adjustments, account reconciliations and final balances due. The Retailer Services Department works with retailers who have experienced a non-sufficient fund EFT bank account sweep to ensure prompt payment. The department tracks and manages delinquent retailer accounts using various collection methods—including bank account freezes, levies, property liens and cash seizures—and, where appropriate, the department may seek suspension or revocation of a retailer's sales agent license in accordance with the State Lottery Act or agency rule.

The Texas Lottery utilizes a performance metric to evaluate collection effort performance. The metric provides an indication of the effectiveness of the agency's systems and procedures for collecting 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 agency to collect on delinquent accounts. This measure is important because it reflects the agency's performance as it attempts to minimize bad debt related to retailer balances.

The metric specifically calculates the ratio (by percentage) of the Certified Bad Debt (CBD) to total sales at the end of each fiscal year. CBD includes accounts 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 and all appropriate collection actions have been exhausted.

The agency has established a target goal for CBD to not exceed .02 percent of lottery sales as a ratio. This is a target that the agency has consistently outperformed during the last three full fiscal years as illustrated in the chart on the following page.

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	FY 2013	FY 2014	FY 2015
Total Sales	\$4,376,286,456	\$4,384,597,063	\$4,529,700,425
Bad Debt Expense	\$289,311	\$283,041	\$373,183
Bad Debt Expense as a % of Sales	0.0066%	0.0065%	0.0082%

Source: Texas Lottery Performance Measures

The combined three-year collection rate translates to collecting 99.99 cents on every dollar of gross lottery sales over this period. This is a collection rate and bad debt expense ratio that even the most efficient of S&P 500 corporations could only imagine. A collection rate this high is made possible through dedicated staff committed to all aspects of the agency's collection efforts.

Challenges and Opportunities

The Texas Lottery has a robust collections program that leverages all tools authorized by the State Lottery Act to ensure that it collects proceeds from lottery sales. However, there are factors outside of the agency's control that can impact sales collections. These include poor economic conditions that can impact lottery retailers, leading to increases in non-sufficient fund EFT bank account sweeps and bankruptcy filings. Similarly, a large retail chain might file for bankruptcy, potentially resulting in significant unpaid balances related to lottery transactions. The agency takes certain actions to mitigate the effects of large non-sufficient funds bank account sweeps and retailer bankruptcies, including working closely with the Office of the Attorney General, as appropriate. In addition to these measures, the agency conducts an analysis during the initial license application review process of business owners' financial history with the lottery or credit history to determine potential financial risk. High-risk applicants are required to post CDs in the agency's name to protect the state against financial loss.

Key Initiatives and Goals

The Texas Lottery has established an exemplary sales collection program in support of its revenue generation efforts, and the agency is committed to the continued success of this program. In addition, the agency continuously works to improve the support provided to retailers regarding their financial commitments. In 2015, the agency launched the web-based Lottery Services Portal, which in addition to providing retailers with the ability to manage their lottery sales license online, provides access to new and enhanced reports for managing ticket inventory and financial matters related to the lottery.

In coordination with the North American Association of State and Provincial Lotteries (NASPL), the Texas Lottery is developing a new settlement method for packs of scratch tickets to provide a streamlined accounting process to aid in lottery sales reconciliation. Retailers may choose to have all their packs settle 21 days after each pack is activated. Texas Lottery staff will work with retailers to examine the financial impact of using the 21-day settlement method in lieu of the traditional settlement method of packs settling at 45 days after activation for sale and/or when 70 percent of

the low tier prizes have been claimed. Feedback from some retailers indicated that having all scratch ticket packs settle via a single parameter would simplify retailer accounting. Through initiatives to improve support provided to retailers in their financial relationship with the Texas Lottery and by maintaining an effective sales collection program, the agency is committed to a target goal for Certified Bad Debt to Gross Lottery Sales ratio not to exceed .02 percent.

DOLLARS COLLECTED VIA THE DEBT SET-OFF PROGRAM

Background

Consistent with provisions of the State Lottery Act, the Texas Lottery assists the state by collecting monies from persons who have been finally determined to be delinquent in the payment of money owed to or collected by other state agencies. The Debt Set-off Program helps collect debts owed to the state of Texas by withholding those amounts prior to the awarding of prize payments to lottery winners. These collections represent substantial annual amounts due to the state that might otherwise go uncollected.

The Texas Lottery's role in this performance metric is to manage the Fiscal Accountability of the program, ensuring all payments collected consistent with the State Lottery Act are sent in a timely fashion to the appropriate state agency.

The program saw substantial increases in amounts collected in recent fiscal years culminating with FY 2013 representing the highest amount ever collected by the Texas Lottery at \$3.88 million. In the last two fiscal years, the monies collected have declined substantially. Total monies collected for the most recent three-year period were \$8.53 million.

Dollars Collected via the Debt Set-Off Program



Source: Texas Lottery Performance Measures

Challenges and Opportunities

The Texas Lottery has consistently collected substantial debts on behalf of the state. While these results and their benefits to the state of Texas are significant, it is important to note that the funds collected are a function of variables that the agency does not influence or control. The metric is influenced by the volume of people claiming prizes at lottery claim centers that owe monies to the state and the amounts that those individuals owe to the state. The agency's growth in sales in recent years has also likely contributed to collections. Lottery sales increases translate into greater participation and an increase in the overall number of prizewinners who claim prizes at claim centers. It is believed that economic events and the overall health of the economy may also have a significant impact on this metric. The agency saw collections rise substantially during the Great Recession and has now seen collections decrease substantially as the health of the overall economy has continued to improve.

Key Initiatives and Goals

As noted, the Texas Lottery does not directly influence this performance factor. The agency's focus on its sales and revenue goals has an indirect impact that may influence collection performance. The agency has evaluated historical collections, sales growth in recent years and the current trend of declining collections, which may be attributed to economic variables, in establishing a target of \$1.8 million for collections in FY 2017. This target is in line with actual performance in FY 2015.

The agency also remains committed to ensuring that its systems and mechanisms for receiving debt information from other state agencies remain thorough and robust to ensure that all opportunities for debt collection are pursued.

RETAIL DISTRIBUTION CHANNEL EXPANSION

Background

Lottery retailers represent the key delivery channel through which the agency sells tickets to generate revenue for the state. To achieve the agency's mission of generating revenue to support Texas education and veterans' assistance programs, it is critical that lottery products are conveniently and widely available at a variety of locations where a broad diversity of consumers are offered the opportunity to purchase lottery tickets.

The lottery retailer base represents a dynamic business environment where frequent business sales and acquisitions are a part of the normal operating environment. The economic climate of the state can

also have a significant impact on the retailer base. The agency works to support existing retailers while recruiting new retailers to ensure a stable, but growing, product distribution channel.

Convenience and grocery stores are considered to be "traditional" lottery trade styles. Although the base contains a variety of trade styles, convenience and grocery stores are the dominant lottery trade style segments in Texas. Together, these two trade styles comprise more than 88 percent of licensed locations and over 96 percent of Texas Lottery sales. The next largest category "beer, wine and liquor stores" represents almost five percent of the retailer base and just over one percent of sales. Other common retail trade styles—such as general merchandise, pharmacy and big box (e.g., Costco, Target, The Home Depot[®]), which have not broadly incorporated the lottery category into their business models are typically categorized as "non-traditional" lottery trade styles.

In spite of a dynamically changing business environment, the agency has been able to maintain a relatively stable retailer base over its history. However, the period from FY 2000 to FY 2007 reflected a moderate decline from a peak of 16,767 licensed locations to 16,211. Beginning in 2008, the agency placed renewed emphasis on retail distribution channel expansion efforts in coordination with the lottery operator, IGT Solutions Corporation (IGT), which is primarily responsible for licensee recruitment activities under its contract with the agency. Since FY 2008, the retailer base has grown each year. The retail base surpassed 17,400 in FY 2015 representing year-over-year growth of 1.1 percent and 5.9 percent growth over FY 2008.

A significant contributor to the growth in the retailer base came with the recruitment and introduction of lottery sales in over 100 Walmart Neighborhood Market Stores and Fuel Centers across the state. The lottery operator is required to provide significant infrastructure and support for future recruitment success. Key among these functional elements is the current equipment platform for retailers featuring state-of-the-art, player-activated, self-service equipment; personnel dedicated to recruitment of individual and small chain businesses; support for route sales licensing models to reduce non-traditional retailers' lottery-related business overhead; designated personnel to strategically merchandise lottery at retail for enhanced brand awareness, and new systems that provide Texas Lottery retailers with terminal and internet-based accounting and sales information detail surpassing previous capabilities.

Challenges and Opportunities

The Texas Lottery and IGT must continue ongoing efforts to sustain and enhance their effective relationship with retailers within traditional lottery trade styles, while actively pursuing opportunities to expand into non-traditional lottery trade styles.

