

# Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

Submitted by:

TEXAS LOTTERY COMMISSION

Commission Member

Mary Ann Williamson  
David J. Schenck  
J. Winston Krause

Dates of Term

October 7, 2008 - February 1, 2015  
October 17, 2007 - February 1, 2013  
March 27, 2009 - February 1, 2011

Hometown

Weatherford  
Dallas  
Austin

Date of Submission:

July 2, 2010

Signed: \_\_\_\_\_

  
Gary Grief, Executive Director

Signed: \_\_\_\_\_

  
Mary Ann Williamson, Chairman



# TABLE OF CONTENTS

## STATEWIDE ELEMENTS

The Mission of Texas State Government .....	1
The Philosophy of Texas State Government .....	1
Relevant Statewide Goals and Benchmarks .....	2

AGENCY VISION, MISSION, VALUES & PHILOSOPHY .....	4
---	---

## EXTERNAL/INTERNAL ASSESSMENT

I. OVERVIEW.....	6
A. Main Functions .....	6
B. Statutory Basis .....	6
C. Historical Perspective .....	7
D. Texas Lottery® Games .....	7
E. Charitable Bingo .....	11
F. Key Service Populations .....	14
II. ORGANIZATIONAL ASPECTS.....	17
A. Workforce Composition .....	17
B. Organizational Structure and Process .....	18
C. Geographical Location and Travel Requirements .....	28
D. Agency Use of Historically Underutilized Businesses .....	29
E. Fiscal Aspects .....	31
III. AGENCY ACTIVITIES.....	35
A. Economic Development .....	35
B. A Culture of Compliance and Trust .....	40
C. Game and Product Innovations .....	49
D. Technological Developments .....	57
E. Public Awareness .....	58
IV. EXTERNAL FACTORS AFFECTING SERVICES.....	63
A. Demographic Characteristics .....	63
B. Impact of Recent and Proposed Legislation .....	74
C. Other Legal Issues .....	76
D. Economic Variables .....	79
V. INTERNAL FACTORS AFFECTING SERVICE.....	85
A. Long-Range Business Planning .....	85
B. Employee Attitudes Toward the Organization .....	85
C. Capital Asset Strengths and Weaknesses .....	86
VI. EVALUATION AND OPPORTUNITIES .....	87
A. Accomplishments .....	87
B. Areas for Improvement .....	92
C. Future Challenges and Opportunities .....	93
D. Key Resources .....	102
E. Human Resources Strengths and Weaknesses .....	104

AGENCY GOALS, OBJECTIVES AND MEASURES .....	105
---	-----

TECHNOLOGY RESOURCES PLANNING.....	112
------------------------------------	-----

## APPENDICES

A. Description of Agency's Planning Process .....	118
B. Organizational Structure .....	119
C. Outcome Projections .....	120
D. Performance Measure Definitions.....	122
E. Workforce Plan .....	182
F. 2009 Survey of Employee Engagement Summary.....	190
G. Historically Underutilized Business (HUB) Plan.....	192

## TABLES

Table 1: Position Allocation, by Division .....	17
Table 2: Age of Employees .....	17
Table 3: Employee Ethnic and Gender Representation .....	17
Table 4: Workforce Diversity Data .....	18
Table 5: HUB Strategic Plan Progress Report .....	30
Table 6: Budget Funds, 2010-11 Biennium.....	31
Table 7: Top 10 U.S. Lotteries, CY 2009.....	32
Table 8: Gross Sales of the Texas Entertainment Industry.....	35
Table 9: Revenue Transferred from Texas Lottery .....	36
Table 10: Unclaimed Prizes Transferred.....	37
Table 11: Charitable Bingo for Calendar Years 1982-2009 .....	38
Table 12: Charitable Bingo Licenses and Funding .....	39
Table 13: NAFTM Annual Report 2008 .....	41
Table 14: Organizations that Applied for and were Issued a License .....	67
Table 15: Licensed Authorized Conductor Organizations by Type .....	68
Table 16: Age by Ethnicity and Race, Texas 2008 .....	70
Table 17: Comparison of Bingo Card Sales to Pull-tab Sales .....	72
Table 18: Electronic Card Sales .....	73
Table 19: Attendance at Bingo Occasions 1982-2009 .....	73
Table 20: Key Performance Measures FY 2009 .....	88
Table 21: CBOD Training Survey.....	89
Table 22: Amended Charitable Bingo Administrative Rules.....	89
Table 23: Adopted Charitable Bingo Administrative Rules .....	90
Table 24: Annual Segmentation Survey Results.....	91
Table 25: Top 10 U.S. Lotteries, CY 2009.....	91
Table 26: International Lottery Rankings, by Sales .....	92
Table 27: Advertising Overview.....	103
Table 28: Turnover Rates.....	104
Table 29: Technology Alignment.....	115

## FIGURES

Figure A: HUB/Minority Spending .....	29
Figure B: Licensed Minority Retailers.....	30
Figure C: U.S. Population Change 2000-2009 .....	69

## CHARTS

Chart A: Texas Household and Lottery Player Income.....	65
Chart B: Texas and Lottery Player Education .....	65
Chart C: Texas Household and Lottery Player By Race/Ethnicity .....	66
Chart D: Texas All Grades Conventional Retail Gasoline Prices .....	80
Chart E: U.S. Consumer Confidence Index .....	81
Chart F: Texas Residential Housing Permits.....	81
Chart G: Texas Retail Sales.....	82

# TEXAS LOTTERY COMMISSION

## STRATEGIC PLAN

FOR FISCAL YEARS 2011–2015

### STATEWIDE ELEMENTS

#### THE MISSION OF TEXAS STATE GOVERNMENT

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

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

#### THE PHILOSOPHY OF TEXAS STATE GOVERNMENT

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

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

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

## TEXAS LOTTERY COMMISSION

### Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

## RELEVANT STATEWIDE GOALS AND BENCHMARKS

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

### ECONOMIC DEVELOPMENT

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

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

**Relevant Benchmarks:**

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

### REGULATORY

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

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

**Relevant Benchmarks:**

- Percent of documented complaints to licensing agencies resolved within six months
- Number of new business permits issued online

### GENERAL GOVERNMENT

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

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

## TEXAS LOTTERY COMMISSION

### Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

### RELEVANT STATEWIDE GOALS AND BENCHMARKS (CONT'D)

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

#### Relevant Benchmarks:

- Total state taxes per capita
- Total state spending per capita
- State and local taxes per capita
- Number of state services accessible by Internet
- Total savings realized in state spending by making reports/documents/processes available on the Internet and accepting information in electronic format.

### HEALTH AND HUMAN SERVICES

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

- Percent of parents awarded child support payments who receive them

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

### EDUCATION—PUBLIC SCHOOLS

**Priority Goal:** To ensure that all students in the public education system acquire the knowledge and skills to be responsible and independent Texans by:

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

### PUBLIC SAFETY AND CRIMINAL JUSTICE

**Priority Goal:** To protect Texans by:

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

## TEXAS LOTTERY COMMISSION

### Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

### AGENCY VISION

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

### AGENCY MISSION

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

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

### AGENCY CORE VALUES

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

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

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

## TEXAS LOTTERY COMMISSION

Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

### AGENCY CORE VALUES (CONT'D)

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

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

**Excellence** - We strive for excellence by taking a position of leadership on issues that impact the Commission and achieve challenging goals by focusing on our core values.

## TEXAS LOTTERY COMMISSION

### Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

## EXTERNAL/INTERNAL ASSESSMENT

### I. OVERVIEW

#### A. Main Functions

The Texas Lottery Commission has two main functions:

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

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

#### B. Statutory Basis

Article III, Section 47, of the Texas Constitution, the State Lottery Act (Chapters 466 and 467, Government Code) and the Bingo Enabling Act (Occupations Code, Chapter 2001) are the operative statutes for the Texas Lottery Commission. These statutes set out the primary duties and

powers of the Commission, which are to administer and appropriately market the Texas Lottery and to regulate charitable bingo in Texas.

The Texas Sunset Act provides that a group of 10 legislators and two public members, the Sunset Advisory Commission (SAC), must periodically evaluate a state agency to determine if the agency is needed and is effective, and whether improvements are needed to ensure that tax dollars are well spent.

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

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

The SAC reviewed the Texas Lottery Commission again in 2004, but the legislation containing the SAC's recommendations again did not pass the 70 Legislature, Regular Session. Instead, the Legislature passed HB 1116 to continue the Texas Lottery Commission through Fiscal Year (FY) 2011. However, in 2009, the 81<sup>st</sup> Legislature passed Senate Bill (SB) 2 in its first called special session to continue the Texas Lottery Commission through FY 2013. Under the Texas Sunset Act, the agency will be abolished effective September 1, 2013, unless continued in existence as provided by the Act. If abolished, the agency may continue until September 1, 2014, to close out its operations.

## C. Historical Perspective

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

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

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

In 1980, Texas voters approved a constitutional amendment authorizing charitable bingo. The amendment requires all bingo proceeds to be spent in Texas for charitable purposes. The Texas Legislature adopted the Bingo Enabling Act in 1981, and the first licenses were issued in spring 1982. Bingo has been regulated by three different agencies since its inception. From 1982 to 1990, Charitable Bingo was a di-

vision of the Comptroller's Office. From 1990 to 1994, the division was part of the Texas Alcoholic Beverage Commission.

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

## D. Texas Lottery® Games

The *Games of Texas* are the body of games that the Texas Lottery makes available to the playing public. These include instant games and on-line games. As of January 2010, seven on-line games and approximately 90 instant games constitute the current FY 2010 game portfolio.



### Instant Ticket Games

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

the player segments. Popular game themes include gaming, money, numbers, seasonal, annuity and extended play.

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

# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

ers enjoy multiple chances and multiple ways to win on each ticket.

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

Additionally, in FY 2010, the Texas Lottery launched its first veterans’ scratch-off game, the proceeds of which go to support the Fund for Veterans’ Assistance.

Prizes for current instant games range from \$1 to \$10 million. The majority of \$1 tickets typically offer a top prize of \$1,000 or less, while \$2, \$3, \$5, \$7, \$10, \$20 and \$50 games offer higher top prizes. The \$20 price point games typically offer a \$1 million top prize, whereas the \$50 price point offers up to a \$10 million top prize. There also are games that provide annuity prizes that are paid out over a period of time. As of February 2010, annuity style instant games are offered at the \$2, \$5, \$10 and \$20 price points.

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

specific prize amounts and/or the number of prizes in a game.

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

Due to previous statutory restrictions that resulted in an inverse relationship between the agency’s overall prize payout percentage and its advertising budget, the agency was somewhat limited in its ability to adjust prize payout percentages in an effort to optimize revenue. With the statutory restrictions now removed, the agency is market testing payout optimization strategies that will be more appealing for players while balancing fiscal accountability and maximizing net revenue returned to the Foundation School Fund.

## On-line Games

The industry term “on-line game” does not refer to an Internet-based game, but rather to the fact that the game tickets are generated from a terminal connected to a central system. The terminals in the retailer locations are said to be “on-line” with the lottery operator’s central computer system in Austin (the “lottery operator” is the agency’s primary vendor for lottery operations and services, see page 42 for more information). The Texas Lottery conducts drawings to determine a set of winning numbers for these types of games.

Most on-line games require the player to select from a pool of numbers. For example, when the pool consists of 37 numbers and a player selects five numbers from the pool, the game is

# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

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 on-line terminal by choosing the Quick Pick option.

The Texas Lottery's current on-line game offerings include *Powerball*® with the add-on feature *Power Play*®, *Mega Millions*® with the add-on feature *Megaplier*®, *Lotto Texas*®, *Pick 3*™ with the add-on feature *Sum It Up*®, *Daily 4*™ with the add-on feature *Sum It Up*, *Cash Five*®, and *Texas Two Step*®.

*Lotto Texas*, *Powerball* and *Mega Millions* are multimillion-dollar rolling jackpot-style games. *Lotto Texas* was the first on-line game introduced in Texas, in November 1992. The game has undergone three game or matrix changes since its introduction. The starting jackpot for *Lotto Texas* is currently \$4 million and the game is drawn twice per week. In October 2003, Texas joined the multistate game *Mega Millions* and sales began on December 3, 2003. The game matrix changed in the summer of 2005 as a result of the California Lottery joining the game. Currently, the *Mega Millions* starting jackpot is \$12 million and numbers are drawn twice per week. For an extra \$1 wager, the *Megaplier* feature allows players the chance to increase their non-grand/jackpot prize winnings. Since joining *Mega Millions*, Texas has had eight grand/jackpot winners through February 2010. The eight advertised jackpots were:

October 2004	\$101 million
March 2005	\$112 million
May 2006	\$94 million
January 2007	\$122 million
July 2007	\$126 million
August 2007	\$330 million*
January 2008	\$33 million
January 2010	\$144 million

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

Until January 2010, *Mega Millions* was comprised of Texas and 11 other member states including California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Virginia and Washington. In October 2009, an historic cross-selling agreement was reached between *Mega Millions* member states and the Multi-State Lottery Association (MUSL), which operates *Powerball*, to allow *Mega Millions* states to sell *Powerball*, and *Powerball* states to sell *Mega Millions*. January 31, 2010, marked the first date that member states

could begin offering both games. The Texas Lottery Commission



adopted the *Powerball* game rule at the January 6, 2010, commission meeting and granted permission to sign the necessary agreements allowing Texas to begin selling *Powerball*. Sales of *Powerball* began in Texas on January 31, 2010. Offering both multi-state jackpot games with large population bases creates the opportunity for increased jackpot rolls and record-breaking jackpot levels. It is anticipated that offering both of these games will result in increased revenue to the Foundation School Fund.

The cross-selling agreement and the cooperation between the two multi-state groups lay the foundation

for the future goal of many in the lottery industry – the creation of a national lottery game. A committee comprised of members from both the *Mega Millions* and the MUSL groups has already begun discussions on this topic.



# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

*Powerball* starting jackpots are \$20 million with drawings held on Wednesday and Saturday nights. Like *Mega Millions*, *Powerball* also has a multiplier feature, called *Power Play*. For an extra \$1 per play, players can multiply their non-grand/jackpot prizes by two, three, four or five times. The Match 5 prize (2<sup>nd</sup>-tier prize) automatically wins a \$1 million prize with *Power Play*. With both *Powerball* and *Lotto Texas* drawings occurring on the same nights, the agency will closely monitor *Lotto Texas* sales and the impact *Powerball* may have on that game's performance. Staff may need to consider game changes and/or drawing schedule changes due to the addition of *Powerball* to the on-line game mix.