As the marketplace becomes more competitive, current traditional lottery trade styles are expanding into non-traditional business lines to remain competitive in an ever changing business environment

Grocery trade styles provide a prevalent example of this business strategy. Many grocery stores looking for innovative ways to attract new shoppers and extend customers' visits have pursued the addition of designated on-premise dining areas that also offer beer and wine, allowing customers to consume

an alcoholic beverage and order prepared food during their visit to the store. In some cases, the food and beverage consumption may occur concurrent with other grocery shopping activities. Convenience stores are also adding food service areas that in some cases serve wine and beer for on-premise consumption. Grocery trade styles have also begun to develop business models that include establishing "growler stations" which provide refills of half-gallon resealable containers from draft beer dispensers for off-premise consumption. This food and beverage service is not a primary part of the retail operation but is adjunct to the overall business model. The Texas Alcoholic Beverage Commission licenses required for these services create challenges with licensure for lottery ticket sales and/or additional administrative burdens on the agency to ensure compliance with licensure requirements.

There are several challenges to retail distribution channel expansion. Business (trade-style) models that do not include lottery are often focused on higher-profit-margin products that more easily correlate to bottom-line revenue. As lottery products typically produce lower profit margins than many other retail products, prospective retailers' interest in adding the lottery category can be limited. Also, the scratch ticket product category can present operational concerns associated with inventory control/shrinkage and the potentially labor-intensive nature of managing lottery products. In addition, there are challenges specific to Texas relating to certain permits held by retailers for the sale of alcoholic beverages that present limitations to lottery sales. These concerns can serve as a barrier to interest in licensure.

Recruiting chain establishments in non-traditional lottery trade styles presents other challenges. The Texas Lottery, lottery operator and lottery members of the North American Association of State and Provincial Lotteries (NASPL) have consistently identified the following barriers to recruiting national corporations representing new trade styles: the consistent 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 and lottery inventory information. Additionally, some retailers perceive that selling lottery products may not align with their business models.

Often, prospective retail trade styles may be best suited for self-service sales due to consumer traffic patterns and trade-style business models. These different sales methods require specialized equipment and support that are outside the prevalent and historic lottery industry sales model of clerk-assisted transactions.

Key Initiatives and Goals

The key strategies for licensing new Texas Lottery retailers will continue to focus on soliciting the traditional trade styles of convenience and grocery for both independent and chain locations. In addition to expanding the traditional retailer base, there will be comparable emphasis on soliciting

and licensing key non-traditional trade styles. In order to successfully pursue broader distribution channels for its products, the Texas Lottery must continue to meet the needs and concerns of both traditional and non-traditional trade styles by providing innovation and services such as those included in the Lottery Operations and Services contract.

Working in coordination with the lottery operator and NASPL, the agency recently implemented the 21-day pack settlement class which streamlines the accounting process to aid in lottery accounting and reconciliation. This new settlement class is considered to be an imperative step towards expansion with non-traditional, national retailers who refuse to manage accounting functions differently across the jurisdictions in which they operate. The agency will continue to examine policies and procedures that can mitigate chain and non-traditional retailers' concerns regarding standardized accounting and alleviate identified barriers to entry into the lottery marketplace.

The agency and the lottery operator will continue to work together to enhance retailer recruitment efforts to increase the Texas Lottery's overall presence in a broader array of trade styles while continuing to recruit new businesses in core traditional lottery trade styles. In recent years, these efforts have shown promise as some chains in non-traditional trade styles have engage in pilot sales programs that have led to continuation of sales and expansion to new chain locations. Discussions are ongoing with other businesses previously hesitant to embrace the lottery category.

Continued expansion of on-premise beer and wine service models at grocery and convenience stores present unique licensure and administrative oversight challenges to the agency. The agency recognizes the significance of these challenges in these two primary lottery trade styles representing 96 percent of current Texas Lottery sales and will continue to examine policies and procedures for opportunities to adapt to these challenges.

Regardless of the trade style category, the Texas Lottery is invested in growing the licensed retailer base through sustained and strategic recruitment efforts allowing for better product accessibility for the public and the potential for increased revenue to the state. From FY 2010 to FY 2014, the retailer base grew by an average of 113 retailers annually. Retailer expansion in FY 2015 came in well over the previous business plan target of 115 with a net gain of 193 retailers. However, it is anticipated that retailer growth in Fiscal Year 2017 will be more in line with the recent historical average of 113. The agency is committed to working with the lottery operator at the local and national levels to identify and implement strategies, such as the 21-day settlement program, to continue growth in the retailer base.

RETAILER INCENTIVE PROGRAM

The charts below depict the three primary incentive programs and the two secondary programs during FY 2015. They illustrate the retailer payments made and the related incremental sales impact of each program.

FY 2015 Retailer Incentive Programs

Background

The Texas Lottery received authorization and funding from the Texas Legislature, via a rider, for an additional one-half (0.5) percent allocation of gross sales for retailer sales performance commissions or similar sales performance incentive programs beginning with the FY 2010-11 biennium. This budgetary allocation is over and above the standard 5 percent sales commission that is paid to retailers.

In determining the optimal structure for this program, the Texas Lottery engaged in a study of other U.S. lottery retailer incentive programs and evaluated standards across the retail industry for sales performance-based programs. Following this study, the agency worked to develop a same-store sales growth program that incentivized retailers based exclusively on performance. The program has undergone modifications over the years to optimize the revenue benefit to the state. The current retailer incentive programs use a two-phase approach to reward retailers who meet and exceed their sales goal:

Phase I: Eligible retailers are required to meet a specific sales goal in order

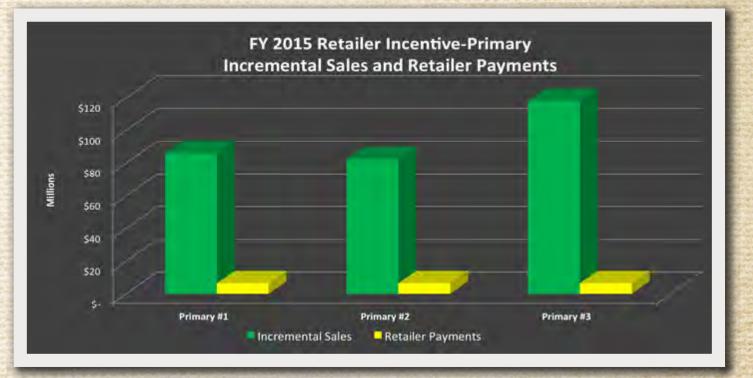
to qualify for an incentive payment. Retailers can receive additional payments for achieving incremental sales milestones beyond their goal.

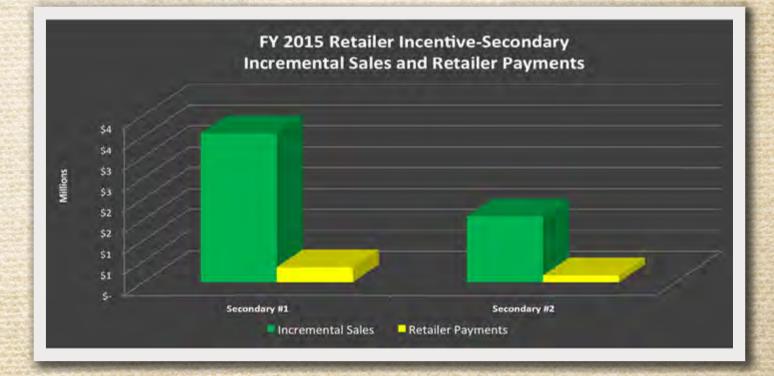
Phase II: Retailers who reach their goal in Phase I are automatically qualified to receive an entry into a random drawing for additional cash prizes. Retailers continue to receive additional entries as they reach incremental sales milestones.

The program is structured to allow for some modifications and supplemental features while maintaining the integrity of the basic structure. Currently, the program allows for the agency to implement a primary incentive program, traditionally 13 weeks in duration, while simultaneously introducing a secondary program of shorter duration. These secondary programs have focused on specific product sales performance incentives. Two secondary programs were implemented in FY 2015, both focused on increasing sales of the *Pick* 3[™] daily draw game.

From inception of the program in September 2009, through the end of FY 2015, the agency had completed 17 individual primary retailer incentive programs plus two secondary programs. Qualifying retailers have generated more than \$1.205 billion in additional sales, yielding more than \$214.82 million in incremental revenue for the state. These retailers received more than \$90.63 million in incentive payments based on their sales performance.







Challenges and Opportunities

The Texas Lottery is the premier U.S. lottery utilizing an ongoing performance-based program of retailer cash incentives based on true same-store sales performance. As an industry leader in this area, the agency continually evaluates its incentive programs to ensure their design is appealing to retailers, resulting in increased levels of participation, sales and revenue performance. The retailer participation rate has grown from 6 percent for the first incentive program, to an average of 53 percent for the three primary programs in FY 2015 and 38 percent for the two secondary programs.

As new features and product focuses are explored for inclusion in the incentive programs, the ability to provide retailers access to timely, comprehensive reporting on their progress in a program is critical to their participation and confidence in the integrity of the program. The agency will continue to collaborate with the lottery operator to develop and implement software modifications to provide relevant reporting to retailers. While retailer participation is important, the agency must also ensure that each program incorporates challenging retailer goals and focused product emphasis that will optimize revenue to the state.

Key Initiatives and Goals

The agency has designed the program to significantly mitigate risk to the state by focusing on samestore, year-over-year sales growth. Retailers only receive incentive payments if they meet their program sales growth goals thus producing incremental sales and revenue for the state. In addition, each individual program incentive period has a budget limitation, or cap, on the total amount of incentive payments that can be made. If the total projected payments exceed the cap for a given period, all payments are reduced by an equal percentage in order to not exceed the allocated program budget. This ensures the agency does not exceed its appropriation for the overall program. Drawing entries and prizes included as a part of each incentive period are not impacted by the budget limitations, as they are accounted for as a part of the initial incentive period budget.

With this risk-averting structure in place, the ongoing goal of the agency is to optimize retailer participation and maximize the program's revenue generating benefits. The agency will continue to accomplish these balanced objectives by conducting program analysis, establishing effective sales projections and maintaining close communication with, and understanding of, its retailer base, both directly and through the lottery operator's sales force.

The agency is committed to achieving this goal by identifying opportunities to modify program parameters based on the results of past programs and new business environment variables which may impact future performance. The staff will report annually, or more frequently as directed by the Commission, on attainment of these ongoing retailer incentive program goals.

ADVERTISING EXPENDITURES AND EFFICIENCY

Background

The Texas Lottery engages in advertising to communicate with the public about the numerous products offered by the agency each year. The agency makes considerable efforts to appropriately and effectively allocate its advertising dollars to reach the public and enhance awareness of Texas Lottery games. The Texas Lottery's advertising is allocated among 20 designated market areas (DMAs) throughout the state. Texas has the largest number of DMAs of any state in the country. This means that in order to reach and communicate with all adult Texans, advertising must be placed in all 20 market areas. The Texas Lottery uses a combination of mass media (television, radio, newspaper, out-of-home billboards, digital, social media) advertising and point-of-sale materials (flyers, brochures, posters, etc.) to achieve this goal.

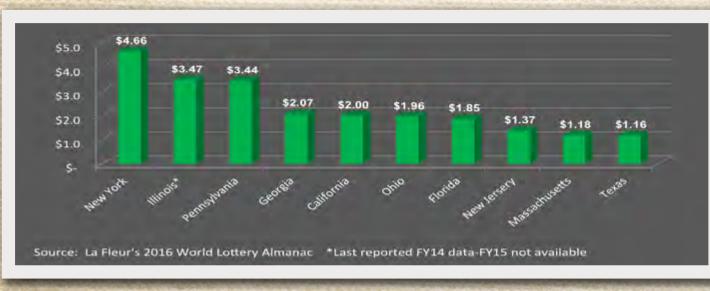
Research performed by the Texas A&M Mays Business School was conducted in 2014 to determine the impact of advertising on lottery sales in the state of Texas. The research models in the Texas A&M report suggest that advertising has a positive and significant effect on lottery sales. More specifically, the results suggest that a 10 percent decrease in advertising (expenditures) would result in a 17 percent decrease in lottery sales. The Texas A&M modeling further concluded that if the long-term impact of advertising were to be considered, the potential impact to sales and revenue for the state would be even greater. Total advertising expended across all media in FY 2015 was \$31.24 million. Against this scenario in FY 2015, a 10 percent decrease (increase) of \$3.12 million in the advertising budget would reduce (increase) sales by \$77 million. This decrease (increase), in turn, would translate to a revenue loss (gain) of \$20.79 million for the state of Texas.

Challenges and Opportunities

The purchasing power and reach of the Texas Lottery's advertising budget has declined significantly over the 24 years of the agency's existence. The Texas Lottery's appropriated advertising budget has diminished in nominal dollars from \$40 million in 1993 to \$32 million in 2015. However, the effects of inflation are even more pronounced. An advertising budget of \$40 million in 1993 dollars would equate to \$65.4 million in 2015 dollars, adjusted for inflation. Add to that a 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 1993, lottery products consisted of one draw game (*Lotto Texas*) and two scratch ticket games. Today, the Texas Lottery offers nine different draw games with four unique add-on features and approximately 90 scratch ticket 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 challenges with the proliferation of new media choices for consumers, including exponential cable channel expansion, introduction of streaming radio and music and the role of the internet and social media, all factors that limit advertising exposure. Additionally, the rapid adoption of tablets and continued expansion of smartphones, DVR usage and content-streaming create even greater opportunities for consumers to time-shift programming, potentially affecting advertising exposure. This market dilution means it is becoming more difficult to reach large groups of consumers for the same level of media expenditures.

Since 1993, the population of Texans over the age of 18 has increased by 53 percent from 12.6 million to 19.3 million¹ in 2015. Additionally, the population of Texas has become more ethnically diverse, reaching minority-majority status in recent years. The increased population and decreased appropriated advertising budget have combined to lower per capita advertising expenditures over this period by 52 percent from \$3.17 to \$1.66. By focusing in coordination with its advertising vendor on the efficiency of its advertising and developing an annual advertising execution strategy, the Texas Lottery continues to be one of the top-selling lottery jurisdictions in the nation, while operating with one of the lowest per capita advertising budgets in the industry. According to the La Fleur's 2016 World Lottery Almanac, Texas ranks 39rd of 44 reporting state lotteries in advertising budget per capita^{*} and had the lowest per capita advertising spending among the top 10 performing U.S. lotteries**, as measured by total sales. See graph below.



Advertising Budget Per Capita

¹ State Characteristics Datasets: Annual Estimates of the Civilian Population by Single Year of Age and Sex for the United States and States: April 1, 2010 to July 1, 2016, U.S. Census Bureau, July 1, 2014 19,716,732

* La Fleur's 2016 World Lottery Almanac, U.S. lotteries' FY 15 ad budgets as % of sales, p. 280

** La Fleur's 2016 World Lottery Almanac, Worldwide Lotteries Ranked by 2015 Total Sales (excluding VLT revenue), p. 303

	FISCAL YEAR 1993	FISCAL YEAR 2015
Impact of Inflation	\$40 million base appropriated advertising budget	 \$32 million base appropriated advertising budget \$40 million in 1993 dollars equates to \$65.4 million in 2015 Adjusted for inflation, \$32 million in 2015 equates to \$19.6 million 1993 dollars
	12.6 million Texans 18 or older	19.3 million Texans 18 or older
	\$3.17 ad spend per capita	\$1.66 ad spend per capita
		\$3.17 ad spend per capita in 1993 dollars equates to \$5.18 in 2015
		Adjusted for inflation, \$1.66 in 2015 equates to \$1.01 in 1993 dollars
Increase in Products Product Life Cycle	Two products: Lotto Texas Scratch ticket games (2) Lottery product was brand new, generating immense excitement and interest.	Ten products+ 4 unique add-on features:Pick 3 with Sum It Up!Cash FiveDaily 4 with Sum It Up!All or NothingLotto Texas with Extra!Texas Two StepMega Millions with MegaplierPowerball with Power PlayTexas Triple ChanceScratch ticket games(approx. 90 launched annually)Lottery products are mature, meaning thatadvertising dollars must work harder to
		create player excitement and interest in the games. New games, game changes and add-on features continue to be introduced, all requiring additional advertising support.
Free Media Exposure	Extensive free coverage of winners, games and ball drawings by all media types due to newness of games.	Media coverage of winners and large jackpots, but the reach of traditional media is significantly downsized. Almost no coverage of live drawings or new game launches. Social media platforms increasingly structured so that they necessitate paid advertising.

The following table summarizes and compares the major challenges impacting the Texas Lottery's

		FISCAL YEAR 1993	FISCAL YEAR 2015
	Texas Ethnicity	Population was made up of a significant majority of Caucasians.	Population is much more diverse with a minority-majority population. Texas is the second most populous state in the nation and the third fastest-growing, with the majority of the growth being driven by Hispanics followed by African-American and Asian communities. By 2016, the mul- ticultural population of Texas is forecasted to account for 61 percent of the total 18-49 year old population, further solidifying its current minority-majority status in the years to come.
	Media Proliferation	Players were easy to reach frequently via network TV and radio advertising.	The advertising industry has encountered dramatic challenges with the prolifera- tion of new media choices for consumers, including exponential cable channel expansion, streaming radio, the role of the internet and social media, all factors that limit advertising exposure. Additionally, the rapid adoption of tablets and continued expansion of smartphones, DVR usage and content-streaming create even greater opportunities for consumers to time-shift programming, potentially affecting adver- tising exposure. This market dilution means it is becoming more difficult to reach large groups of consumers for the same level of media expenditures.
ころで うちろう ないないのかい ちょうち	Pay at the Pump	Because pay-at-the-pump technology was new and limited, most people went into the store to pay for gas, allowing for exposure to lottery products.	Most stores have pay-at-the-pump technology, and about 64 percent of consumers use it, requiring advertising to work harder to drive players into the store for lottery products.

Statutory Limitations on Types of Advertising

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 significantly limits 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-fifth of Texans who are not in favor of gaming in any form².