Multi-state games like *Mega Millions* and *Powerball* are capable of generating jackpots upwards of \$300 million that create excitement for players and retailers alike, and also drive sales. While the agency enjoys the benefits of these large jackpots and the strong sales associated with them, they can create a phenomenon known in the lottery industry as "jackpot fatigue." This phenomenon causes players to become desensitized to smaller jackpot amounts, and ever-larger jackpots are required to garner the attention and excitement of players. The lottery industry, including Texas, has relied on the jackpot-style games to reach large jackpot amounts in an effort to increase sales. However, due to jackpot fatigue and the general declining interest in jackpot games, sales and revenue for this type of on-line game have generally decreased over time.

4, the *Pick 3* game continues to be the agency's best-selling on-line game, illustrating that non-jackpot style games can be effective in reaching sales and revenue goals. The only changes made to *Pick 3* in its 16-year existence have been the addition of day drawings in April 2002 and the addition of the *Sum It Up* feature in November 2007. *Sum It Up* is an add-on game concept first introduced on the *Daily 4* game and then added to *Pick 3*. For an additional wager, players can win if the sum of their three numbers matches the sum of the three numbers drawn in the applicable drawing. This provides players a chance to win even if they don't win on the base game. *Pick 3* drawings are held twice daily every Monday through Saturday.

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



2002. In the *Cash Five* game, when there is not a top-prize ticket sold for a drawing, the prize funds allocated to the top-prize tier "roll-down" to the second-prize tier and that prize amount increases accordingly. A matrix change in 2002 improved the overall odds of winning from 1 in 100 to 1 in 8, changing the game from one of the most difficult five-digit games to win in the country to one of the easiest. *Cash Five* is drawn six days a week.

Participation in the *Cash Five* game has declined in recent years. Due to the pari-mutuel nature of the prize levels in the *Cash Five* game, it is challenging to communicate effectively with players regarding the potential prizes they are playing for, and this creates limitations on player enthusiasm and marketing initiatives. Staff is currently evaluating options to reinvigorate player enthusiasm for this niche of the agency's on-line product portfolio.



*Pick 3* is a 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*

# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS



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



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

## E. Charitable Bingo

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



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

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

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

A commercial hall is a location where more than one licensed nonprofit organization conducts

# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

bingo. Games conducted in these venues are generally conducted by paid employees, may include the use of electronic card-minding devices, and are fast-paced with fewer games played for larger prizes over a shorter period of time.

## Style of Play

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

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

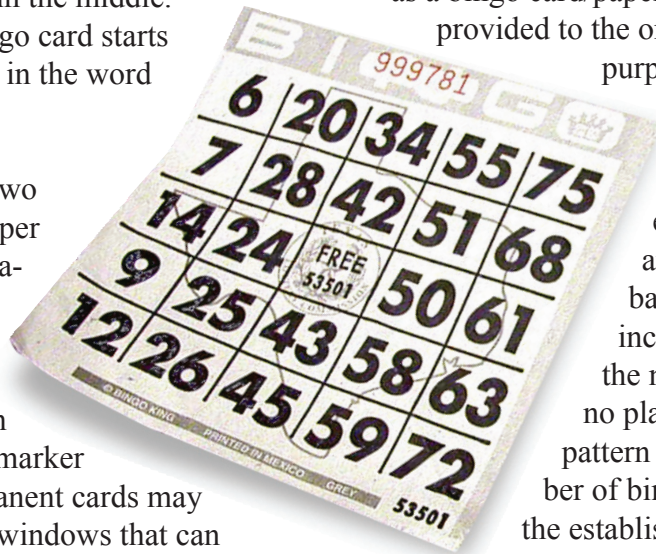
The paper cards are generally marked with a special-colored ink marker called a dauber. Permanent cards may have little shutters or windows that can cover the number when it is called. There are 75 lightweight bingo balls, each printed with one of the letter/number combinations previously identified.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

Bingo games are played out in many different predetermined patterns, the most common being a straight line in any direction: vertical, horizontal or diagonal. Many other patterns may be chosen for play, including a “coverall,” in which

all of the numbers on the winning player’s card are selected.

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

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



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

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

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

# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

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

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

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

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

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

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

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

## Bingo Paper

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

## Electronic Bingo Card-Minding Devices

In 1995, the Texas Legislature authorized the use of electronic card-minding devices. These are mechanical, electronic, electromechanical or computerized devices, including related hardware and software, that are interfaced with or connected to equipment used to conduct a game of bingo and that allow a player to store, display, and mark bingo card faces. The device is preprogrammed to play multiple games of bingo with a fixed number of card faces, the maximum of which is normally determined by state gaming rules and regulations. The maximum number of card faces allowed in Texas is 66 card faces per game. Card-minding devices



# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

are usually sold as stationary units or portable (hand-held) units. Players often play bingo with paper products in conjunction with monitoring the card minder(s). The latest form of card minders utilize wireless handsets that receive game and called ball information from the server. Additionally, many of the newest versions of hand-held card minders are designed with color screens and advanced graphics.

## Pull-tab Bingo

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

Game participants open the perforated tabs and compare the configurations with game information provided on the front of the tickets, or on sheets called flares, in order to determine whether a particular ticket is a winner. The flare also shows the number of cards in the set or deal, how much money should be collected from the sale of all the tickets, and the total dollar amount of the prize payouts. Additionally, the flare shows the profit amount if all of the game cards are sold, the payback percentage, and the win ratio. Ticket prices normally range from 25 cents to \$10, with individual prizes ranging from 50 cents to \$750. Prize payouts generally range from 65 percent to 77.5 percent of total box sales, with an approximate average of 74.3 percent. In Texas, the prize payout must be at least 65 percent. For security purposes, each set or deal of cards is factory sealed and given a unique serial number.

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

A major advantage of event tickets is that they come in much smaller ticket counts per set or deal and the major “event” winners are not paid until all tickets are sold, which guarantees the exact stated profit per set or deal. Gross receipts for pull-tab sales in 2009 were more than \$319 million, the highest amount ever for pull-tab ticket sales in Texas.

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

## F. Key Service Populations

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

# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

ful of, and sensitive to, the viewpoints of Texans who are not in favor of gaming in any form.

## **Direct Customers**

### ***Lottery and Charitable Bingo Players***

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

### ***Lottery Retailers***

As of February 12, 2010, the Texas Lottery had 16,701 licensed retailers. The two largest groups, according to their Standard Industrial Code (SIC) classifications, are convenience stores and grocery stores. The agency continues to streamline the licensing processes for retailers to make it easier for businesses to meet licensing requirements and to keep their records up to date. Examples include options to submit license renewals and general information updates via the Internet and consolidating license expiration dates for multi-location retailers so that all licenses have a common renewal date. The agency has created retailer-focused, web-based services to provide lottery financial and inventory data to retailers and continues to work with retailers and various other groups to standardize lottery financial statements.

### ***Charitable Bingo Licensees***

The CBOD licenses bingo conductors, lessors, manufacturers and distributors. In 2009, there were 1,708 bingo licensees. Of these, there were 1,255 charitable bingo conductors in Texas, comprising nonprofit organizations such as veteran organizations, religious societies, fraternal

organizations, volunteer fire departments and groups supporting medical research programs. There were 416 commercial lessors, which are individuals, corporations, authorized organizations or associations of authorized organizations that lease property where bingo is conducted. There were 17 manufacturers of bingo products and 20 distributors.

### ***Bingo Advisory Committee***

The Bingo Advisory Committee (BAC) consists of nine members, appointed by the Texas Lottery Commission, that represent a balance of bingo industry interests. Those interests include representatives from the general public, charities that operate bingo games, commercial and charity lessors, manufacturers and distributors of bingo equipment and supplies. The BAC may advise the Texas Lottery Commission on the needs and problems of the bingo industry, comment on the development of bingo rules before final adoption, report to the Commissioners on their activities, and perform other duties as determined by the Commission. The BAC will cease to exist annually on August 31, unless the Commission, prior to August 31, votes to continue the BAC.

### ***Other Direct Customers***

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

## **Indirect Customers**

### ***Local Jurisdictions***

Local jurisdictions are indirect customers who receive as an allocation from the state a portion of the funds from prize fees collected by licensed

# OVERVIEW OF AGENCY SCOPE AND FUNCTIONS

organizations conducting charitable bingo. Local jurisdictions are able to apply these funds within their jurisdictions as they deem appropriate.

## *Texas Citizens*

Texas citizens benefit from the creation of jobs resulting from the conduct of the *Games of Texas* and charitable bingo. Texas families benefit from the Texas Lottery's net revenue contributions to the Foundation School Fund, which totaled more than \$12 billion as of January 2010, and from lottery prize money that is returned to the state from winners who are delinquent in child support payments, student loan payments, or other taxes or moneys owed to the state. In addition, from FY 1995 through February 2010, more than \$580 million in unclaimed Texas Lottery prize funds reverted to the state to be appropriated for health care and other programs authorized by the state legislature. Beginning in FY 2010, a certain portion of Texas Lottery proceeds also benefit the Fund for Veterans' Assistance. The Texas Legislature passed legislation requiring the agency to create and market a scratch-off game to benefit this fund, which is managed by the Texas Veterans Commission. A new veterans' scratch-off game is anticipated to be launched three to four times annually in support of the fund.

Texas citizens benefit from prize fees and rental taxes collected through the conduct of charitable bingo because these funds are deposited into the

state's General Revenue Fund. Many Texas citizens are also beneficiaries of charitable causes licensed charitable bingo organizations support.

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

The Texas Lottery continues its relationship with the Texas AMBER Alert Network, bringing more than 16,700 retailers into the effort to ensure that missing or abducted children are returned home safely. Since the Texas Lottery first joined the AMBER Alert Network in 2003, the agency has participated in more than 40 AMBER Alerts. In September 2007, the agency joined the Texas Silver Alert System. The purpose of this network is to assist in finding persons over 65 years of age who have a diagnosed impaired mental condition. As of February 2010, the agency has participated in more than 100 Silver Alerts. In August 2008, the agency joined the Blue Alert Program. The purpose of this program is to speed the apprehension of violent criminals who seriously wound local, state or federal law enforcement officers. As of February 2010, the agency has participated in two Blue Alerts.

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

## TEXAS LOTTERY COMMISSION

### Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

## II. ORGANIZATIONAL ASPECTS

### A. Workforce Composition

The Texas Lottery Commission has 321.5 Full Time Equivalent (FTE) positions distributed among its 11 divisions, as shown in Table 1.

**TABLE 1  
POSITION ALLOCATION, BY DIVISION**

DIVISION	FTE
ADMINISTRATION	68
CHARITABLE BINGO OPERATIONS	47
ENFORCEMENT	15.5
EXECUTIVE	3.5
GOVERNMENTAL AFFAIRS	4
HUMAN RESOURCES	7
INTERNAL AUDIT	5.75
LEGAL SERVICES	16.5
LOTTERY OPERATIONS	126.25
MEDIA RELATIONS	6
OFFICE OF THE CONTROLLER	22
<b>TOTAL</b>	<b>321.5</b>

Source: Texas Lottery Commission

### Diversity

The Texas Lottery Commission takes pride in the diversity of its workforce, which is illustrated in Tables 2, 3 and 4. The agency's workforce composition at the end of FY 2009 was: 12 percent African American, 30 percent Hispanic, 57 percent White and 1 percent Asian. During the same time period, the agency's staff was 63 percent female and 37 percent male, and 70 percent of the workforce was more than 40 years of age.

**TABLE 2  
AGE OF EMPLOYEES  
(FY 2009 AVERAGE)**

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

Source: Uniform Statewide Payroll/Personnel System (USPS)

**TABLE 3  
EMPLOYEE ETHNIC AND GENDER REPRESENTATION (FY 2009 AVERAGE)**

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

Source: Uniform Statewide Payroll/Personnel System (USPS)

**TABLE 4**  
**WORKFORCE DIVERSITY DATA (FY 2009 AVERAGE)**

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

Source: Uniform Statewide Payroll/Personnel System (USPS)

## B. Organizational Structure and Process

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

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

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

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

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

## Division Descriptions

### *Administration Division*

The Administration Division serves the needs of the Texas Lottery Commission and its customers in the areas of information resources, support services and records management. The Administration Division is managed by a Director who reports to the Executive Director.

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

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

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

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

The Purchasing & Contracts Section manages all procurements for the agency. This includes Texas Lottery- and Charitable Bingo-related

contracts for a broad range of goods and services provided by state agencies and private vendors. The section also administers the HUB/Mentor-Protégé Program and monitors contract compliance.

The Publications & Graphics Section supports the design, development, production and distribution of all agency publications for print and web media.

Finally, the Support Services Department manages the coordination and publication of all agency policies and procedures.

### *Charitable Bingo Operations Division*

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

*Charitable bingo is an important fundraising activity for a variety of Texas non-profit organizations. The Charitable Bingo Operations Division of the Texas Lottery Commission is charged with the strict control and close supervision of bingo conducted in this state so that bingo is fairly conducted and the proceeds from bingo are used for an authorized purpose. Our goal is to achieve voluntary compliance and assist licensees through training and education.*

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

The CBOD is managed by a Director, who reports to the three-member Commission. The division is organized into two departments:

Audit Services and Taxpayer Services. While each department of the CBOD performs a distinct function, they also interact frequently with each other, as well as with other divisions of the Texas Lottery Commission in the regulation of charitable bingo activities in Texas.

## *Audit Services Department*

The CBOD's regulatory objective states, "*The Charitable Bingo Operations Division of the Texas Lottery Commission is charged with the strict control and close supervision of bingo conducted in this state so that bingo is fairly conducted and the proceeds from bingo are used for an authorized purpose.*" The activities conducted by the Audit Services Department address these components of the regulatory objective.

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

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

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

## *Taxpayer Services Department*

The Taxpayer Services Department has three sections: Accounting Services, Licensing Services and Special Projects. The key services and functions of Accounting Services are: to process all quarterly tax returns and mail out billing notices; calculate and remit allocation checks to local jurisdictions that share the revenue from

bingo; review unit accounting agreements for compliance; monitor the operating capital limits and distributions of bingo net proceeds; process waiver requests and communicate with licensees regarding compliance issues.

If a licensee does not pay, or underpays, its prize fee or gross rental tax for a quarter, the Accounting Services Section is responsible for collection of those fees and taxes. The collection of prize fees and rental tax may include forfeiting bonds, placing licensees on payee hold with the Comptroller of Public Accounts, or requesting and testifying in administrative hearings to revoke or deny the license.

Accounting Services interacts frequently with licensees regarding the filing of reports, meeting their net proceed requirements, notification of accounting unit changes or the transfer of funds into their bingo account, and the calculation of their operating capital and required distribution. On a quarterly basis, Accounting Services notifies all conductors in writing of their required distributions and then verifies that their distributions were made as mandated by the Bingo Enabling Act.