Key Initiatives and Goals

With statutory restrictions on the Texas Lottery's advertising and limitations on the agency's appropriated advertising budget, advertising efficiency is the most critical tool at the agency's disposal to maintain its ability to reach consumers and communicate about new and existing lottery products. The agency remains committed to the goal of enhancing the efficiency of its advertising. This includes efforts to internally review and challenge past advertising strategies and efforts to engage third-party unbiased resources to evaluate the efficiency of the agency's advertising efforts. This includes the 2014 analysis of "The Impact of Advertising on Lottery Sales in the State of Texas," performed by the Texas A&M Mays Business School. Additionally, the agency procured vendor services in FY 2014 and FY 2015 to complete an advertising media review of the advertising services vendor's purchase and placement of advertising media to evaluate the efficiency of these expenditures. The Texas Lottery has applied recommendations from this effort to future media purchases and plans to undertake further external advertising media reviews in an effort to identify further efficiency opportunities. Additionally, the Texas Lottery has implemented a media placement verification program in response to a State Auditor's Office review of the agency's advertising contract. This verification program will provide assurance that purchased media is airing in market by third-party vendors consistent with agreed upon placement requirements.

The Texas Lottery must also engage in creative strategies to optimize its appropriated advertising expenditures. The following are a few key areas that the agency is leveraging to optimize expenditures and efficiency in reaching consumers.

Tiered-Media Markets

The Texas Lottery continues to evaluate the effectiveness of its advertising media placement strategies. Due to budgetary constraints, several years ago the agency implemented a tiered ranking process to make discrete choices in the weighting of its advertising in the different advertising markets in Texas. This means that the agency's advertising presence in some markets is "underweighted," but ultimately results in the most efficient allocation of limited resources to reach the broadest population of consumers. The Texas Lottery continues to work with its advertising vendor to refine its tiered-media market

² Respondents to the Q2 2016 Tracking Study who answered "agree" to "strongly agree" (ratings of 5, 6, and 7) with the statement "I

am morally opposed to gambling in any form."

strategy and media weight allocations by market to optimize advertising efficiency. The agency utilizes a formal annual advertising media plan approval process to achieve this goal.

Experiential Marketing

The Texas Lottery consistently adapts marketing strategies to evolve with the changing media landscape. As broadcast viewership declines, alternative cost-effective media strategies such as experiential marketing offer new opportunities to drive brand awareness and product education and/or trial. While traditional mass media advertising (radio, print, television and out-of-home billboards) verbally and visually communicates the brand and product benefits, experiential marketing engages the consumers in a fun and entertaining environment. In the end, the goal of experiential marketing is to form a memorable connection between the consumer and the brand so that it may generate customer loyalty and encourage product trial.

The Texas Lottery currently engages consumers directly through experiential marketing partnerships across the state. Marketing relationships with top-tier organizations allow the agency to leverage consumer passion points such as sports (NASCAR[®], NBA[®], NFL[®], MLB[®], F1[™]) and music (Austin City Limits" and other music events) to reach adult Texans on the go. Experiential marketing also provides an opportunity to highlight Texas Lottery beneficiaries and remind consumers that the Texas Lottery supports Texas education and veterans. In FY16, the Texas Lottery honored such beneficiary causes by offering Texas Veterans VIP/Behind the Scene NASCAR experiences and worked with the NBA to honor Teachers of the Month. The features were then shared through social media platforms for additional reach. The agency continually evaluates experiential marketing opportunities as well as other alternative media strategies.

Social Media

The Texas Lottery must work to reach new consumers using non-traditional advertising and communication vehicles. Social media is at the forefront of these efforts and has become an increasingly important component of the Texas Lottery's efforts to reach and communicate with adult Texans. The agency currently communicates with consumers about its products through social media resources including Facebook, Twitter, YouTube and Instagram. The Texas Lottery's social media platforms were developed in compliance with the Texas Department of Information Resources social media policy and guidelines. The agency continually monitors the social media landscape for appropriate opportunities to advertise via these platforms and to reach and communicate with adult Texans about lottery products.

Consumer Electronic Communications and Applications

The Texas Lottery understands that the introduction of new technology for use with lottery games is a sensitive topic with many members of the public and is very mindful that the Texas Legislature

provides the policy framework to administer the lottery. Therefore, the Texas Lottery strongly believes that any questions regarding the sale of lottery tickets via the Internet are policy decisions to be determined by the Texas Legislature. Licensed Texas Lottery retailers are the only source for purchase of Texas Lottery tickets, and those tickets must be purchased in-person at a licensed retailer location using one of the approved methods of play. That said, the Texas Lottery does engage its players directly through an opt-in e-mail or text messaging program that provides winning numbers, current estimated jackpot alerts, scratch ticket information and general news and alerts. The Texas Lottery is also developing a mobile application to increase the public's access to Texas Lottery game information and player support services. Draw game players will be able to easily view current jackpot amounts and winning numbers on their mobile devices. Scratch ticket game players will be able to use a locator to find retail locations that are carrying their favorite scratch ticket game. Players will also be able to scan both draw and scratch ticket games and use "Check Your Ticket" functionality. This feature provides an added layer of consumer protection as players will have the ability to conveniently verify the winning or non-winning status of tickets on their mobile device. The mobile app will provide a convenient and fun platform for lottery players to access important lottery information. The Texas Lottery plans to roll out the mobile app in calendar year 2016.

PRODUCT MIX AND GAME PORTFOLIO MANAGEMENT

General Background

There are 47 jurisdictions in the United States conducting government-run lotteries, including 44 states, plus the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Some lotteries are structured as corporations, while the majority, including the Texas Lottery, are structured as traditional state agencies. The Texas Lottery is situated in a mature market where it competes primarily for the discretionary entertainment dollars of adult Texans age 18 and older. It is within this general environment that the Texas Lottery must tailor its products to appeal to its customers.

The Texas Lottery strives to provide the citizens of Texas with the best entertainment experience available through its products. New games and game enhancements are continually being developed to keep Texas Lottery games innovative and exciting for Texas players. The agency uses market research to

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help ensure that any changes made to the current game mix will effectively meet the needs of Texas players, as well as serve the agency's mission of generating revenue to support public education and veterans.

Historically, the Texas Lottery has consistently ranked among the top-selling lotteries in the United States, ranking fifth and exceeded only by New York, California, Florida and Massachusetts.³

The *Games of Texas* are the body of products that the Texas Lottery makes available to the playing public. These include scratch ticket and draw games. The agency currently offers nine draw games, including four unique add-on features offered on five of its draw games, and approximately 90 scratch ticket games annually constituting the current game portfolio.

SCRATCH TICKET GAMES

Background

Scratch ticket games are preprinted tickets with symbols hidden under a removable covering. The player scratches off the covering and determines instantly whether or not the ticket is a winner. Scratch tickets include a variety of themes, play styles, and prize structures in order to offer an attractive game mix to players. Popular game themes include gaming, money, numbers, seasonal, annuity and extended play.

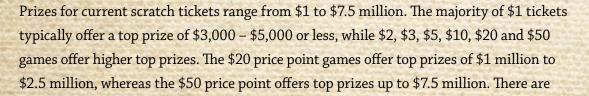
Play styles include matching dollar amounts or symbols, tic-tac-toe, key number or symbol matches, your score beats theirs, and add-up games. Additional game features include "doubler," "automatic win"

and "win all" symbols, providing added entertainment value. Players enjoy multiple chances and/or multiple ways to win on each ticket.

Licensed property games capitalize on well-known, branded concepts, such as Tetris[®], Caesars[®], The Home Depot[®], the Houston Texans and the Dallas Cowboys, which appeal to members of the public who might not typically purchase a lottery ticket. The agency has also developed "core" or base games, including *Break the Bank*, *Weekly Grand*, *Bingo*, *Crossword* (*Cashword*) and *Texas Loteria*, which are always available for sale because of their long-term, ongoing popularity with players.



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³ La Fleur's 2016 World Lottery Almanac. 24th edition. Edited by Terri Markle, Bruce La Fleur, and Byron La Fleur. Rockville, Maryland: TLF Publications, Inc., "Worldwide Lotteries Ranked by 2015 Total Sales (excludes VLT revenue)," p. 303.

also games that provide annuity prizes that are paid out over time. Annuity-style scratch ticket games are offered at the \$1, \$2, \$5 and \$10 price points.

While draw games have a set number of drawings scheduled each week, scratch ticket games offer the possibility of immediate winning experiences with cash and non-cash prizes. Most scratch 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 ticket marketing initiatives, the Texas Lottery has added "call-outs" to the face of certain tickets. These "call-outs" communicate to consumers specific prize amounts and the number of prizes in a game.

Challenges and Opportunities

Printed scratch tickets have been available in the industry for decades and there has been limited vendor innovation with regard to the style and features of scratch products over time. The Texas Lottery's efforts to keep scratch tickets fresh and interesting for the consumer often must focus on unique opportunities to tweak existing game designs, while developing new and innovative product positioning and marketing strategies. These efforts are critical to reach new players, maintain player interest and ensure existing sales and revenue levels for this product category.

Key Initiatives and Goals

In order to be responsive to the changing tastes and preferences of consumers, the Texas Lottery must actively explore new scratch ticket game opportunities and unique product enhancements that hold the most promise for generating incremental revenue for the state.

Game Launch Schedule

Historically, the Texas Lottery launched new games once every two weeks. In FY 2014, the lottery operator, IGT, recommended a new scratch product management strategy that reduced the number of game introductions to once every four weeks and increased the ticket quantities ordered for new, non-core games. Theoretically, non-core games would have more time in market and thus gain the dedication and interest of players, reducing the competition for open dispenser space with core product offerings.