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

The key services and functions of the Special Projects Section are to review, conduct on-site Bingo Training Programs and update and maintain the online Bingo Training Program, coordinate and maintain the Charitable Bingo Operations Division website, develop and coordinate the publication and distributions of various educational material, research bingo/gaming trends, research charitable gaming regulations of other jurisdictions, and assist with coordinating and tracking open records requests. The section also assists in the development and implementation of surveys, writes and coordinates the publication of the Bingo Annual Report, the specific sections of the Agency Strategic Plan and Agency Business Plan that pertain to the Charitable Bingo Operations Division, and write and coordinate the publication of the Bingo Bulletin. In addition, Special Projects staff coordinates collection and maintains data related to customer satisfactions, surrendered and expired licensees, and licenses that have been placed in administrative hold status.

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

## ***Enforcement Division***

The Enforcement Division investigates violations of the State Lottery Act, Bingo Enabling Act and administrative rules as determined by Commission prioritization. Enforcement staff works closely with the Charitable Bingo and Lottery Operations Divisions as well as state and local law enforcement agencies to effectively conduct their investigations. In FY 2009, Enforcement investigators conducted a total of 1,553 investigations. Enforcement also conducts background investigations of Texas Lottery applicants, bingo and lottery licensees, contract vendors, and contract vendor employees. Additionally, the division conducts site inspections of select lottery vendor facilities.

The Enforcement Division is managed by a Director who reports to the Executive Director.

## ***Executive Division***

The Executive Division refers to the Executive Director and administrative staff. The Executive Division is the focal point for the decision making and strategic planning related to the day-to-day operation and administration of the Texas Lottery.

The Executive Director serves as the Chief Executive Officer for the Texas Lottery Commission relating to the agency's lottery operations and plays a key role in the short- and long-term planning for the agency. The Executive Director performs highly advanced management activities with broad oversight responsibility, and exercises strict control and supervision over all lottery games conducted by the Commission. Through leadership, example, and daily conduct, the Executive Director promotes and ensures integrity, security, honesty, and fairness in the operation and administration of the Texas Lottery. The Executive Director also is responsible for the day-to-day operations of the agency

and for overseeing the agency's strategic and budget planning process.

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

## ***Governmental Affairs Division***

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

Governmental Affairs is managed by a Director who reports to the Executive Director.

## ***Human Resources Division***

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

Human Resources staff works with agency division managers to coordinate recruiting, interviewing, hiring and orienting new employees. Human Resources coordinates employee attendance and leave-keeping with the agency payroll system. Human Resources communicates and interprets provisions of insurance, deferred compensation and retirement programs avail-

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

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

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

## ***Internal Audit Division***

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

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

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

## ***Legal Services Division***

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

### ***General Counsel Section***

The General Counsel Section provides legal services to the agency primarily in connection with transactional matters such as procurements and contracts, processing lottery prize claimants, and rulemaking. The section is supervised by the Deputy General Counsel who reports to the General Counsel.

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

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

The Office of Special Counsel provides personnel and employment law advice to the agency.

The Special Counsel is the chief ethics lawyer for the agency and answers and addresses ethics issues for the agency and its employees. Additionally, the Special Counsel provides independent counsel to the three-member Commission in connection with administrative contested cases. The Special Counsel reports to the General Counsel.

## ***Lottery Operations Division***

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

The division serves as the regulatory arm of the Texas Lottery, while also contributing substantially to the agency's revenue collection function. Product development in the division focuses on maximizing revenue to the state, while advertising efforts support the goal of effectively reaching the public to enhance the awareness of Texas Lottery games and generate revenue, while not unduly influencing any person to purchase a lottery ticket. Retailer development efforts focus on the enhancement and expansion of distribution channels to reach new player segments and increase sales.

## ORGANIZATIONAL ASPECTS

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

### *Advertising and Promotions Department*

The Advertising and Promotions Department oversees Texas Lottery advertising services and promotional events. The Advertising Section is responsible for overseeing and managing all advertising services for the agency. The section works with the advertising vendor(s), currently TracyLocke and LatinWorks, to plan, develop, and implement lottery advertising, and is responsible for making recommendations regarding marketing initiatives, advertising concepts and campaigns, media plans and media buys. Advertising services include creative concepting, production, planning, buying and placement of electronic, print and outdoor advertising, as well as brand management and creation of the communications strategy. The Promotions Section is responsible for overseeing and managing all promotional events, along with the procurement and distribution of promotional products for the agency.

### *Drawings and Validation Department*

The Drawings and Validations Department has two operating units consisting of the Drawings Section and Validations Section.

The Drawings Section conducts a comprehensive program that protects and maintains the security and integrity of lottery on-line game drawings, while ensuring that the on-line games are conducted fairly and in compliance with applicable statutes, agency guidelines, policies and procedures.

The agency contracts with a production company to broadcast drawings, and an independent certified public accountant is present to certify all drawings in accordance with statute. In ad-

dition, the Drawings Section handles a variety of administrative responsibilities, including the maintenance of drawing machines, ball sets and related equipment.

The Validations Section is made up of the headquarters claim center in Austin and 15 field claim center offices responsible for ensuring that lottery ticket claims are processed correctly and in compliance with applicable statutes, agency guidelines, and policies and procedures.

All lottery prizes of \$600 or more must be claimed through a Texas Lottery claim center. Prizes of \$1 million or less may be claimed at any of the 16 claim centers. Prizes of more than \$1 million and prizes involving installment payments must be claimed at the headquarters claim center in Austin.

Claim center personnel process ticket claims for payment; respond by telephone and in person to player and general public information inquiries; represent the agency at local public events; conduct retailer site inspections for ADA compliance; and conduct Retailer Research Surveys to gather marketing data and feedback on agency and lottery operator service levels.

### *Products Department*

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

The Products Department oversees the development of new on-line games and enhancements to

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

### *Retailer Services Department*

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

The Retailer Development Section in the Retailer Services Department designs and implements strategies for developing the retailer

base through cooperative efforts with Products, Advertising and Promotions, and the lottery operator. Staff coordinates initiatives for exploring new trade styles and recruitment, as well as developing new business opportunities with existing retailers and trade styles. The effective placement and maximum revenue generation of self-service equipment is also a priority. Retailer Development staff is also responsible for coordinating the agency committee process for ensuring consistent and accurate training and communication with retailers.

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

The Retailer Services Department monitors lottery operator compliance with contractual requirements related to instant ticket distribution, sales terminal installation, equipment moves, retailer training and interaction with retailer licensees. Department staff is also stationed at the instant ticket distribution warehouse to monitor lottery operator compliance with contractual requirements related to instant ticket warehousing, distribution and returns.

The Retailer Services Department also responds to customer contacts through the toll-free Communications Services Telephone Hotline. Hotline staff answers questions about retailer licensing, retailer accounting and general regu-

latory issues, as well as inquiries regarding how to play the games. Questions are also received from the general public and Texas Lottery players, and callers are directed to other sources if their questions are not related to one of these subject areas. Hotline staff also communicates with retailers, game players and the general public via e-mail and written correspondence. The department is further responsible for tracking, routing and responding to correspondence and ensuring timely responses on matters directed to the agency, the Executive Director and the Commissioners.

### *Security Department*

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

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

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

The Security Department houses a forensic laboratory that is used to perform forensic analysis on questionable tickets. The forensic analysts,

through the use of laboratory equipment, examine tickets with suspected alterations to the game play data and claimant information area to determine the legitimacy of ticket claims.

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

Additionally, the Security Department works closely with the Products Department in the design process for on-line ticket stock to ensure it is secure and of the highest quality; with the lottery operator to ensure adequate security measures are in place for storing and issuing the ticket stock; and with Retailer Services Department in the destruction of ticket stock that may be required.

In order for the Texas Lottery to add *Powerball* to its game portfolio, the agency was required to undergo a compliance review conducted by the Multi-State Lottery Association (MUSL), the organization that operates *Powerball*. The review included security aspects of the gaming systems, drawings security, and process controls related to ticket stock security and ticket validations. The compliance review was completed January 14, 2010, and ticket sales began January 31, 2010. The agency will continue to submit to biennial compliance reviews in accordance with MUSL requirements. The Security Department is responsible for ensuring the agency's ongoing compliance with MUSL security standards and

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

### ***Media Relations Division***

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

Two distinct sections make up the Media Relations Division: Media Relations and Audio-Visual. The Media Relations section responds to media inquiries and issues media advisories and news releases in English and Spanish to inform the public about agency activities. Through its Spanish-language outreach efforts, the section prepares news releases and video news releases for the Spanish-language media and makes bilingual staff available for interviews when needed.

Through its winner awareness efforts, the Media Relations section generates publicity for winners of large jackpots and other on-line prizes, as well as instant ticket merchandise and cash-prize winners. The section also coordinates agency public awareness campaigns and provides agency representatives to speak to interest groups throughout Texas as part of the agency's Speakers Bureau. By working with other divisions and making information about agency news and initiatives available to the media, the Media Relations Section helps keep the agency's public service role in the public eye.

The Audio-Visual section produces informational audio and video segments for statewide broadcast and satellite distribution, including video news releases on lottery and charitable bingo activities, events and issues. This group also provides audio-visual support for events, as well as archival and training services for other divisions. In addition, the section occasionally furnishes audio-visual services to other state agencies and legislative offices upon request.

### ***Office of the Controller***

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

### ***Management Style***

The agency uses an inclusive style of management, striving to involve staff in the decision making process as much as possible and keep staff informed as decisions are made. Directors strive to involve their staff in planning and implementing directives within their areas and also seek feedback from staff through periodic internal staff surveys. For Texas Lottery (non-CBOD) staff, appropriate management focus

is placed on the optimization of revenue to the Foundation School Fund. Staff involvement at all levels has helped create the highly skilled and experienced Texas Lottery Commission staff that is in place today.

Meetings to define strategy and recognize progress occur throughout the agency on a regular basis. To track the general performance of the divisions and help mark their progress, each division uses a variety of internal management reports that are regularly reviewed by executive management, the division director and the managers of the specific sections within each division.

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

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

### **C. Geographical Location and Travel Requirements**

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

The Lottery Operations Division employs staff in the Austin headquarters and in 15 field claim centers statewide. Division personnel are also stationed in the instant ticket warehouse.

The Texas Lottery Commission posts video of its headquarters training classes to its intranet so that off-site personnel do not have to travel to receive required training. Certain claim center offices also are able to videoconference with headquarters for many meetings. All claim center offices are able to teleconference with headquarters and other field offices, which allows for enhanced communications on all matters.

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

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

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

The CBOD is headquartered in Austin and maintains four regional offices throughout the state, which are staffed by auditors from the Audit Services Department and co-located with Texas Lottery claim centers. Regional offices are located in Odessa, Dallas, Houston and San Antonio. Audit staff at the headquarters in Austin make up a fifth region consisting of the immediate area surrounding Austin.

Auditors from the CBOD travel around the state to conduct investigations, inspections and audits. Auditors are sometimes required to travel out of state and/or out of country to conduct inspections of manufacturing facilities.

## D. Agency Use of Historically Underutilized Businesses

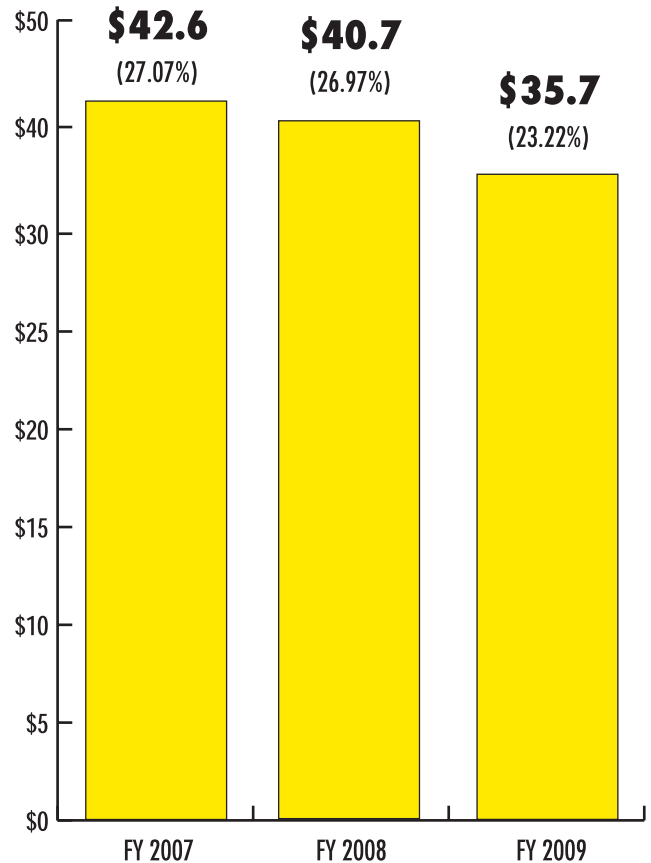
The Texas Lottery Commission promotes fair and competitive opportunities for historically underutilized businesses (HUBs) and minority businesses interested in contracting with the Commission and/or its prime contractors. This is accomplished through outreach efforts focused on informing and educating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

During FY 2009, both direct and subcontracting payments made to minority businesses (not including non-minority women) increased. The Commission experienced a slight decrease in its overall HUB/minority utilization. During this report period, the Commission expended more than \$35.7 million with HUBs and minority businesses (see Figure A).

The Texas Lottery Commission continues to develop and improve its HUB/Minority Business program. The following are some highlights from FY 2009:

- Total payments to minority businesses (not including non-minority women) increased by nearly \$1 million.
- Four of the agency's prime contractors increased subcontracting payments to minority/HUB businesses.
- Three HUB companies provided major contract services to the agency.
- The agency participated in 11 economic opportunity forums and HUB-related outreach events statewide.
- The agency conducted a successful Annual HUB Forum in July 2009, which attracted minority/HUB participants from across the state.
- The agency sponsored five mentor-protégé relationships.
- The agency's HUB Coordinator served as the Chair of the HUB Discussion Workgroup.

**FIGURE A  
HUB/MINORITY SPENDING  
FISCAL YEAR 2007-2009**



# ORGANIZATIONAL ASPECTS

**TABLE 5  
HUB STRATEGIC PLAN PROGRESS REPORT**

REPORT CATEGORY	ACTUAL FY 2008	ACTUAL FY 2009	GOAL FY 2010
HEAVY CONSTRUCTION OTHER THAN BUILDING CONTRACTS*	N/A	N/A	N/A
BUILDING CONSTRUCTION, INCLUDING GENERAL CONTRACTORS AND OPERATIVE BUILDERS CONTRACTS*	N/A	N/A	N/A
SPECIAL TRADE CONSTRUCTION CONTRACTS	23.4%	23.1%	57.2%
PROFESSIONAL SERVICES CONTRACTS	89.0%	91.8%	20.0%
OTHER SERVICES CONTRACTS	26.3%	21.9%	33.0%
COMMODITIES CONTRACTS	34.7%	50.6%	12.6%

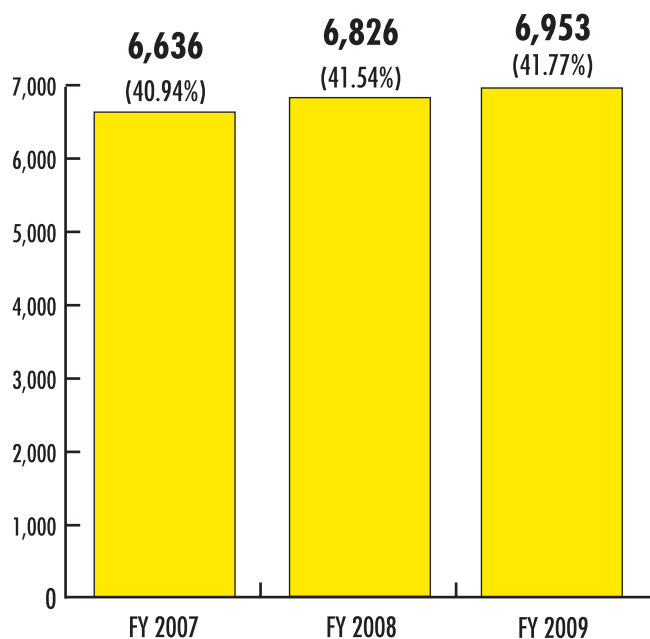
\*The Texas Lottery Commission does not have strategies or programs related to either "Heavy Construction" or "Building Construction."  
Source: Comptroller of Public Accounts Statewide HUB Reports

Table 5 reflects the Texas Lottery Commission's HUB Strategic Plan Progress Report for FY 2008 and 2009, based on the Comptroller of Public Accounts' (CPA) HUB goals.

The Texas Lottery Commission is proud of its achievements regarding HUB/minority busi-

ness utilization in agency procurements. For FY 2009, the agency ranked 15<sup>th</sup> in terms of overall expenditures as captured by the CPA's Fiscal Year 2009 Annual Historically Underutilized Business (HUB) Report. During this report period, the Texas Lottery Commission ranked fourth by overall HUB percentage of the 15 largest-spending state agencies.

**FIGURE B  
LICENSED MINORITY RETAILERS  
FISCAL YEAR 2007-2009\***



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

The Texas Lottery Commission has continued to exceed its statutory goal of a 20 percent minority-owned retailer base. During FY 2009, the Commission's retailer base included 6,953 minority retailers, which represented 41.77 percent of the Commission's total Texas Lottery retailer base (see Figure B). During this report period, the number of minority retailers increased in six of the 10 sales districts.

## E. Fiscal Aspects

### Size of Budget

SB 1, the General Appropriations Act for the 2010 – 2011 biennium, established the agency's appropriations (available budget) and certain key performance measures. Specific provisions included the following:

- Regular appropriations from the General Revenue (GR) Dedicated Lottery Account amount to \$183.4 million in FY 2010 and \$179.8 million in FY 2011 to operate the Texas Lottery.
- Charitable Bingo appropriations from GR amount to \$15.5 million for FY 2010 and FY 2011.
- The agency's Full Time Equivalent (FTE) cap authorized by SB 1 is 321.5.
- The agency's Full Time Equivalent (FTE) cap authorized by HB 1 is 318.5.
- Contingency Rider 12 provided the GR Dedicated Lottery Account with additional appropriation funding for fulfilling contractual obligations and other administrative costs if gross sales exceed \$3.572 billion in FY 2010 and \$3.492 billion in FY 2011. If this condition is met, the Commission will receive an appropriation equal to 1.49 percent of amounts exceeding the gross sales target. The agency's budget is prepared with direct input from division management and is reviewed and approved by the Executive Director or Charitable Bingo Operations Director, as applicable, through

a series of internal budget hearings held with each division director regarding the respective budget requests. The three-member Commission reviews the final budget requests before submission to the legislative oversight agencies and the Governor. The agency uses performance measures and goals to determine where resources are needed and adjusts priorities accordingly.

- Rider 10 provided, in addition to the traditional 5 percent retailer commission amount, an amount not to exceed an additional one-half of one percent of gross sales each fiscal year that may be made available for the purpose of paying sales performance retailer commissions. Prior to providing this additional commission, a report must be provided to the Governor and the Legislative Budget Board outlining the plan and projected sales and state revenue benefits.

### Method of Finance

The Texas Lottery Commission is funded from two distinct fund sources. Table 6 reflects the Texas Lottery Commission's budget by fund type for FY 2010 and FY 2011. The operation and administration of the state lottery is funded from the GR Dedicated Lottery Account. Charitable Bingo is funded from General Revenue.

**TABLE 6**  
**BUDGET FUNDS, 2010-11 BIENNIUM**

	FY 2010	FY 2011
GENERAL REVENUE FUND (CHARITABLE BINGO)	\$15,546,681	\$15,520,280
GENERAL REVENUE DEDICATED FUND - LOTTERY ACCOUNT NUMBER 5025	\$183,361,743	\$179,785,075
<b>TOTAL, METHOD OF FINANCING</b>	<b>\$198,908,424</b>	<b>\$195,305,355</b>

Source: SB1, General Appropriations Act, 81<sup>st</sup> Legislature, Regular Session

## Other States' Comparisons

The agency presents comparative data for U.S. lotteries calendar year 2009 sales in Table 7.

**TABLE 7  
TOP 10 U.S. LOTTERIES  
CALENDAR YEAR 2009**

STATE LOTTERY	SALES (\$ MIL.)
NEW YORK	6,776.0
MASSACHUSETTS	4,394.3
FLORIDA	3,909.2
TEXAS	3,773.6
GEORGIA	3,676.3
PENNSYLVANIA	3,050.0
CALIFORNIA	2,984.1
NEW JERSEY	2,575.3
OHIO	2,450.3
MICHIGAN	2,382.7

Source: *La Fleur's Magazine*, January/February 2010

## Budgetary Limitations

The sale of lottery tickets is used to pay for all costs of Texas Lottery operations. This includes the payment of prizes to the holders of winning tickets, retailer commissions, and all other costs incurred in the operation and administration of the lottery. The State Lottery Act limits the combined total of retailer compensation and agency administration to no more than 12 percent of gross ticket revenues. Of this 12 percent, the State Lottery Act mandates that no less than 5 percent be allocated to retailers as commissions, with the remaining 7 percent of ticket sales allowed to be expended on administration of the Texas Lottery. The Texas Lottery Commission returns any "unspent administrative funds" to the Foundation School Fund.

A major part of the agency's budget is concentrated in the Lottery Operations Division budget, which accounts for the commission paid to

the lottery operator. The current lottery operator contract was initiated October 10, 2001, and includes a compensation rate to the lottery operator of 2.6999 percent of gross sales. The contract expires August 31, 2011. This is by far the largest contract managed by the agency. In FY 2009, the lottery operator received \$99.6 million in compensation from the agency.

As the expiration of the current lottery operator contract drew near, the Texas Lottery Commission procured consultant services to provide expertise and assistance in analyzing and exploring options available for the delivery of core lottery business functions and developing the resulting new lottery operator procurement documentation. As a result, the agency released a Request for Proposal in January 2010 for lottery operations services and equipment. It is the agency's intent to announce the apparent successful proposer in the fall of 2010.

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

Presently, administrative funding for the Charitable Bingo program is supplemented by the GR Dedicated Lottery Account as the Bingo program does not have sufficient General Revenue appropriation to fund their operating expenses.

The agency's out-of-country and out-of-state travel is restricted by Rider 6 of the Texas Lottery Commission's bill pattern. Out-of-country travel is restricted to Mexico or Canada and only if reimbursable by a third party. Out-of-state travel expended per year may not exceed an amount equal to 80 percent of travel expenditure amounts for FY 1998. The 80-percent restriction is more stringent than that which is

imposed on other state agencies by Article IX, Section 5.08.

Rider 14 of the General Appropriations Act prohibits the agency from spending agency funds for the purpose of exploring, investigating, negotiating, calculating, or otherwise taking action that would result in selling the Texas Lottery.

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

Staffing and funding resources appropriated for the Texas Lottery Commission for the 2010-11 biennium from the GR Dedicated Lottery Account are sufficient to implement current statutory requirements. However, future growth in Texas Lottery sales, changes to the number or type of lottery games authorized, changes to retailer commissions or vendor/contract obligations could necessitate a re-examination of resources required to administer Texas Lottery programs.

Presently, administrative funding for the Charitable Bingo program is supplemented by the GR Dedicated Lottery Account as the Bingo program does not have sufficient General Revenue appropriation to fund their operating expenses.

The Commission plans to include the following items in its FY 2012 – 2013 Legislative Appropriations Request.

- A revision to Rider 11, Lottery Operator Contract. The amount included in the Appropriation Bill for Strategy A.1.6. Lottery Operator is an estimated appropriation for payment of lottery operator contractual obligations. The FY 2010-11 appropriation amount is 2.6999 percent of gross sales based on the current contract with the lottery operator vendor that will expire August 31, 2011. This Rider will require a revision for FY 2012-13

based on the compensation rate outlined in the new lottery operator contract.

- The agency's out-of-country and out-of-state travel is restricted by Rider 6 of the Commission's bill pattern. Out-of-country travel is restricted to Mexico or Canada and only if reimbursable by a third party. Out-of-state travel expended per year may not exceed an amount equal to 80 percent of travel expenditure amounts for FY 1998. The restrictions for out-of-country travel and out-of-state travel are more stringent than that which is imposed on other state agencies by Article IX, Section 5.08. The Commission will seek a deletion of Rider 6 in the Commission's Legislative Appropriation Request and comply with the general travel restrictions outlined in Article IX.
- Continuation of Rider 10, Retailer Commissions. This Rider was granted for the FY 2010-2011 biennium and provides an additional 0.5 percent of gross sales each fiscal year for the purpose of paying sales performance retailer commissions. The Commission will seek continuation of this Rider for incentivized sales performance allocations to retailers.
- Should General Revenue budgetary reductions be required in the FY 2012-2013 Legislative Appropriations Request, it could necessitate a re-examination of resources required to administer the Bingo Enabling Act and possibly restrict the division's statutory charge. If reductions are required, the Commission may be required to submit an Exceptional Item to provide for the restoration of any shortfall in Bingo administrative expenses.

## Capital and/or Leased Needs

The Texas Lottery Commission continually reviews strategies for technology hardware and software refresh. During the 2012-2013 biennium, the agency will be reviewing options for a refresh of its laptop and desktop computers. This equipment is currently leased through a statewide contract that expires in FY 2012. A cost-benefit analysis to be completed prior to preparation of the FY 2012-2013 Legislative Appropriations Request to evaluate if capital budget authority should be requested for the purchase of the equipment, as opposed to continuing with a lease arrangement.

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

The Automated Charitable Bingo System (ACBS) supports the critical functions of Charitable Bingo licensing and management. The current ACBS platform toolset will only be supported through 2013, so it is essential that the system be redesigned and converted to ensure its continued availability. An Exceptional Item request for funding to redesign the ACBS will be included in the agency's Legislative Appropriations Request for FY 2012 and 2013.

# TEXAS LOTTERY COMMISSION

## Agency Strategic Plan

### For the Fiscal Years 2011 – 2015 Period

### III. AGENCY ACTIVITIES

The Texas Lottery Commission is proud of its accomplishments in the following areas: economic development, regulation and compliance, game and product innovations, technological developments, and public awareness. Through its work in these areas, the agency has fulfilled the requirements of the State Lottery Act and Bingo Enabling Act and has initiated programmatic changes as necessary to generate revenue for the state of Texas and fulfill the agency's vision to be the preeminent lottery and charitable bingo agency through innovative leadership.

#### A. Economic Development

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

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

INDUSTRY	2004	2005	2006	2007	2008	2009*
PERFORMING ARTS COMPANIES	112,109,726	121,787,551	123,147,357	111,355,580	217,260,328	110,419,361
SPECTATOR SPORTS	308,087,689	469,727,580	391,203,597	417,389,404	416,828,308	241,916,159
MUSEUMS, HISTORICAL SITES, AND SIMILAR INSTITUTIONS	51,329,027	58,040,708	64,766,706	71,494,658	77,826,916	38,340,609
AMUSEMENT PARKS & ARCADES	461,638,376	531,479,192	544,946,270	544,311,880	528,476,423	235,072,972
GAMBLING INDUSTRIES	42,259,297	36,761,123	40,951,810	39,241,958	32,148,669	12,497,528
OTHER AMUSEMENT & RECREATION INDUSTRIES	2,261,192,860	2,314,229,456	2,583,618,846	2,928,454,640	3,204,933,675	1,592,377,174
RACETRACKS	104,251,421	192,065,199	111,619,127	107,050,599	97,894,835	50,279,659
<b>TEXAS LOTTERY</b>	<b>3,643,566,925</b>	<b>3,716,875,563</b>	<b>3,743,766,963</b>	<b>3,776,342,217</b>	<b>3,645,999,482</b>	<b>3,773,590,861</b>
<b>CHARITABLE BINGO</b>	<b>604,744,497</b>	<b>634,031,612</b>	<b>658,325,172</b>	<b>658,200,485</b>	<b>685,418,665</b>	<b>692,927,554</b>

\*Complete data for Calendar Year 2009 not yet available, numbers shown through June 2009.

Source: Texas Comptroller of Public Accounts and Texas Lottery Commission

# AGENCY ACTIVITIES

## Revenue and Tax Collection

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

## Texas Lottery Sales and Revenue

The original fiscal estimate performed in 1991 by the Comptroller of Public Accounts projected that net revenue from the Texas Lottery Commission would be less than \$2.3 billion for the first five years of operation. In fact, actual revenue for the first five years of the lottery was nearly \$3.8 billion, and through FY 2009, the Commission has generated more than \$17.2 billion for the state of Texas.

Prior to 1997, lottery proceeds were allocated to the General Revenue Fund. Since 1997, lottery proceeds have been dedicated to the Foundation School Fund to support public education in our state and the Texas Lottery has contributed more than \$12 billion to the Foundation School Fund since that time. Other Texas Lottery funds such as unclaimed prizes revert back to the state for programs authorized by the Texas Legislature.

Beginning in FY 2010, certain Texas Lottery proceeds from specific instant ticket games also benefit the Fund for Veterans' Assistance.