Observations of launch strategies in other lottery jurisdictions led the lottery operator to believe that this practice would benefit scratch ticket sales by facilitating a Plan-o-Gram that would be easier to manage, allow for the placement of and focus on core games, and therefore advance core game and overall sales.

After several months of monitoring sales of the new introduction schedule, it was determined that this plan did not align with long-established player expectations in Texas. Texas players and retailers have come to expect a consistent stream of new games and when that frequency decreased, so too did player participation. While the plan offered clear product marketing opportunities, these were outweighed by

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player product expectations in the marketplace. The agency determined it was necessary to swiftly restore the plan back to the prior twice-per-month (and more frequently if needed, based on sales levels) game introduction schedule. Such experimentation is important to ensuring that the agency is optimizing its product strategies, but players are the ultimate arbiter of the agency's product offerings and the agency listens closely to player feedback.

Players and retailers responded positively to the restored game introduction strategy and sales levels began to increase again. FY 2014 yielded \$3.28 billion in scratch ticket sales—a record-breaking year. The game frequency schedule continued to deliver positive results in FY 2015. The highest scratch ticket sales in Texas Lottery history were achieved in FY 2015 totaling more than \$3.48 billion and shattering the record sales achieved in the prior year.

Spotlight Game Offerings

In FY 2009, the agency introduced its first \$20 "Spotlight" or "Mega" scratch ticket 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. In Texas, \$20 games were typically produced at a three 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 elevated prize payout percentage. The larger quantity and increased payout allowed for the creation of many "call-out" features on the front of the ticket that were appealing to players such as:

- "More than \$500,000,000 in total prizes"
- "Win up to \$2.5 million instantly"
- "Over 1,000,000 prizes from \$100 to \$500"
- "50 cash prizes from \$1 million to \$2.5 million"

This game was very successful for the agency in terms of sales and revenue generation, resulting in sales of \$420,597,540 and revenue of \$61,605,387 during the first full year of sales. Capitalizing on the success of \$500,000,000 Blockbuster, the agency introduced \$500 Million Frenzy in March 2011 and \$500,000,000 Extreme Cash Blast in August 2012. These games were equally well-received by both retailers and consumers.

Based on the success of the \$20 Spotlight games, the Texas Lottery expanded the concept to the \$10 price point, launching the *\$200 Million Cash Spectacular* game in February 2012. The game was a huge success for the Texas Lottery and its primary beneficiary, the Foundation School Fund. Sixteen weeks after the introduction of the game, the Texas Lottery's scratch ticket sales reflected a year-over-year increase of \$161.3 million or 7.36 percent over the previous fiscal year. The *\$200 Million Cash Spectacular* game contributed \$14.1 million in revenue to the Foundation School Fund and paid out an estimated \$56.1 million in prizes to winners during that same period. The game also assisted the agency in reaching record-breaking overall scratch product sales levels in FY 2012.

Due to these stellar sales and revenue results, *10X Mega Money*, the agency's second \$10 Spotlight game, was launched a year later in January 2013. The introduction of *10X Mega Money* and its supporting advertising campaign proved very successful. The *10X Mega Money* game generated outstanding sales as compared to past \$10 scratch ticket games, including its predecessor, the *\$200 Million Cash Spectacular* game. For the first 26 weeks, it generated \$142 million in sales as compared to an average of \$44.7 million for traditional \$10 scratch ticket games and \$112.8 million for the *\$200 Million Cash Spectacular* game.

In the summer of 2014, the next \$10 Spotlight game, *\$200 Million Cash Blowout*, was introduced, and the latest \$20 Spotlight game, *\$500,000,000 Cash*, was launched in May 2015. During FY 2015, these games sold \$120.8 million and \$67.1 million respectively. Based on the sales and revenue results with Spotlight games, the agency will continue to offer these games as a part of its key scratch product offerings. The next \$10 Spotlight game is scheduled to be launched in the summer of 2016.

Growth of Core Scratch Product Offerings

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 \$2 *Break the Bank*, \$2 *Bingo*, \$3 *Cashword*, \$3 *Texas Loteria*, \$5 *Cashword*, \$5 *Bonus Break the Bank* and \$10 *Crossword*. The Texas Lottery strives to identify unique products that both resonate with players and offer the potential to become core offerings. The Texas Lottery will continue to identify games that it believes can achieve this level of player loyalty.

To further this effort, the Texas Lottery attempted to capitalize on the strength of the *Weekly Grand* brand by creating a "family" or suite of games using the *Weekly Grand* brand. The \$2 *Weekly Grand* has been a top-selling game since its launch in the early 1990's. In September 2013, a *Weekly Grand* suite was introduced—\$1 *Weekly Half Grand*, \$2 *Weekly Grand*, \$5 *Bonus Weekly Grand* and \$10 *Super Weekly Grand* game ranked 3rd in scratch ticket game sales for FY 2014, \$5 *Bonus Weekly Grand* ranked 8th and \$2 *Weekly Grand* ranked 15th. These games performed well. However, the Texas Lottery and lottery operator explored a new design for its next annuity suite of games. In the summer of 2015, the annuity family was rebranded and the *Set for Life* suite was introduced to replace the *Weekly Grand* annuity suite. While the \$5 *Set for Life* game has performed well, the \$1, \$2 and \$10 *Set for Life* games have indexed similar to previous annuity games at those price points and in line with regular rotational games at those price points. Based on sales results of *Set for Life*, the Texas Lottery and the lottery operator agree that annuity style games may not be best suited to be launched as part of a suite. Instead, the agency's strategy going forward will be to offer annuity games as independent games with their own individual branding.

Game Suites

In addition to Weekly Grand, the Texas Lottery introduced another suite of games, called the multiplier suite, in early 2014. These games received full advertising support including TV, radio, billboard and in-store POS. This suite offered five different games at the \$1, \$2, \$5, \$10 and \$20 price points—5X The Cash (\$1), 10X The Cash (\$2), 20X The Cash (\$5), 50X The Cash (\$10) and 100X The Cash (\$20). The games have performed well and all were reprinted in order to keep up with player demand. The \$20 game, 100X The Cash, was the best-selling scratch ticket game in FY 2014 with sales of \$147.3 million, while the \$10 game, 50X The Cash, was the second best-selling game with sales of \$108.8 million. Capitalizing on the success of this suite, the Texas Lottery launched a new suite of multiplier games in early 2015. The second multiplier suite also performed well and again the \$20 and \$10 multiplier games were ranked first and second respectively in terms of scratch ticket sales. The next game suite will be introduced in FY 2016 and will be the "Hit" suite with games available at \$1 (Hit \$5,000), \$2 (Hit \$50,000), \$5 (Hit \$200,000), \$10 (Hit \$500,000) and \$20 (Hit \$1,000,000). The prize structures for each of these games are designed so top prizes are higher than most other games at the same price point. Additionally, the larger print quantities for these games offer players large volumes of potential prizes at specific prize tiers. For example, the \$10, Hit \$500,000 game, has over 200,000 \$100 winners.

Play Books

Play books are a proprietary scratch ticket product produced by one of the Texas Lottery's scratch ticket manufacturers, Pollard Banknote Ltd. Just as its name suggests, a play book is a book of scratch ticket games combined and grouped with multiple pages. A play book typically sells for \$20 and contains multiple games packaged together providing a value proposition to the player. Other jurisdictions have launched play books containing extended play games like Crossword or Bingo, or have created game books with all games in the book containing a consistent themes (e.g., 7's, gems, or casino-style games).

Based on the positive sales experiences of other lotteries, the Texas Lottery launched its first-ever play book (offered in Texas under the game book name) during the 2014 holiday season. Towards the end of FY 2014, agency staff worked closely with the vendor on the design of the *Holiday Game Book* in preparation for its launch in early FY 2015. The *Holiday Game Book* first launched October 20, 2014 and ranked as the best-selling scratch ticket game for the next eleven weeks with sales totaling over \$59 million during that time period. The Texas Lottery wanted to maintain excitement and demand for this new product and chose not to launch another game book in FY 2015. Staff worked with Pollard over the summer of 2015 to design a new version of the *Holiday Game Book* that was introduced in FY 2016 during the holiday season. The new design included a "find the peppermint" play and win feature across the individual games in the book to differentiate the second version of the game book from the initial offering.

Super Tickets

Super Ticket is an oversized scratch ticket featuring numerous games creating play value for consumers. While the typical width of scratch tickets is four inches, Super Tickets range in width from eight inches to twelve inches and can be as long as sixteen inches. These tickets require special dispensers for display and sale. *Holiday Game Book* referenced above had similar characteristics in that it too required special dispensers. The agency has leveraged the use of the dispensers used for the *Holiday Game Book* for the Super Ticket. The Texas Lottery introduced its first *Super Ticket*[™]7's at the \$10 price point in spring 2015 and it quickly became the best-selling \$10 scratch ticket in the history of the Texas Lottery with over \$78 million in sales during the fiscal year. Capitalizing on this success, the next Super Ticket, *The Big Money Super Ticket*[™], was introduced in March 2016.

Products Geared to Appeal to New Players

As a mature, 24-year-old lottery, the Texas Lottery recognizes that in order to remain relevant and continue to grow, it must attract new players. The Texas Lottery must also achieve this goal within the framework of its traditional lottery (scratch and draw) game offerings. Offering licensed/branded scratch ticket games and scratch ticket games that feature unique prizes represents a significant portion of the agency's strategy to reach new audiences.

Licensed/Branded 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 who may have lapsed in their lottery participation or who have not considered a 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. Recent licensed property games include *Tetris*[®], *Caesars*[®], *Dallas Cowboys*, *Houston Texans* and *Texas Dream Home* (a game branded with The Home Depot[®] logo and offering The Home Depot gift cards and a chance to win a D.R. Horton[®] Dream Home as promotional second-chance prizes). The Texas Lottery wrapped up FY 2015 with a number of licensed property concepts in planning for FY 2016.

Luck Zone Player Internet 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 continues to identify and develop games that include unique merchandise/experiential prizes that appeal to particular player segments. The Texas Lottery Luck Zone site allows players to create an account and quickly and conveniently enter non-winning scratch tickets in promotional second-chance drawings. The Texas Lottery's new mobile application will take this convenience one step further and will allow players to enter promotional second- chance drawings directly from their smartphones.

Market Testing of Unique Production Features for Scratch Ticket Games

While many of the game design changes made by scratch ticket manufacturers have been subtle, new production methods are being developed that can be marketed to consumers. One example that the agency has leveraged successfully is where the removable scratch covering 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 unique for the player.

Another new production method involves printing play areas on the front and back of tickets. This offers players more play action without increasing the size of the ticket. While continuing its focus on keeping administrative expenses in check, the agency will evaluate these and other added-value features that may increase player enthusiasm and, in turn, produce additional game sales and revenue.

The Texas Lottery is planning to introduce a proprietary game design, Scratch My Back[™], during the next fiscal year. Scratch My Back offers players an additional play area on the back of the ticket. This game was launched in February 2016.

DRAW GAMES

Background

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 retailer sales terminal by choosing the Quick Pick option. The Texas Lottery conducts drawings independent of the lottery operator's central computer or gaming system to determine a set of winning numbers for these types of games. Lottery drawings are supervised by lottery security, witnessed by an independent certified public accountant, and open to the public.

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 with the add-on feature Extra!, Pick 3 with the add-on feature Sum



It Up!, Daily 4 with the add-on feature Sum It Up!, Cash Five, Texas Two Step and All or Nothing. A new draw game, Texas Triple Chance, launched in September 2015 expanding the draw game portfolio to nine games. 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 and has undergone three game or matrix changes since its introduction. The starting jackpot for Lotto Texas is currently \$5 million and the numbers are drawn twice per week. In October 2003, Texas joined the multi-state

game Mega Millions and sales began on December 3, 2003. The Mega Millions game matrix changed in the summer of 2005 as a result of the California Lottery joining the game and again in October 2013 to address a lack of large, attention-getting jackpots. Currently, the Mega Millions starting jackpot is \$15 million and numbers are drawn twice per week. For an extra \$1 wager, the Megaplier feature allows players the chance to increase their non- grand/jackpot prize winnings. Players can win up to \$5 million with the *Megaplier* feature.

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, a historic cross-selling agreement was reached between the Mega Millions member states and the Multi-State Lottery Association (MUSL), which operates Powerball, to allow Mega Millions states to sell Powerball, and Powerball states to sell Mega Millions. Starting January 31, 2010, Mega Millions and MUSL member states could begin offering both games. The Texas Lottery Commission adopted the Powerball game rule at the January 6, 2010, Commission meeting, authorizing the executive director to sign the necessary agreements for Texas to begin selling Powerball on January 31, 2010. Offering both multijurisdictional jackpot games with large population bases has created the opportunity for longer jackpot rolls and record-breaking jackpots, resulting in increased revenue to the Foundation School Fund.

Currently, the *Powerball* starting jackpot is \$40 million and numbers are drawn twice per week. Like Mega Millions, Powerball also has a multiplier feature, called Power Play. For an extra \$1 per play, players can increase their non-grand/jackpot prizes by two, three, four or five times. The Match 5 prize (2nd-tier prize) with Power Play is \$2 million; all other prize tiers are multiplied by the Power Play number that is drawn. In January 2012, the price of a Powerball ticket increased from \$1 to \$2. This was a major initiative for the lottery industry to increase the price point on a well-known and strongly recognized jackpot-style draw game brand. Powerball sales experienced a slight sales increase in FY 2015 compared to FY 2014, while market research was being conducted with both players and retailers to test various game concepts that would be likely to increase jackpots and create added-value for players. The MUSL Powerball Group voted to change the game matrix to drive large jackpot amounts and lower overall odds of winning any prize. The Power Play add-on feature now includes a 10X multiplier when jackpots are \$150 million or less. The enhanced version of the game started October 4, 2015.

Pick 3 is a daily non-jackpot game that has typically realized consistent year-over-year sales growth since its inception 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, Pick 3 continues to be one of the agency's best-selling draw games, illustrating that non-jackpot style games can be effective in reaching sales and revenue goals. Sum It Up! is an add-on game feature first introduced with the Daily 4







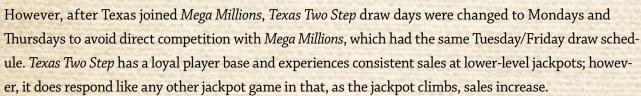
game and then added to Pick 3 in November 2007. For an additional wager, players can win if the sum of their three numbers matches the sum of the three numbers drawn in the applicable drawing. This provides players a chance to win even if they do not win on the base game. In September 2013, Pick 3 drawings increased from two daily drawings to four times 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 Cash Five, 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 once a day, 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.



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. Initially, Sum It Up! was only available on the Daily 4 game, but later was added to the Pick 3 game. Daily 4 follows the same drawing schedule as Pick 3 and is currently drawn four times daily, six days a week. The Daily 4 drawing schedule was increased at the same time the Pick 3 drawing change was implemented.

All or Nothing is a unique and different draw game because it offers two ways to win the top prize: by matching all of the numbers drawn or by matching none of the numbers drawn. Players can become disappointed by not match-



ing any numbers when they play lottery draw games. In All or Nothing, not matching any numbers wins \$250,000! The All or Nothing game also allowed the Texas Lottery to introduce two new drawing times (10 a.m. and 6 p.m. CT), making it the first Texas game to offer players the opportunity to play and win up to four times per day. The All or Nothing draw game also provides players with low overall odds of winning a prize, as compared to many other Texas draw games—1 in 4.5. In addition to the \$250,000

top prize, All or Nothing also offers lower-tier prizes of \$2, \$10, \$50 and \$500, depending on how many numbers the player does or does not match in the drawing. Tickets for All or Nothing are \$2 per play and the game has a 12-of-24 matrix. All or Nothing became the second \$2 game in the Texas Lottery's draw game portfolio (joining Powerball) and the first \$2 daily game. The successful launch of All or Nothing was an important milestone. The unique attributes of All or Nothing and its price point positioning resulted in the game being recognized in 2013 by the North American Association of State and Provincial Lotteries (NASPL), as the Best New Draw Game introduced in the industry. This game includes a top prize liability cap of \$5 million.

Texas Triple Chance is a \$2 game that offers players three Chances (sets of numbers) to win up to \$100,000 in every play. Players select 7 numbers from 1 – 55 while the agency draws 10 numbers from 1 – 55. If you match 3 or more numbers in any one *Chance* you win a prize! The top prize of \$100,000 can be won by matching all 7 numbers in any one Chance to the numbers drawn. Drawings are held Monday - Saturday at 10:12 p.m. CT. Texas Triple Chance provides players with the best overall odds of winning a prize in a Play for any Texas draw game—1 in 3.6. Prior to the launch of Texas Triple Chance, All or Nothing offered the best overall odds of winning in the draw game portfolio. Similar to All or Nothing, this game does include a top prize liability cap of \$1 million.

Challenges and Opportunities

One of the most significant differences between the scratch and draw game playing experiences is the time that elapses between buying the ticket and finding out if the ticket is a winner. For example, a player who purchases a Lotto Texas ticket on a Sunday morning must wait until the Lotto Texas drawing on Wednesday night to determine if a prize has been won. In contrast, as soon as a scratch ticket is scratched, the player immediately knows if the ticket is a winner. Most scratch ticket 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. Most lotteries 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. The Powerball price point increase was implemented with a game change that created a value proposition for players and has been a positive step toward expanding price points in the draw game category. This strategy has been very successful with scratch tickets and additional draw game initiatives are underway within the industry.

As noted above, lotteries nationally have 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 plus new game concepts that are currently under development require the continued monitoring of jackpot and daily (non-jackpot) game performance for possible modifications and adjustments to the overall draw game portfolio.

Multijurisdictional games like *Mega Millions* and *Powerball* are capable of generating jackpots in the multiple hundreds of millions of dollars or more, 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 attention and excitement. Lotteries, including Texas, have relied on jackpot-style games to generate large jackpots 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 game changes typically require administrative rulemaking and extensive system software development prior to introduction. Additionally, there may be costly advertising expenditures to communicate to the public about the new product or changes to an existing product. Draw games differ from scratch tickets, as the scratch ticket game serves as its own communication vehicle due to its visible placement at retail. The additional requirements for draw games present challenges limiting the agency's ability to frequently introduce new games or make rapid changes to existing games.