In FY 2009, The Texas Lottery Commission once again transferred slightly more than \$1 billion to the Foundation School Fund, marking the sixth time the agency has reached the \$1 billion mark since 1998. Including unclaimed prize money, total revenue transferred to the state was approximately \$1.04 billion. The Texas Lottery Commission recognizes that future results may flatten or possibly decrease, in large part due to the maturity of

**TABLE 9**  
**REVENUE TRANSFERRED FROM TEXAS LOTTERY**  
**FISCAL YEAR 1992 - 2009 (IN MILLIONS)**

	<b>COMPTROLLER'S ESTIMATE</b>	<b>CASH BASIS (ACTUAL)</b>	<b>ACCRUAL BASIS (ACTUAL)</b>
FY 1992	\$61	\$203	\$250
FY 1993	\$400	\$609	\$657
FY 1994	\$601	\$869	\$928
FY 1995	\$611	\$927	\$1,015
FY 1996	\$1,087	\$1,158	\$1,098
FY 1997	\$1,112	\$1,189	\$1,183
FY 1998	\$1,430	\$1,157	\$1,098
FY 1999	\$1,055	\$969	\$953
FY 2000	\$890	\$918	\$863
FY 2001	\$816	\$865	\$864
FY 2002	\$807	\$956	\$929
FY 2003	\$840	\$955	\$949
FY 2004	\$804	\$1,003	\$1,009
FY 2005	\$781	\$1,016	\$1,009
FY 2006	\$1,011	\$1,030	\$1,036
FY 2007	\$1,044	\$1,032	\$1,034
FY 2008	\$1,057	\$983	\$981
FY 2009	\$960	\$1,000	\$999

Source: Texas Comptroller of Public Accounts and Texas Lottery Commission

the lottery in Texas and due to increased competition from other gambling activities, legal and illegal, both in Texas and in surrounding states.

Since the inception of the Texas Lottery Commission through FY 2009, more than \$31.8 billion has been returned to players in the form of lottery prizes. The Texas Lottery Commission's licensed retailers have received nearly \$2.7 billion in commissions and \$73.6 million in bonuses. In FY 2009, prizes paid to Texas Lottery winners totaled more than \$2.3 billion. Retailers received more than \$186.1 million in retailer commissions and nearly \$1.5 million in retailer bonuses, for a total of more than \$188 million in payments to Texas Lottery retailers.

The Texas Lottery Commission's transfer of slightly more than \$1 billion to the Foundation School Fund in FY 2009 was based on overall sales of \$3.72 billion, the third-highest level of total sales in the agency's 17-plus year history.

A highlight for instant ticket sales in FY 2009 was the introduction of the *\$500,000,000 Blockbuster* instant ticket game that featured more \$1 million-plus prizes than any other Texas Lottery scratch-off game ever offered. Instant game sales in FY 2009 totaled \$2.8 billion, an increase of .3 percent over FY 2008.

On-line game sales experienced an increase in FY 2009 as well. In total, on-line sales increased by \$40.9 million or 4.6 percent from the prior year sales total. The increase is attributable to growth in *Mega Millions*, *Megaplier*, *Texas Two Step*, and *Daily 4*. *Mega Millions* and *Megaplier* sales for FY 2009 reflect the highest sales level since Texas joined the game in December 2003, with sales of \$215.4 million and \$47.4 million respectively. *Texas Two Step* finished the year with \$51.5 million in sales, a 7.5 percent increase over FY 2008 and the highest sales since FY 2003. *Daily 4* sales increased \$4.6 million or 10.9 percent over the prior year. Other on-line games such as *Cash Five*, *Pick 3* and *Lotto Texas* were not as successful during FY 2009.

These games decreased in total sales by \$10.6 million in FY 2009.

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

During FY 2009, the Texas Lottery Commission transferred \$43.1 million in unclaimed prizes to the state. This brings the total to \$523.8 million since the first statutory change addressing unclaimed prizes in 1999. The biggest beneficiary to date has been the General Revenue Fund, which has received \$212.1 million in unclaimed prizes. Prior to statutory changes in 1999, unclaimed prize money was used to provide additional money for the payment of prizes, and unclaimed prize money on hand at the end of a fiscal year was then returned to the state.

In each of the fiscal years of the biennium, the Texas Lottery Commission transfers the first \$10 million of unclaimed prizes to the Department of State Health Services (DSHS) for the credit of

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

	CASH BASIS (ACTUAL)	ACCRUAL BASIS (ACTUAL)
FISCAL 2000	\$28	\$36
FISCAL 2001	\$29	\$38
FISCAL 2002	\$87	\$70
FISCAL 2003	\$67	\$67
FISCAL 2004	\$40	\$41
FISCAL 2005	\$61	\$61
FISCAL 2006	\$55	\$54
FISCAL 2007	\$59	\$59
FISCAL 2008	\$54	\$54
FISCAL 2009	\$43	\$63

Source: Texas Lottery Commission

# AGENCY ACTIVITIES

the Multicategorical Teaching Hospital Account (Account No. 5049). Any unclaimed prizes in excess of the amounts transferred to DSHS Account No. 5049, is transferred to the state's General Revenue Fund.

Finally, the Texas Lottery Commission has assisted in collecting debts owed to the state of Texas. Before the Commission pays a claimant his or her prize, agency staff checks to ensure that the winner does not have certain outstanding debts to the state. This effort has garnered more than \$4 million for the state over the past five years to satisfy debt that might have otherwise gone unpaid.

## Bingo Revenue and Business Activities

Since the first licenses were issued in 1982, charitable bingo has had positive benefits for charities, players, and state, county and municipal governments in Texas. Gross receipts from the conduct of charitable bingo total more than \$15 billion, bingo prizes awarded have been in excess of \$11 billion, and allocations to local jurisdictions have totaled approximately \$238.1 million. By the end of calendar year 2009, the total amount of charitable distributions from the conduct of bingo exceeded \$937 million.

Distributions by organizations conducting charitable bingo benefit the people of Texas in many

**TABLE 11**  
**CHARITABLE BINGO FOR CALENDAR YEARS 1982 - 2009**

YEAR	TOTAL GROSS RECEIPTS	PRIZES PAID TO PLAYERS	CHARITABLE DISTRIBUTIONS	PRIZE FEES & TAXES COLLECTED	BINGO LICENSE FEES COLLECTED	ALLOCATIONS
1982	\$66,488,368	\$45,102,756	\$3,536	\$657,634	\$-	\$657,184
1983	\$163,172,767	\$117,391,473	\$3,646,181	\$1,193,696	\$26,000	\$1,193,376
1984	\$221,814,070	\$161,408,850	\$17,993,595	\$4,048,767	\$889,248	\$4,047,322
1985	\$255,293,746	\$186,271,397	\$27,731,430	\$7,401,175	\$2,463,414	\$4,103,469
1986	\$302,657,186	\$220,241,691	\$18,814,743	\$5,026,247	\$2,654,427	\$3,745,303
1987	\$368,025,355	\$270,745,207	\$20,464,169	\$6,503,393	\$2,521,574	\$6,042,654
1988	\$467,011,652	\$346,054,120	\$28,082,676	\$16,665,167	\$2,902,056	\$7,935,380
1989	\$550,675,771	\$407,309,715	\$35,774,683	\$19,894,214	\$3,270,184	\$9,390,573
1990	\$621,449,048	\$447,567,333	\$47,668,061	\$20,611,702	\$3,236,529	\$9,560,443
1991	\$673,472,508	\$482,773,824	\$54,587,709	\$24,216,996	\$3,263,043	\$9,826,017
1992	\$668,120,245	\$484,992,347	\$48,192,980	\$52,068,903	\$3,743,986	\$5,961,898
1993	\$652,026,981	\$481,514,701	\$51,427,711	\$26,053,716	\$3,525,957	\$7,278,829
1994	\$638,571,682	\$476,049,785	\$48,933,529	\$24,556,792	\$3,762,652	\$10,729,548
1995	\$638,184,564	\$481,835,221	\$46,454,694	\$25,040,240	\$3,676,779	\$10,807,774
1996	\$611,265,755	\$460,964,655	\$40,482,002	\$24,636,210	\$3,566,564	\$10,690,662
1997	\$596,812,617	\$439,824,455	\$38,401,962	\$23,324,609	\$3,501,812	\$10,238,960
1998	\$606,027,285	\$432,876,694	\$42,588,280	\$22,953,484	\$3,389,959	\$9,919,696
1999	\$607,070,515	\$430,764,545	\$40,053,678	\$23,035,950	\$3,647,952	\$9,915,454
2000	\$582,767,393	\$413,799,779	\$36,809,265	\$22,321,028	\$3,921,558	\$9,589,796
2001	\$563,520,364	\$399,983,036	\$34,123,897	\$21,355,489	\$3,178,731	\$9,221,389
2002	\$557,086,857	\$397,920,227	\$31,745,178	\$21,027,100	\$3,233,128	\$9,098,223
2003	\$575,701,959	\$417,410,005	\$29,885,100	\$21,741,107	\$3,095,808	\$9,503,656
2004	\$604,744,497	\$444,846,802	\$30,044,665	\$23,237,670	\$3,111,473	\$10,303,938
2005	\$634,031,612	\$471,503,840	\$30,384,530	\$24,468,496	\$3,041,066	\$10,912,959
2006	\$658,325,172	\$492,181,753	\$31,999,876	\$25,843,037	\$3,316,093	\$11,589,240
2007	\$658,200,485	\$493,338,060	\$32,090,164	\$25,974,178	\$2,871,457	\$11,598,956
2008	\$685,418,665	\$513,089,176	\$32,852,800	\$26,812,372	\$3,204,500	\$11,866,340
2009	\$692,927,554	\$518,256,349	\$35,834,421	\$27,429,510	\$2,974,074	\$12,264,641
<b>TOTAL</b>	<b>\$14,920,864,673</b>	<b>\$10,936,017,795</b>	<b>\$937,071,515</b>	<b>\$568,098,883</b>	<b>\$82,890,027</b>	<b>\$237,993,680</b>

Source: Texas Lottery Commission

ways that include providing assistance to local libraries, veterans organizations, museums, women's shelters, needy children, the disabled, homeless shelters, churches, schools, drug and alcohol treatment programs, medical treatment and research programs, volunteer fire departments, EMS units, police officer organizations, and senior citizen organizations, to name a few.

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

Table 11 provides data related to gross receipts, prizes paid to players, charitable distributions, and allocations to cities and counties from 1982 through 2009.

In calendar year 2009:

- \$692.9 million in gross receipts was generated from the conduct of charitable bingo in Texas;
- Almost \$518.3 million was paid in prizes to bingo players;
- Almost \$36 million was distributed to charitable purposes by licensed conductors;
- \$27.4 million in prize fees and taxes, was collected from charitable bingo activities;
- \$3 million was collected in charitable bingo license fees; and
- \$31.1 million was deposited to the General Revenue Fund, of which \$12.3 million in allocations was returned to local jurisdictions for their share of charitable bingo prize fees.

**TABLE 12  
CHARITABLE BINGO LICENSES AND FUNDING  
CALENDAR YEARS 2004 - 2009**

	2004	2005	2006	2007	2008	2009
<b>APPLICATIONS</b>						
APPLICATIONS RECEIVED	7,978	7,852	7,206	7,502	7,403	7,845
APPLICATIONS ISSUED	7,764	7,457	6,919	7,247	7,093	7,496
TOTAL ATTENDANCE	21,398,659	19,908,409	19,348,594	17,926,119	17,737,361	17,815,017
<b>GROSS RECEIPTS</b>						
CARD SALES	\$280,365,533	\$260,841,381	\$251,273,670	\$229,601,120	\$219,326,678	\$213,737,648
ELECTRONIC SALES	\$150,550,721	\$150,000,823	\$153,498,545	\$155,641,627	\$160,432,804	\$160,484,266
PULL-TAB SALES	\$173,828,243	\$223,189,408	\$253,552,957	\$272,957,738	\$305,659,183	\$318,705,640
<b>TOTAL GROSS RECEIPTS</b>	<b>\$604,744,497</b>	<b>\$634,031,612</b>	<b>\$658,325,172</b>	<b>\$658,200,485</b>	<b>\$685,418,665</b>	<b>\$692,927,554</b>
<b>PRIZES PAID</b>	<b>\$444,846,802</b>	<b>\$471,503,840</b>	<b>\$492,181,753</b>	<b>\$493,338,060</b>	<b>\$513,089,176</b>	<b>\$518,256,349</b>
CHARITABLE DISTRIBUTIONS	\$30,044,665	\$30,384,530	\$31,999,876	\$32,090,164	\$32,852,800	\$35,834,421
ALLOCATIONS	\$10,303,938	\$10,912,959	\$11,589,240	\$11,598,956	\$11,866,340	\$12,264,641
LICENSE FEES COLLECTED	\$3,111,473	\$3,041,066	\$3,316,093	\$2,871,457	\$3,204,500	\$2,974,074
PRIZE FEES AND TAXES	\$23,237,670	\$24,468,496	\$25,843,037	\$25,974,178	\$26,812,372	\$27,429,510
COST OF GOODS SOLD	\$31,262,474	\$31,984,403	\$31,824,697	\$31,192,097	\$32,763,265	\$34,213,368
LEASE PAYMENTS	\$39,144,428	\$39,146,332	\$39,067,930	\$38,870,446	\$40,020,770	\$41,103,367
OTHER EXPENSES	\$62,451,339	\$63,328,051	\$65,801,313	\$64,963,121	\$67,336,284	\$69,523,125

Source: Texas Lottery Commission

Table 12 (see page 39) provides data on Charitable Bingo Licenses and Funding for calendar years 2004 – 2009. Charitable bingo total gross receipts increased each year from 2002 through 2009. This increase is the result of increases in pull-tab sales, which have been attributed to the new style of play tickets that were first approved for sale in Texas in September 2002.

Table 13 (see opposite page) shows bingo gross receipts, pull-tab gross receipts, and other gross receipts reported in the North American Association of Fundraising Ticket Manufacturers (NAFTM) 2008 Annual Report. In combined bingo gross receipts and pull-tabs, Texas ranked fourth among all North American states and provinces for 2008, surpassed only by Minnesota, Ohio and Ontario. Texas ranked second in bingo gross receipts and seventh in pull-tab gross receipts. Ohio reported more than \$1.2 billion in pull-tab sales.

### **B. A Culture of Compliance and Trust**

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

#### **Licensing and Compliance Monitoring**

##### ***Texas Lottery Regulation***

The agency’s Lottery Operations Division is the regulatory arm for Texas Lottery games. This division ensures that the lottery operator provides certain contracted services to players and retailers, and that retailers and players comply with the requirements set forth in the State Lot-

tery Act and Title 16, Chapter 401 of the Texas Administrative Code. The Lottery Operations Division works closely with the Administration and/or Legal Services Division when violations in these areas are detected.

By maintaining a physical presence at the lottery operator’s instant ticket warehouse facility, the agency is capable of monitoring the level of service received from the primary vendor to ensure contractual standards are met. The division also performs many other vendor-oversight and monitoring activities to ensure that lottery players and retailers are receiving the services they expect and require from the lottery operator.

The Lottery Operations Division also licenses Texas Lottery retailers to sell lottery products to the public. In FY 2009, new licenses were issued to 2,616 Texas Lottery retailers.

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

- Instant Ticket and On-Line Gaming System Design, Operation and Maintenance
- Lottery Management System Design, Operation and Maintenance
- Telecommunications Network Design, Operation and Maintenance
- Terminal Installation, Maintenance and Repair
- Marketing Research Personnel and Services

**TABLE 13**  
**NAFTM ANNUAL REPORT 2008**  
**CHARITY GAMING RECEIPTS BY GAMES**

STATE/PROVINCE	BINGO GROSS	PULL-TAB GROSS	RAFFLE GROSS	OTHER GROSS	TOTAL GROSS RECEIPTS
ALASKA	\$66,480,378	\$288,006,394	\$8,534,291	\$2,967,603	\$365,988,666
COLORADO	\$48,000,000	\$51,000,000	\$8,000,000		\$107,000,000
CONNECTICUT	\$20,953,589	\$9,468,590	\$13,233,928	\$337,847	\$43,993,954
ILLINOIS	\$57,438,000	\$198,356,666	LOCAL CONTROL	\$16,216,666	\$272,011,332
INDIANA	\$89,677,539	\$393,170,049	\$18,168,637	\$4,490,944	\$505,507,169
KENTUCKY	\$92,668,530	\$347,426,419	\$9,540,660	\$6,890,104	\$456,435,712
LOUISIANA	\$101,215,100	\$104,179,900	\$3,047,600	\$12,789,600	\$221,232,200
MICHIGAN	\$133,678,293	\$212,813,190	\$62,431,893	\$70,936,704	\$479,860,080
MINNESOTA	\$60,848,000	\$982,467,000	\$7,148,000	\$19,848,000	\$1,070,311,000
MISSISSIPPI	\$77,378,541	\$28,215,262		\$869,291	\$106,463,093
MISSOURI	\$65,214,513	\$36,172,328			\$101,386,841
NEBRASKA*	\$10,932,500	\$40,737,900	\$5,951,700	\$210,833,600	\$268,455,700
NEW JERSEY	\$44,800,900	\$43,200,500	\$49,900,000		\$137,901,400
NEW MEXICO	\$18,363,056	\$10,003,139			\$28,366,196
NEW YORK	\$81,278,223	\$263,524,906	\$6,671,404	\$910,565	\$349,145,770
NORTH DAKOTA	\$33,119,959	\$143,470,093	\$4,094,132	\$83,408,969	\$264,093,153
OHIO	\$143,965,955	\$1,245,658,577			\$1,389,624,532
OREGON	\$42,008,890		\$6,945,884	\$911,981	\$49,866,755
SOUTH CAROLINA	\$129,892,729				\$129,892,729
TEXAS	\$379,807,377	\$305,557,960			\$685,365,337
VIRGINIA	\$127,000,000	\$182,101,406	\$7,430,107	\$454,958	\$316,967,024
WASHINGTON**	\$45,820,726	\$51,798,787	\$8,058,085	\$362,153	\$106,039,751
***		\$272,314,899		\$304,191,877	\$576,506,776
WISCONSIN	\$19,978,400		\$64,332,400		\$84,310,800
<b>CANADA</b>					
ALBERTA	\$201,988,000	\$35,935,000	\$121,315,000	\$1,041,993	\$1,401,231,000
MANITOBA	\$48,213,300	\$4,651,800	\$16,607,000	\$1,379,4	\$70,838,206
NEWFOUNDLAND	\$157,080	\$55,821	\$103,978	\$21,347	\$338,227
NOVA SCOTIA	\$60,490,000		\$32,266,000		\$92,756,000
ONTARIO	\$602,000,000	\$310,000,000	\$317,000,000		\$1,229,000,000
SASKATCHEWAN	\$59,702,600	\$12,206,446	\$37,449,326	\$462,395	\$109,870,767

Source: NAFTM 2008 Annual Report.

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

Canadian receipts are reported in Canadian dollars.

\*Other gross includes Keno receipts.

\*\*Charitable Receipts .

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

## AGENCY ACTIVITIES

- Promotions Personnel and Services
- Field Sales Personnel and Services
- Instant Ticket and On-Line Ticket stock Warehousing
- Instant Ticket and On-Line Ticket stock Packing
- Instant Ticket and On-Line Ticket stock Distribution
- Ticket Order Processing and Telemarketing
- Hotline Support System
- Facilities

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

In 2009, the agency retained the services of a consulting firm to validate lottery operator contract requirements for compliance monitoring, to analyze risk associated with each contract requirement, and to create and execute a compliance monitoring plan for the lottery operator contract. The results of the compliance monitoring are presented to both the agency and the lottery operator on a quarterly basis. The lottery operator is required to respond to each item found to be out of compliance and provide an explanation and/or an action plan for remediation efforts if appropriate.

### *Charitable Bingo Regulation*

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

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

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

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

In calendar year 2009, the CBOD received 7,845 license applications and issued 7,496 bingo licenses. The types of bingo applications processed include original, renewals, amendments, and temporary licenses.

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

## *Compliance Hotline*

The agency continues to receive, track and address jurisdictional concerns from the public via the Compliance Activity Monitoring Program (CAMP) hotline, which was formally established in 2004. Awareness of the hotline is supported through placement of the toll-free 1-800 number on the website, in retail locations and in venues where bingo games are conducted. The Compliance Hotline Section of the Retailer Services Department is responsible for monitoring the life cycle of complaints and violations of the Bingo Enabling Act, State Lottery Act and respective administrative rules. The Compliance Hotline Section is a centralized intake unit for complaints and also monitors violations that are discovered internally. Compliance staff is responsible for maintaining the standards set by the Texas Lottery Commission relating to complaints.

An automated system has been developed which provides the ability to track all complaints and violations from initial intake or discovery to final disposition by allowing the Compliance Hotline Section to monitor the compliance resolution process as work flows between the Enforcement, Legal Services, Charitable Bingo Operations and/or Lottery Operations Divisions. The section maintains a comprehensive database on complaints, violations and disposition to facilitate trend analysis and reporting. The information allows the agency to make informed decisions relating to licensees by reviewing compliance history when considering license issuance and/or administrative action.

## *Consumer Protection Efforts*

Maintaining the public confidence in the security and integrity of the Texas Lottery Commission is a core value of the agency supported by several key initiatives. Beginning in 2007, the Texas Lottery Commission expanded existing programs and initiatives to protect and enhance the security of its lottery games, systems, drawings and operational facilities. The goal is to provide additional

protection for lottery consumers, follow-up on complaints and ensure retailers comply with rules related to prize validations.

Examples of recent initiatives are listed below:

- Double validation receipt
- Split VIRN
- PDF 417 barcode on scratch-off tickets
- Removing validation codes
- Player-activated terminals for self-checking winning status of tickets
- Self-check terminal locator on website
- Vacuum Florescent Display of validation messages
- Terminal inquiry/validation tones
- Security spotlight on web page
- “Sign Your Ticket” campaign
- Purchase day, date and time printed on on-line game tickets
- Monitoring of licensed retailer prize claims submitted for payment
- Monitoring of validation activity at retailers for specific patterns

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

The four-digit validation number (VIRN) is required for retailers to complete the validation of a scratch-off ticket. The VIRN on scratch-offs was changed from all four numbers inside one box within the serial number on the front of a ticket to now boxing the digits separately and placing them throughout the serial number. This action minimizes the opportunity for “pin

pricking” or “micro-scratching” where a small amount of latex is removed to uncover portions of the VIRN number in an effort to fish for winning tickets within a pack.

Enhanced consumer protection strategies include the deployment of 10,250 check-a-ticket terminals beginning in June 2008. The player-activated terminals provide consumers with the ability to check the winning status of instant and on-line game tickets prior to validation by a retailer. Initially retailers were selected for check-a-ticket placement based on cashing volume, geographic coverage and sales. The check-a-ticket, as well as the Game Point terminal, reads the PDF 417 barcode on the front of scratch-off tickets. Players also can check their on-line game tickets on approximately 900 self-service terminals (SST) located primarily in grocery stores and travel centers across Texas. To provide consistent functionality at all self-serve terminals, a check-a-ticket was added to all SSTs in summer 2009.

With the expanding presence of self-check terminals, the scratch-off and store locator feature on the Texas Lottery website was updated October 2009 to identify the retailer locations where consumers can check their own tickets. Players are able to search by city or zip code to find locations that have a check-a-ticket, SST or GamePoint.

Beginning with tickets printed in the summer of 2008, scratch-off games no longer include validation codes. These three-letter codes were found under the latex and provided a tool for sight validation of prizes under \$25. Since all tickets should be validated by retailers before paying and consumers are provided access to more than 10,000 pieces of equipment where they can check their own tickets, there no longer is a need for sight validation codes.

The ISYS terminal is the primary terminal used for producing and validating tickets in lottery sales locations. Where the back of the terminal

is visible to players, they are outfitted with a vacuum florescent display (VFD). The VFD displays the winning status of a validated ticket including the actual prize amount if under \$600. The VFD provides players visual confirmation of a prize. The amount of time the winning message is displayed was modified from five seconds to 10 seconds.

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

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

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

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

Security Department staff has developed reporting tools to monitor claims submitted by licensed retailers to Texas Lottery Claim Centers as well as specific patterns of validation activity

at retail locations. These reports are utilized to identify areas that may require more detailed inquiries by Texas Lottery investigators.

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

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

The Texas Lottery Commission will continue to enhance retailer-training materials to stress ethical standards and the consequences of rule violations. The agency has established administrative rules that provide for a progressive disciplinary process for violations of the Act and rules. Every effort is made to ensure that a retailer’s noncompliance with the Act and rules results in timely and consistent application of progressive disciplinary remedies up to and including the revocation of sales licenses. These consumer protection efforts are focused on educating players and retailers, ensuring that the public has access to report potential fraud and

other noncompliance situations, and the reports are reviewed with care. The agency recognizes the need to protect consumers while simultaneously not inconveniencing or disturbing honest retailers. As the vast majority of retailers serve their customers in an ethical and forthright manner, it is critical for the agency to balance consumer protection with retailer motivation to sell lottery tickets. By making every effort to ensure fun, positive lottery player experiences, the agency’s mission to generate revenue for the state of Texas is supported.

## Drawings

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

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

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

In FY 2004, with the addition of the multistate game *Mega Millions* to the on-line game mix, the Texas Lottery Commission implemented its first computer-generated drawing for the add-on

feature, the *Megaplier*. The *Megaplier* number is selected using a Random Animated Digital Draw System (RADDs) that has been certified by an independent third party to ensure that the numbers selected reflect a fair lottery drawing. The off-site *Mega Millions* drawing, conducted by the Georgia Lottery for the *Mega Millions* states, is monitored by draw team staff and the independent auditor, and is taped and merged with the *Megaplier* drawing conducted in the Texas Lottery drawings studio. In FY 2010, the addition of the multistate game *Powerball* was added to the on-line game mix. The off-site *Powerball* drawing, conducted at Universal Studios in Orlando, FL, is monitored by lottery Information Resources staff, independent auditors, draw team staff, and is taped and merged with the drawing conducted in the Texas Lottery drawings studio.

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

### Product Testing Laboratories

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

#### *Lottery Ticket Forensic Lab*

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

cal methods of testing to determine whether a ticket has been altered. Altered and forged tickets requiring further investigation are referred to the Enforcement Division.

The agency outsources the testing of new instant ticket games. The instant ticket testing process is a scientific examination of all instant games to ensure they meet established security, environmental and durability standards. The tests are performed in addition to the quality assurance measures taken by agency staff and the ticket manufacturers, which serve to provide Texas Lottery players with a durable and secure product of the highest quality.

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

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

#### *Electronic Device Testing Lab*

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

## Internal Audit

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

### *EthicsPoint®*

In Executive Order RP36, Governor Perry stated, "...government has a sacred trust to guard taxpayers' dollars and maintain the highest standard of integrity, impartiality and conduct..."

The order also states, "...the state of Texas is entrusted by the taxpayers of the state to provide responsible stewardship through efficient and honest governance, and all state agencies have a responsibility to prevent and eliminate fraud, and every state employee has an affirmative responsibility to report incidents of fraud."

The Texas Lottery Commission is committed to ensuring a culture of compliance and trust. Providing employees a safe, secure, confidential, and anonymous method in which to report any concerns regarding possible misconduct is critical.

Internal Audit Division manages EthicsPoint, an Internet- and telephone-based reporting system that can be accessed from inside or outside the workplace. This system is intended to supplement the existing avenues that agency employees have to report concerns. In addition to anonymous reporting of concerns, the system also allows follow-up questions to be asked of

the employee filing the report, while maintaining their anonymity. The EthicsPoint system is provided by a third-party vendor, EthicsPoint, Inc. The vendor provides round-the-clock monitoring, intake and distribution of reports. The system directly routes any reports of concerns related to any member of the Internal Audit Division or to any Commissioner to the State Auditor's Office. The Internal Audit Director receives all other reports.

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

## Enforcement Initiatives

As part of its regulatory role, the Texas Lottery Commission, through its Enforcement Division, investigates alleged violations of the State Lottery Act, Bingo Enabling Act and the respective administrative rules.

Investigations are initiated from complaints originating inside and outside the agency. During FY 2009, Enforcement Division investigators conducted 1,553 investigations, including 511 alleged violations of the Lottery Act and 69 alleged violations of the Charitable Bingo Act. Background investigations were conducted on 27 Texas Lottery Commission employment applicants, 357 lottery operator employees, and 181 vendor employees. In addition, Enforcement staff screened a total of 17,315 bingo and lottery licensee applicants that resulted in 323 bingo background investigations, and 74 lottery

background investigations were completed. The Enforcement Division also conducted 11 lottery vendor site inspections.

During FY 2009, the Enforcement Division submitted 56 cases for criminal prosecution.