Lastly, there are certain draw games offered in other lottery jurisdictions that are not being pursued in Texas as they would require specific legislation; for example, Keno, which is traditionally sold in bars and restaurants, and sales terminal-generated raffle games.

Key Initiatives and Goals

Price Point Expansion

While challenging, it is important to continue efforts to expand the price point offerings for draw game products. This has been a key driver in growing scratch ticket product sales and revenue in Texas. Lotteries have worked collaboratively to reposition the *Powerball* game at a \$2 price point. *Powerball* now features significantly higher starting jackpots—\$40 million—than any other jackpot game available in the industry.

The Texas Lottery has conducted research on other \$2 draw game concepts that would also be positioned at the \$2 price point along with *Powerball* and *All or Nothing* and the agency launched \$2 *Texas Triple Chance* on September 27, 2015.



The National Premium Game (NPG), MONOPOLY MILLIONAIRES' CLUB[™], was developed by Scientific

Games, an industry scratch ticket manufacturer and gaming systems provider, and implemented by 23 lottery jurisdictions in October 2014 with many other U.S. lottery jurisdictions anticipated to join in early 2015. This \$5 draw game concept incorporated numerous promotional game features in addition to the base game matrix and introduced a strong licensed property brand into the draw game portfolio.

The game offered at a new, higher price point, with a significant degree of play complexity, struggled to resonate with players. Sales did not meet the lottery industry's projections and continued to decline nationally following its introduction until sales for the game ceased in late December 2014. The agency continues to explore opportunities to offer drawing games at the \$2 price point and above and will continue to monitor and be involved in future NPG product development conversations. However, the MONOPOLY MILLIONAIRES' CLUB experience illustrates the challenge the industry faces in creating a compelling draw game at the \$5 price point.

Evaluation of Jackpot Game Portfolio

The Texas Lottery will actively participate in any future discussions involving changes related to the *Powerball* and/or *Mega Millions* game. Both games are significant contributors to draw game sales and the jackpots they are capable of generating can have a dramatic impact on fiscal year sales and revenue performance.

Add-on Features

Add-on features, such as *Megaplier*, *Power Play*, *Sum It Up!* and *Extra!*, have been successful in generating incremental sales and revenue, and the Texas Lottery will continue to explore additional add-on features that may offer incremental sales and revenue potential for the draw game portfolio.

Draw Game Cross Promotion

The Texas Lottery has been very successful in designing scratch ticket games that feature or highlight games from its draw game portfolio. A prize in these scratch ticket games is a free play in the associated draw game. These games have performed well and introduced scratch ticket game players to the Texas Lottery's draw game product offerings. The agency launched an *All or Nothing*-themed scratch ticket game in the summer of 2014. The Texas Lottery is working on plans to launch scratch tickets based on the popular daily games *Pick 3* and *Daily 4*. The agency will continue to identify opportunities to cross-promote scratch and draw games.

Cash Five Game Modification Research

Cash Five is a mature game that has experienced sales declines over time. The Texas Lottery plans to work with the lottery operator to conduct research in FY 2016 to gauge player and retailer interest in

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potential game modifications. If the research results are positive, the Texas Lottery will proceed in planning for a game modification in FY 2017.

Pick 3 and Daily 4 – Add-on and Wager Type Features

The Texas Lottery is currently working with the lottery operator to evaluate add-on and other play type features that are being offered elsewhere in the lottery industry to determine if there are opportunities to bring new and different game features to players of these games. Retailer and player research is underway on a play type called "1-Off" to determine the resonance of this feature in Texas. "1-Off" is licensed by a third party vendor and the Texas Lottery will evaluate the costs vs. revenue projections before determining whether to pursue this play type.

Packaged Draw Game Play – Lone Star Lineup

The Texas Lottery plans to introduce packaging or bundling draw games for ease of purchase by players. Lone Star Lineup will allow the agency to promote lesser-played daily games and potentially expand draw game product trial. This promotional bundle offers players \$6 worth of plays for \$5 and includes *Pick 3, Daily 4, All or Nothing, Cash Five* and *Texas Triple Chance*. This initiative will require a significant software development effort and implementation is expected in September 2016.

Draw Break Reduction

In an effort to increase sales and offer players more time to purchase tickets for their favorite draw games, the agency reviewed the feasibility to reduce draw break (the period where sales cease to allow for the conduct of drawings for the game) duration in FY 2014. Based on time studies by the Draw Team, a recommendation was made to reduce all draw breaks by two minutes. The agency reduced draw breaks from 15 minutes to 13 minutes on all Texas-based draw games and implemented the required software changes effective April 13, 2015. The multijurisdiction games *Powerball* and *Mega Millions* are not affected by this change.

Operational Review

During FY 2014, the agency completed a review of its operations with Camelot Global, a leading advisor and lottery solution provider to lotteries around the world. Camelot assisted the agency in identifying potential opportunities to further enhance its performance. The Texas Lottery used this information as a baseline to work with the lottery operator, IGT, to evaluate these opportunities and their viability for the Texas Lottery's operations. For those opportunities that showed promise, joint review committees comprised of Texas Lottery, IGT Texas and IGT Corporate staff were formed to evaluate and review all aspects of the Texas Lottery's operations with an emphasis on draw product strategy, marketing communications and retail execution. Many of the opportunities identified through this best practices review effort have already been implemented. Several joint committees will continue to work on an ongoing basis to ensure that the Texas Lottery continues to improve on its already strong day-to-day product and marketing operations in concert with IGT for the benefit of sales and revenue generation.

Background

Gross sales are critical as the driver for the Texas Lottery's mission of generating revenue for public education, veterans' assistance and other worthy state causes.

The Texas Lottery achieved annual sales growth in consecutive fiscal years from 1999 to 2006 following the removal of limits on the agency's prize payout percentage. These gains were achieved through restoration of past payout percentages along with innovations in the agency's scratch and draw product categories. However, the effects of being a mature lottery began to show as sales plateaued, fluctuating between \$3.6 billion and \$3.7 billion from FY 2006 to 2008.

Since FY 2009, the Texas Lottery has experienced significant sales growth. Several different strategic sales initiatives contributed to this achievement, including an enhanced focus on retail distribution channel expansion, implementation of a performance-based retailer incentive program, and continued product innovation, including new in-state and national draw game introductions. In addition, the agency's current lottery operations and services contract with IGT included enhancements to the sales organization along with new equipment platforms and marketing support for lottery retailers. The table below illustrates the growth in sales over the three most recent full fiscal years.

	SALES ACTUAL FY 2013 (IN MILLIONS)
Total Sales	\$4,376.29
Total sales for	the three-year period grew

billion in FY 2015.

GROSS SALES

SALES ACTUAL	SALES ACTUAL
FY 2014	FY 2015
(IN MILLIONS)	(IN MILLIONS)
\$4,384.60	\$4,529.70

3.5 percent, culminating in record sales of \$4.53

There are a number of controllable and uncontrollable variables that impact lottery sales. Examples of variables outside the agency's control include general economic conditions in the state, weather conditions, and the level of jackpots on certain draw product offerings (jackpot "rolls"). The focus of the business plan is the establishment and monitoring of goals associated with key factors tied to agency performance, with an emphasis on controllable variables that influence the outcome of these performance factors. Arguably, every performance factor tracked and monitored in this plan contributes to the agency's gross sales and, ultimately, net revenue for the state. However, there are certain factors and key operational functions that are more obvious in their direct impact on efforts to grow sales.

These include the following:

- Distribution Channel Expansion The number and quality of lottery retail locations.
- Retailer Incentive Program Same-store sales growth.
- Advertising Expenditures and Efficiency Amount and effectiveness of advertising.
- Product Mix and Game Portfolio Management Lottery product mix, game design (product diversity, game odds and payout design) and product differentiation.

Each of these performance factors has been addressed in detail in the business plan.

Challenges and Opportunities

The Texas Lottery has enjoyed great success through several effective programs that have driven sales performance. While proud of those results, the agency recognizes these sales levels will be challenging to sustain. Due to the variability of sales of the multijurisdictional jackpot games, it is anticipated that sales and revenue will likely decline from FY 2016 levels more in line with FY 2015 and that sales growth will moderate in the coming years. The Texas Lottery faces competition from other gaming activities, both legal and illegal, in Texas and in surrounding states. In addition, the core player base for traditional lottery games continues to age.

The Texas Lottery also must compete with other forms of entertainment as adult Texans make discrete choices with their discretionary income. The Texas Lottery is a mature lottery offering a full suite of scratch ticket games with price points ranging from \$1 to \$50 and nine different draw games, including a wide selection of daily draw games and in-state and multijurisdiction jackpot games. There are limited traditional lottery game concepts available that Texas does not currently offer, creating a lack of opportunity for new product offerings.