In 2010, the Enforcement Division is planning the following initiatives:

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

### Retailer Education Initiative

In FY 2005, the agency launched an initiative to increase retailer knowledge of Texas Lottery games, policies and operation of sales terminals. The ultimate goal of the initiative is to ensure that all new and existing retailers are properly trained on the various games offered by the Texas Lottery and the operation of the equipment used to dispense tickets. Ongoing training is available upon request for any retailer and is available in store or classroom. New retailers must meet minimum training requirements in order to begin selling lottery tickets at their business. Retailers are provided with a retailer guide as well as a retailer manual. The retailer guide provides hands-on information about how to sell lottery tickets, as well as policies and procedures related to lottery ticket sales. The retailer manual provides detailed instructions on how to operate the various terminals deployed by the Texas Lottery Commission

and how to produce and validate tickets for individual games. In 2007, retailers were provided additional access to the retailer guide when it was placed on the Texas Lottery website. Electronic updates to the guide are also provided as policies are revised and new games and add-on features are introduced. The “Retailers” page of the website also was updated in 2007 to include access to product information such as game and Universal Product Code (UPC) lists, contests and promotions, game-closing schedules and point-of-sale pieces, archives of retailer newsletters, and a Frequently Asked Questions section with updates on policies, practices and software that affect the sale of lottery tickets.

Other initiatives to expand retailer knowledge and provide easier access to information include the continuing use of small-group retailer forums, Retailer Links, in each of the 10 sales districts and one-on-one training updates with the introduction of new games and add-on features. Retailer and lottery sales representative training scripts are updated as policies are revised and new games and add-on features are introduced.

### Bingo Training Program

Section 2001.107 of the Bingo Enabling Act established the Bingo Training Program as a requirement of maintaining a charitable bingo conductor’s license in Texas. Charitable Bingo Administrative Rule 402.103 sets out the requirements of the program and requires the bingo chairperson to complete the training program every two years.

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

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

## Protecting Intellectual Property

The Texas Lottery Commission recognizes that protecting its intellectual property—such as game names, logos and other identifying marks—is a critical part of protecting the integrity of the games. Consumers need to be assured that tickets appearing to be from the Texas Lottery are genuine. Additionally, the Texas Lottery Commission monitors its intellectual property to identify any infringing use in order to prevent confusion for consumers.

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

## C. Game and Product Innovations

The Texas Lottery Commission strives to provide the citizens of Texas with the best entertainment experience available through its products.

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

### On-line Games

One of the most significant differences between the instant and on-line game playing experience is the time that elapses between buying the ticket and the player finding out if the ticket is a winner. For example, a player who purchases a ticket for the *Lotto Texas* on-line game on a Sunday morning must wait until the *Lotto Texas* drawing occurs on Wednesday night to determine if a prize has been won. In contrast, as soon as an instant ticket is scratched, the player immediately knows if the ticket is a winner. Most prizes can be paid immediately at a retail location, creating an opportunity for a potential subsequent ticket purchase.

On-line games, industry wide, have relied primarily on jackpot levels to drive sales and revenue generation. Lotteries nationwide are attempting to increase on-line game sales by exploring the introduction of higher price points, licensed property games, non-cash merchandise prizes and second chance drawings that have been successful tools in expanding and increasing instant game sales. Additionally, as noted below, lotteries nationally have recently come together to expand the offering of multi-jurisdictional jackpot games (*Mega Millions* and *Powerball*) across significantly larger population bases. This expansion of the on-line jackpot game offerings in Texas will require close monitoring of jackpot and daily (non-jackpot) games for possible modifications and adjustments to the overall on-line game portfolio.

### *Mega Millions*

Following the 78<sup>th</sup> Legislative Regular Session, in June 2003, Governor Rick Perry signed HB 3459, which authorized the Texas Lottery Commission to enter into an agreement with other jurisdictions to participate in a multi-jurisdiction lottery game. In October 2003, with the unanimous approval of Texas Lottery Commissioners, the Executive Director of the agency signed an agreement with 10 other party lotteries, marking Texas' official entry into *Mega Millions*, a multistate lottery game known for its big jackpots. The Commission also adopted emergency rule 16 TAC §401.315 relating to the *Mega Millions* on-line game. The rule established the game rules for the *Mega Millions* game in Texas.

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

Through December 2009, an estimated \$490.4 million in revenue from *Mega Millions* has been transferred to the Foundation School Fund since Texas joined the game in December 2003.

The largest advertised jackpot in Texas Lottery history was a \$390 million *Mega Millions* jackpot in March 2007.

When California joined the *Mega Millions* game in June 2005, the game matrix was changed. The matrix change resulted in an increase in the guaranteed prize amounts. Of most interest was the second prize level, which increased from \$175,000 to \$250,000. The Texas Lottery utilized that game change opportunity to promote the Texas-only *Megaplier* game feature. For \$1 more per playboard, *Megaplier* provides players with the opportunity to increase their non-jackpot prize winnings by two, three or four times. This presents an opportunity for Texas players who purchase the *Megaplier* feature to win up to \$1 million on the second prize level. The game

change was marketed using the following message: "You could win \$1 million without even winning the jackpot."

The most recent change to *Mega Millions* was the cross-selling agreement reached between *Mega Millions* and MUSL states (explained in more detail in the *Powerball* section). This greatly expanded the population base for the *Mega Millions* game and it will be necessary to closely monitor the game in order to optimize sales and revenue performance.

### *Powerball*

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

Over time, with revenues in several states declining, a "changing of the guard" occurring in other states, and with Texas continuing to press the issue, the two consortiums began to warm to the idea of selling both games in 2008. An agreement in principle was reached following the National Association of State and Provincial Lotteries (NASPL) meeting held in October 2009. On January 28, 2010, the largest lottery agreement in U.S. history was signed between MUSL, which operates *Powerball*, and the *Mega Millions* member states, creating the largest market ever in North America for jackpot games. Thirty-three jurisdictions, representing a combined population of 199 million people and 147,000 retail outlets, began to offer the two multi-jurisdictional mega-jackpot games. On Sunday, January 31, 2010, the Texas Lottery started sales of *Powerball* at its 16,700-plus li-

censed retailer locations and the first *Powerball* drawing for tickets sold in Texas was held on February 3, 2010. The market for these games has the potential to ultimately expand to 45 jurisdictions representing 291 million people.

The next logical step for the *Mega Millions/Powerball* will be the development of a true “national” game, one that could potentially have a higher price point and reach jackpot levels never seen before.

## ***Lotto Texas***

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

The most recent *Lotto Texas* game change was implemented in April 2006 and returned the game from a bonus ball matrix to a one-field, 6-of-54 matrix. Besides attempting to reverse the sales decrease realized after the change to the bonus ball matrix, the strategy in Texas and in many jurisdictions now calls for the multi-state games to fill the “large jackpot” niche while allowing players to play the in-state lotto

offering for multi-million dollar jackpots, but with better chances of winning those jackpots. *Lotto Texas* and the Texas Lottery are synonymous due to the strong brand recognition *Lotto Texas* has acquired during its 17-year tenure as the state’s multi-million dollar in-state jackpot game. Recognizing this, the agency makes an effort to ensure the game remains popular with players. The agency is considering potential add-on game concepts, such as a multiplier, an additional prize tier and/or other options, which will continue to keep the game fresh and provide additional or increased winning experiences for players.

## ***Texas Two Step***

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

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

There are currently no changes planned for *Texas Two Step*. However, the agency will closely monitor the performance of this and all of its on-line jackpot games following the introduction

of *Powerball* for any needed modifications or changes to the overall on-line product portfolio.

### ***Cash Five***

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

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

Initially, the game change yielded positive sales results, but as is common with on-line games, over time the game has experienced sales declines. The agency is currently evaluating ways to renew interest in this niche of the agency’s on-line product portfolio. Modifications to this game also will be considered in the context of player participation and sales of the agency’s rolling jackpot games following the introduction of *Powerball*. Research groups will also likely be needed to gauge player reaction and interest in potential game changes.

### ***Daily 4***

Added to the on-line product mix in FY 2008, *Daily 4* was launched in September 2007 with the add-on feature, *Sum It Up*, and both have positively impacted on-line game sales during the first two years they have been available. The *Pick 3* game experienced some cannibalization as anticipated with this game introduction.

However, combined sales of *Pick 3* with *Sum It Up* and *Daily 4* with *Sum It Up* continue to exceed the previous sales of the *Pick 3* stand-alone game. A non-jackpot game similar in play style to *Pick 3*, *Daily 4* has the ability to establish a core player base over time, just as *Pick 3* has without relying on large jackpots to generate sales and increased player and retailer interest. *Daily 4* has a pair play feature, which is not currently available on *Pick 3*, to differentiate the two daily number game offerings.

*Daily 4* mimics the more complex play style from the *Pick 3* game that has proved so appealing to certain players. Savvy players enjoy the different play types and wager options available in the game. In order to ensure the continued success of the game, the agency will consider promotions to support the *Daily 4* game after evaluating the results from the planned *Pick 3* “Green Ball” promotion.

The Texas Lottery continually evaluates its product mix. In addition to the initiatives identified above, the agency is exploring opportunities to increase on-line game sales and add to the playing and winning experience. New games and game enhancements are being considered that do not solely rely on jackpots to generate sales. Additional game concept information is described in section VI of this document.

### ***Pick 3***

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

To capitalize on the success of this game, the agency launched the *Sum It Up* add-on feature on *Pick 3* in FY 2008, shortly after *Daily 4* was launched with this feature. The agency is currently planning a game promotion referred to as “Green Ball.” “Green Ball” gives players a chance to increase their prize winnings by up to 20 percent if a green ball is drawn from among a larger group of white balls. The “Green Ball” drawing would follow the regular *Pick 3* game drawing. The promotion would run for a limited time with the intent of increasing player interest and trial of the game.

## Instant Games

The Texas Lottery continues to follow an aggressive instant game-launch strategy. In the late 1990s, approximately 25-30 games were introduced in a fiscal year. In recent fiscal years, the agency has introduced approximately 90 instant games each year. Introducing more games at smaller print runs keeps the product line new, fresh and exciting. In addition to the aggressive game-launch strategy, higher price-point games such as the \$50 game have allowed the agency to reach impressive sales levels. Instant games are currently available at the following price points: \$1, \$2, \$3, \$5, \$7, \$10, \$20 and \$50.

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

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

In order to communicate this important game information to the public, Spotlight games typically feature a dedicated advertising campaign to support their launch in market. *\$500,000,000 Blockbuster* started in May 2009 with a five-week advertising campaign that was coupled with a full suite of retailer point-of-sale pieces. This game has been very successful for the agency in terms of sales and revenue generation, and future Spotlight games will be considered due to the results achieved.

The agency has also utilized game suites to create new sales and revenue opportunities. When multiple games are launched concurrently with the same brand or theme, they are known as a game suite. The agency has launched suites in the past and also has gradually built suites by having different price points available for the same branded game like \$2 *Break the Bank* and \$5 *Bonus Break the Bank*. In FY 2010, a *Jumbo Bucks* suite was introduced. This suite is comprised of three games with one offering at the \$2, \$5 and \$10 price points. All games in the suite will offer cash prizes that can be won through second-chance drawings, up to a top prize of \$1 million. This particular suite was designed to embrace the Spotlight concept. The games in the suite have larger-than-normal print runs and each game has an increased prize payout at its respective price point. The suite will feature a dedicated advertising campaign and incorporate retailer promotions to ensure both player and retailer interest.

This overall instant product portfolio strategy has allowed the agency to realize annual instant sales exceeding \$2.7 billion during each of the fiscal years 2006 through 2009.

### Cross-play

The agency currently employs two specific marketing strategies to facilitate more cross-play between existing Texas Lottery games. The first is to offer a free ticket for one game with the purchase of a ticket for another game. The second is to distribute bar-coded coupons that offer a free instant ticket with the purchase of an on-line game ticket. In FY 2008, the agency began efforts to increase cross-play with the introduction of a scratch-off game that offered an on-line game Quick Pick as a prize. Players presented their winning scratch-off to their lottery retailer and upon validation, the retailer's lottery terminal automatically generated a Quick Pick ticket for the specified on-line game. This concept has proven to be successful in other jurisdictions and the agency hopes to leverage the successful scratch category to stimulate player exposure to the on-line product line.

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

### Product Supply Chain

Texas Lottery products are currently available at more than 16,700 retail locations, and more than three-fourths of these locations are convenience stores. Grocery stores make up the second largest group of retail locations. The agency is focusing its recruitment efforts on the addition of high-traffic retail locations that currently do not sell lottery products, as well as nontraditional types of locations such as shopping centers, airports, drug stores and home improvement centers. The agency will continue to explore new avenues for retailer recruitment and retention.

### Check-A-Ticket Terminals

Providing Texas Lottery consumers with the greatest level of security and protection possible is key to ensuring the integrity of the games. The agency procured more than 10,250 check-a-ticket terminals to provide consumers with the ability to verify the winning status of instant or on-line game tickets. In March 2010, the Texas Lottery initiated the deployment of an additional 5,000 check-a-ticket terminals as part of an effort to make this player functionality available to all retail locations. The deployment of these additional terminals is expected to be complete by August 2010.

### Route Sales

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

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

To take advantage of these opportunities, a "route sales" option could be utilized that would allow a third-party vendor that contracts directly with the retailer to service and supply self-service equipment in environments where clerk

assistance is limited or not available. The third-party vendor could manage sales to the retailer much like a vending route with a commission paid to the vendor.

There are challenges to this unique sales model: the cost of lease space for equipment, the cost of contracting with a route sales vendor, providing for prize payments to players, transporting ticket inventory and handling cash from the self-service sales equipment. Preventing purchases by minors is also a priority. The cost of lease space for equipment would likely be unique to each venue and the cost to the retailer of contracting would be dependent on the scope of services. The availability of a prize-cashing agent in close proximity to the self-service equipment would enhance incremental sales and could also provide an option for monitoring sales to minors.

If these challenges can be addressed and a cost-effective model for route sales developed, there is potential for increased revenue. A route sales pilot program was implemented in early 2010 using the GamePoint terminal at five locations with the lottery operator acting as the route sales vendor. The agency will closely monitor this program and determine the feasibility of expansion in this area.

### **Charitable Bingo**

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

The introduction of these new types of pull-tab games has offset a yearly decline in regular card sales each year from 2002 through 2009. Pull-tab sales increased each year from 2002 through 2009. In 2008, and again in 2009, pull-tab sales exceeded card sales.

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

### **Role of Market Research**

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

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

- Learning about and understanding Texans' attitudes, behaviors, and interests as they relate to the lottery and other industries;

## AGENCY ACTIVITIES

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

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

### *Demographic Study of Texas Lottery Players*

The State Lottery Act mandates that the agency's Executive Director contract with an independent firm to conduct a demographic study of Texas Lottery players every two years. The Center for Public Policy at the University of Houston conducted the most recent state-mandated study, the 2009 Demographic Study of Texas Lottery Players, in December 2009.