These realities loom in opposition to continued sales growth. Additionally, limitations on the agency's advertising budget restrict the agency's ability to effectively reach Texans across all media markets and cause the agency to limit advertising to only a small portion of its product offerings to the exclusion of other advertising opportunities. Several draw games have received little or no advertising support for many years due to limits on the advertising budget. One example is Cash

Five, which has sustained sales declines in all but two fiscal years dating back to FY 1997. Market research data collected by the agency also reflects a significant lack of public awareness of many of the agency's lottery products.

The agency continues to strive to overcome these challenges by pursuing the opportunities outlined in this business plan with a particular emphasis on the four performance factors above, as they relate to gross sales.

Key Initiatives and Goals

Texas Lottery gross sales have benefited from a number of large-scale initiatives that the agency has implemented in recent years, including changes in the lottery operator contract, launching and continuing to enhance the Retailer Incentive Program and several product initiatives that have helped to fill out and supplement the product port- folio. It is realistic to note that the most significant sales benefits of these initiatives have already been achieved. Future sales benefits from these efforts are likely to be smaller and more muted in their impact.

At the time of this writing, the agency anticipates FY 2016 sales that will significantly exceed FY 2015 sales. The agency has achieved strong growth in its scratch product category. Additionally, the agency has seen strong growth for the draw product category led primarily by significant sales levels attained during the world record \$1.5 billion advertised Powerball jackpot that occurred in January 2016. However, it is anticipated that there will be moderation in the degree of sales growth seen in the scratch product category during FY 2016. It is anticipated that scratch product sales will moderate, achieving stable growth for FY 2017. Additionally, it is anticipated that the draw product category will see a slight decline from FY 2015 sales levels and a substantial decline from FY 2016 sales level projections. This is due to an anticipated resumption of the continued general softening of draw game sales that have occurred over the last several years and the likelihood that Powerball and Mega Millions will not achieve jackpot levels similar to those seen in FY 2016. The agency recognizes that future growth will occur through execution at a more tactical level related to the performance factors in this plan. The agency's FY 2017 sales performance goals based on these factors are detailed in the chart below.

		SALES ACTUAL FY 2015 (IN MILLIONS)	SALES PROJECTION FY 2016 (IN MILLIONS)	SALES GOAL FY 2017 (IN MILLIONS)
	Scratch Product	\$3,481.40	\$3,727.00	\$3,876.08
Sel al a cost	Draw Product	\$1,048.30	\$1,255.15	\$1,043.64
	Total Sales	\$4,529.70	\$4,982.15	\$4,919.72

NET REVENUE

Background

The Texas Lottery's mission is to generate revenue for the state of Texas through the responsible management and sale of entertaining lottery products. To achieve this mission, the Texas Lottery incorporates the highest standards of security and integrity, sets and achieves challenging goals, provides quality customer service and utilizes a TEAM approach.

The Texas Lottery's primary performance factor related to its mission is the generation of net revenue for the state. Every agency program, performance factor and initiative is designed with net revenue in mind. The agency also has a significant regulatory responsibility to protect the interests of the citizens of Texas. The agency is committed to providing products that are fun and entertaining while ensuring all games are delivered in a safe and secure manner and that the integrity of the games is above reproach. The agency must invest in the systems, equipment and personnel necessary to ensure public trust in the Games of Texas.

The Texas Lottery was launched in 1992 under the public-private Texas Model, placing emphasis on outsourcing functions more efficiently performed through private sector contracting, while maintaining the critical contract oversight and administrative responsibilities important to the state. The Texas Lottery continues to emphasize Fiscal Accountability to support a foundation of Customer Responsiveness and secure lottery operations while focusing on administrative efficiencies that will optimize net revenue for the state both now and in the future.

While the agency pursues a number of program initiatives to support gross sales, the agency is equally committed to administrative efficiency. This includes careful monitoring and ongoing evaluation of the primary contributors to administrative overhead:

- Negotiated rates for outsourced (contracted) services
- Retailer compensation and incentive programs
- Standard agency overhead costs including key lottery programs (e.g., security, drawings, claim centers, etc.)

Under the State Lottery Act, the agency is authorized to pay costs incurred in the operation and administration of the lottery, including any fees received by a lottery operator, provided that the costs incurred in a fiscal biennium do not exceed an amount equal to 12 percent of the gross revenue accruing from the sale of tickets in that biennium. A minimum of 5 percent of this amount is to be allocated as compensation paid to sales agents (licensed retailers). The base retailer commission has remained at 5 percent since the inception of the lottery, leaving the remaining 7 percent available for other administrative expenses, subject to legislative appropriation. The Texas Lottery has consistently kept administrative expenses well below 7 percent of gross sales revenue.

In the area of retailer compensation, the agency has focused on its retailer incentive program as a supplement to the existing 5 percent retailer commission in the State Lottery Act. This program is performance-based and rewards retailers based on same-store incremental sales growth. For more information on this program, see the Retailer Incentive Program section of the business plan.

The agency contracts for a number of third-party services in operating the lottery. The lottery operations and services, advertising and scratch ticket manufacturing contracts are the Texas Lottery's three largest contracts in dollar terms, but there are numerous other services that the agency must procure. The agency aggressively negotiates all contracts to ensure the state receives best value and routinely reviews existing contracts to identify efficiencies that can be achieved in future procurements. The recent lottery operations and services contract is the best example of the agency's efforts in this regard. Through this procurement and the contract negotiations that followed, the agency was able to obtain significantly expanded services including:

- State-of-the-art technology and retailer/player equipment with faster, easier to use terminals and a more reliable telecommunications network, including new player communication displays
- Increased levels of security and redundancy along with expanded capacity to handle extremely high transaction volumes generated daily by the Texas Lottery
- to support lottery players and retailers
- New system tools allowing the Texas Lottery to bring exciting new lottery games and promotions to market more quickly in response to consumer demand

Additionally, the agency was able to achieve significantly reduced pricing under the new contract. Under the prior contract, the lottery operator compensation rate was 2.6999 percent of sales. Under the new contract, this was reduced to 2.2099 percent of sales. This reduction has resulted in savings to the state thus far of over \$20 million annually beginning September 1, 2011, and it is anticipated that more than \$200 million in savings will be recognized over the nine-year base term of the contract.

The agency has a keen focus on its own day-to-day administrative expenses, and this focus continues to yield efficiencies over time. For example, the agency has restructured its operations on multiple

• New lottery game management system featuring enhanced levels of service and efficiency

occasions, including the consolidation several years ago of the Marketing and Lottery Operations divisions of the agency into one operating unit. This restructuring yielded salary savings and allowed the agency to streamline its strategic execution in support of lottery revenue. The agency has also reduced the number of claim centers from 24 to 16, while maintaining the agency's commitment to Customer Responsiveness. The agency's comprehensive efforts resulted in administrative expenses of less than 4.5 percent of total sales, inclusive of vendor contract expenses, in FY 2015.

The agency's continued focus on its performance factors culminated in a record revenue year in FY 2015, with total transfers to the state exceeding \$1.24 billion, marking the 12th consecutive year the Texas Lottery has generated more than \$1 billion in contributions to the state of Texas. In FY 2015, \$1.225 billion went to the Foundation School Fund. The Fund for Veterans' Assistance, administered by the Texas Veterans Commission, and other programs as determined by the Legislature also benefit from lottery proceeds. Over the last three years, lottery net revenue transfers have grown 2.36 percent annually.



Total Transfers to State

Source: Texas Lottery Audited Financial Statement

Challenges and Limitations

The Texas Lottery is committed to continuing to achieve its primary mission of generating revenue for the state. Sales growth and administrative efficiency are key drivers in revenue generation. However, as detailed in the prior section, continuing to grow lottery sales in the current environment will be challenging.

Further opportunities to enhance administrative efficiency will be limited. As a mature 20-plus year old organization, the Texas Lottery has had the opportunity to extensively evaluate all aspects of its operations to identify and implement internal administrative efficiencies, such as those previously identified. In addition, the agency has had tremendous success in negotiating favorable pricing and services with its vendors. Although the agency has strenuously emphasized Fiscal Accountability, limited opportunities exist in the near term for significant cost reductions that might yield further administrative efficiencies.

Base lottery retailer compensation in Texas is among the lowest in the United States lottery industry. The agency has supplemented these low rates through its retailer incentive program and successfully leveraged this program to generate incremental revenue. The agency continues to evaluate and modify the retailer incentive program, as necessary, to drive retailer interest in supporting lottery sales. However, program changes at this point in the life of the program are more incremental than substantial.

Key Initiatives and Goals

The agency is confident in its ability to continue to generate significant revenue for the Foundation School Fund and other state programs. The agency expects a significant increase in net revenue contributions to the state in FY 2016 following the world record-breaking *Powerball* jackpot in January 2016. Net revenue for FY 2017 is expected to return to levels more comparable to FY 2015 with a slight increase due to scratch product sales. Projected revenue is detailed in the chart below.

	REVENUE ACTUAL FY 2015 (IN MILLIONS)
Total Revenue	\$1,242.70

This projected net revenue performance in FY 2016 and 2017 would result in the two highest revenue transfers to the state in the history of the lottery.

REVENUE PROJECTION	
FY 2016	
(IN MILLIONS)	

REVENUE GOAL FY 2017 (IN MILLIONS)

\$1,340.90

\$1,288.66



TEXAS LOTTERY COMMISSION

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