### *Tracking and Segmentation Studies*

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

Monthly tracking studies are used to solicit from adult Texas residents an understanding of various issues ranging from lottery play behavior to general opinion of the Texas Lottery. Other items measure player views on lottery game changes, the effects of advertising campaigns, the reasons for abandoning or beginning to play games, and other topics. Tracking studies have at least two objectives: provide longitudinal data

on public attitudes and behaviors; and, offer an efficient means for researching impromptu agency interests. Roughly 400 people are surveyed each month and fiscal quarterly data are rolled up into a sample of 1,200 respondents.

Annual segmentation studies are produced each October and sample 1,200 adult Texas residents. Segmentation studies are comparative in nature and offer a year-over-year depiction of lottery player attitudes and behaviors, demographics, psychographics, and other items of interest to the Texas Lottery Commission.

### *Lottery Research Groups*

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

### *Miscellaneous Projects*

The Texas Lottery Commission also develops assorted research projects according to specific interests or needs that emerge from existing efforts, as well as other sources. The agency recently completed what was arguably an industry "first," for example, in the form of a comprehensive Consumer Behavior Study (CBS). The CBS emerged from insights gleaned from the annual segmentation studies, and sampled more than 3,300 Texans to improve understanding how, where, and why residents engaged in different consumer activities.

In 2009-2010, the Texas Lottery conducted research to determine whether changes to the agency's logo were warranted. This research produced insights on whether the existing Texas Lottery logo was recognizable to and/or valued in some way by Texas residents.

## ***Retailer Research Survey Project***

The Retailer Research Survey Project collects monthly information from lottery retailers to track the nature and quality of the service they receive from the Agency and its lottery operator. All existing Texas Lottery retailers are surveyed over a four-year period. Survey questions ask about point-of-sale item displays, ticket dispensers, and other topics. Responses are compiled into semi-annual reports that specify general trends among retailers. Claim center personnel collect project data and all reports are generated and distributed internally.

## **D. Technological Developments**

### **Impact of Technology on Agency Operations**

The most significant impact of technology on current operations is the continued growth in the agency's Internet services and the refresh of the agency's information technology infrastructure. The Internet continues to be an integral tool for communicating with players, customers and the general public, as well as a source for processing business transactions. The agency remains committed to continually improving its websites to ensure that they provide current, comprehensive and transparent agency information in a highly accessible and usable fashion. The agency also plans to continue to expand and improve its bulletin board technology and 1-800 number information service. Technology refresh is critical to ensure the infrastructure is dynamic and expand-

able to support the growth and changes required to meet business needs.

### **Completed Technology Initiatives:**

- Refreshed laptop and desktop computers.
- Implemented Personnel and Payroll System.
- Implemented e-mail archiving.
- Continued converting older legacy systems to new development tool set.
- Redesigned the agency's intranet.
- Implemented new HUB and Contract Tracking System.
- Refreshed network firewalls and routers.
- Upgraded the voicemail system and integrated it with e-mail.
- Implemented new lottery game (*Powerball*) system requirements.
- Upgraded the storage area network (SAN).

### **Planned Technology Initiatives:**

- **Security** – As with all entities, the Texas Lottery continues to be confronted with the latest security threats and is always implementing changes to ensure the security of the network and data. The agency will continue to do penetration testing to mitigate and respond to threats.
- **ICS Relocation** – Complete construction and relocation of the internal control system (ICS) in a secure room used for lottery game processing as required for *Powerball* operations.

### **Automation Efforts**

- **Electronic Records Management** – The agency is committed to expanding the use of electronic records management where it

creates operational efficiencies and value for the state.

- **Implement additional projects into the Document Repository** – Upon implementation of the new SAN, the remaining Document Repository projects will be incorporated.
- **Systems Conversion** – Vendor maintenance for the automated charitable bingo system (ACBS) software platform will only be supported through 2013. The system must be converted to a new toolset to ensure continued availability.

### Electronic Filing for Charitable Bingo

In 2006, electronic filing of quarterly reports was made available to conductors, conductor/lessors, lessors, and accounting units. The CBOD is authorized to accept electronic payments of prize fees and taxes; however, the lack of funding and resources has prohibited the programming necessary to implement this activity. The ability of the CBOD to accept and process online payments would benefit both licensees and the division.

### Commitment to Technological Competency

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

## E. Public Awareness

### Public Awareness

Public awareness of Texas Lottery Commission activities is important to the agency's effective-

ness in generating revenue for the state of Texas and to maintaining the public trust. The goal of the Texas Lottery Commission's advertising and promotion efforts is to responsibly reach and communicate with adult Texans to enhance awareness and participation in Texas Lottery games.

### Lottery Advertising

The agency makes considerable efforts to appropriately and effectively allocate its advertising dollars to reach the public and optimize revenue, and enhance awareness of Texas Lottery games. The Texas Lottery Commission's advertising is allocated among 20 Designated Market Areas (DMAs) throughout the state, using a combination of mass media (television, radio, newspaper, billboards, Internet) and point-of-sale materials (flyers, brochures, posters, etc.).

While the Texas Lottery's advertising budget has diminished in nominal dollars from \$40 million in 1993 to \$30 million in 2009, the effects of inflation are even more pronounced. An advertising budget of \$40 million in 1993 dollars would equate to \$59.1 million in 2009 dollars adjusted for inflation.

Add to that the greatly expanded product mix, and it becomes apparent that the agency faces significant challenges in advertising and communicating with the public about all of its products. In FY 1993, lottery products consisted of one on-line game (*Lotto Texas*) and two instant games. Today, the Texas Lottery offers seven different on-line games with three different add-on features, and approximately 90 instant games.

Furthermore, in FY 1993, players were easier to reach frequently via network TV and radio advertising. Since then, the advertising industry has encountered dramatic challenges with the proliferation of new media choices for consumers, including the expansion of Internet advertising, growth in cable channels, satellite TV and radio, and the emergence of technology such as TIVO

and iPods, all factors that limit advertising exposure. This market dilution means it is becoming more difficult to reach large groups of consumers for the same level of media expenditures.

Since FY 1993, the population of Texas over the age of 18 has increased by 42 percent from 12,564,393 to 17,886,333 in 2009. Additionally, the population of Texas has become more ethnically diverse with a majority-minority population. The increased population and decreased advertising budget have combined to lower per capita advertising expenditures over a 16-year period by 47 percent from \$3.17 to \$1.68.

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

The agency adheres to specific measures to ensure appropriate communications with the public regarding Texas Lottery products. In accordance with Government Code 466.110, advertisements or promotions sponsored by the agency may not be of a nature that unduly influences any person to purchase a lottery ticket or number. The agency's advertising reflects the Texas Lottery's mission and core values.

## Promotions

### *Events*

The Promotions section of the Advertising and Promotions Department conducts various Texas Lottery promotional events and assists in facilitating retailer promotions throughout the state. In FY 2009, more than 50 promotional events and more than 3,600 retailer in-store promotions were conducted. Players attending these promotions learn about the Texas Lottery in a fun and exciting way through product trial and player education efforts. The Promotions staff continually explores avenues where the Texas Lottery can promote its games, sell tickets and/or educate players about its games. The Texas Lottery

Commission continues to utilize these promotional opportunities and explore new venues that can help sustain sales, educate consumers and promote lottery products.

### *Communicating with Retailers*

Communicating effectively with Texas Lottery retailers is another key promotion strategy. The agency produces a newsletter for retailers, *RoundUp*, which provides game updates, sales district highlights, retailer sales tips, and news about agency activities. The Retailer Service Center on the agency's website provides a broad base of information for retailers to aid with game sales, operation of equipment and financial reporting data to support business activities related to the lottery. The agency also holds a series of meetings throughout the year with retailers to solicit their input and explain Texas Lottery initiatives, plans and activities.

### *Retailer Links Meetings*

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

"Retailer links" meetings are held with a small group of retailers that meet with lottery and lottery operator vendor staff in each of the 10 sales districts. The agency meets with retailers in a different district each month, covering the entire state each year. The retailers share best practices and tips for improved sales with Texas Lottery staff, who, in turn, share this information with other retailers. At the meetings, the retailers also discuss other issues of importance including service needs, policy input and product insights. The input gathered from the retailer links is extremely beneficial to the agency and has frequently resulted in the implementation of new innovations or revision to existing initiatives. Whenever possible, the Texas Lottery adopts

suggestions from retailers that can increase revenue to the state and provide better service to retailers and lottery players.

### ***Communicating with Charitable Bingo Licensees***

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

The CBOD publishes a quarterly newsletter, the *Bingo Bulletin*. The newsletter is mailed to all licensees and other individuals upon request, and is available on the Charitable Bingo website at [www.txbingo.org](http://www.txbingo.org). The *Bingo Bulletin* is designed to educate and inform licensees about the conduct and regulation of charitable bingo activities in Texas.

### **Public Service Initiatives**

The agency's public service and media relations initiatives are key to communicating about the Texas Lottery Commission. The Executive Director and other agency personnel attend check presentations, make presentations to civic organizations, participate in media interviews, and promote the agency through regular web messages to the public. The Media Relations Division disseminates news releases that communicate about the agency by providing updates about Texas Lottery issues, winners, and milestones achieved, and news from the CBOD.

### ***Texas Amber Alert Network***

In spring 2003, the Texas Lottery joined the Texas AMBER Alert Network, bringing Texas Lottery retailers into the state's efforts to help locate abducted or missing children. Governor Rick Perry established the network in August 2002 to provide rapid notification of abducted child cases to the media and the public.

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

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

### ***Silver Alert System***

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

On September 1, 2007, the Texas Lottery Commission officially joined the Silver Alert System. Though SB 1315 did not mention the agency by name, since the Texas Lottery was lending assistance in the AMBER Alert Network through the

DPS, the agency became a partner in the Silver Alert System.

## ***Blue Alert Program***

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

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

- A law enforcement officer must have been killed or seriously injured by an assailant.
- The investigating law enforcement agency must determine that the assailant poses a serious risk or threat to the public and other law enforcement personnel.
- A detailed description of the assailant's vehicle, vehicle tag or partial tag must be available for broadcast to the public.
- The investigating law enforcement agency or jurisdiction must submit a Blue Alert recommendation to the Governor's Division of Emergency Management (GDEM).

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

## ***Play Responsibly***

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

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

## ***Sign Your Ticket — Consumer Protection Campaign***

Texas Lottery Commission utilizes the agency's website and point-of-sale materials to educate the public on consumer protection issues. Specifically, the Sign Your Ticket information campaign reminds players about the importance of players signing tickets upon receipt. The

agency's Media Relations Division further supported the campaign with a video news release. The Sign Your Ticket campaign was launched in May 2008 and continues with point of sale presence in the retail environment and periodic features on the agency's website.

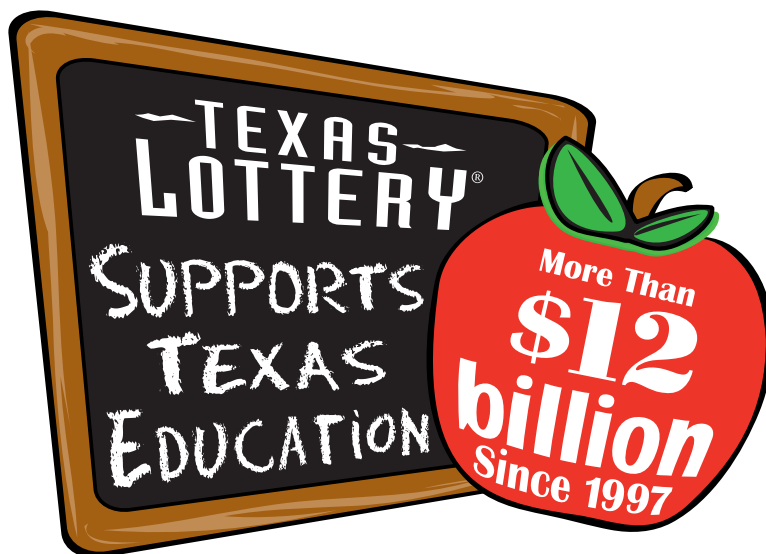
### *Texas Lottery Commission Website*

The Texas Lottery Commission uses the agency's website, [www.txlottery.org](http://www.txlottery.org), to communicate with Texas Lottery and charitable bingo players ([www.txbingo.org](http://www.txbingo.org)), Texas Lottery retailers and vendors, bingo licensees, and the public at large. Online services include streaming web casts of Texas Lottery drawings (both live and on-demand), information about Texas Lottery games and promotions, retailer programs, regular messages from the Executive Director of the Texas Lottery Commission, information about "Where

the Money Goes" and "Sign Your Ticket", specific web pages dedicated to public service campaigns, Charitable Bingo forms, applications, reports, and links to agency administrative rules, and other documents and reports.

### *Where the Money Goes*

In order to inform the public about the Texas Lottery's revenue contributions to the state's Foundation School Fund, the Texas Lottery Commission produces a "Where the Money Goes" brochure that details a complete percentage breakdown of each dollar of lottery sales. The brochure is widely disseminated to retailers, players and the general public, and is also available on [www.txlottery.org](http://www.txlottery.org). The agency also announces the attainment of significant contribution milestones on the home page of the agency's website.



# TEXAS LOTTERY COMMISSION

## Agency Strategic Plan

For the Fiscal Years 2007 – 2011 Period

### IV. EXTERNAL FACTORS AFFECTING SERVICES

#### A. Demographic Characteristics

##### Texas Lottery Players<sup>1</sup>

Texas Lottery players were distributed variously within and across demographic categories in 2009. Players were found in lower, middle, and upper income and educational groups and were relatively split in terms of gender. The average player age was roughly 52 years old, with females being somewhat older on average than males (53 and 51 years old, respectively). Average player age decreased slightly compared to the previous Strategic Plan.

Texas Lottery players were predominately white (63.5 percent) and were underrepresented when compared to the state's adult white population (75.1 percent). The non-white ethnic composition of players was also disproportionate to the state's demographics. For example, U.S. Census Bureau 2008 population estimates indicated that Hispanics comprised 36.5 percent of the Texas population aged 18 and above.<sup>2</sup> Roughly 21.5 percent of Texas Lottery players identified themselves as of Hispanic origin.

Texas Lottery games were also played by individuals from varied socioeconomic backgrounds. Individuals with lower-, middle-, and upper-level incomes played the various games offered by the Texas Lottery. In 2005, approximating income categories in this three-tiered manner (i.e. lower-, middle-, and upper-) consigned roughly 30 percent of past-year players to each income bracket (<\$30,000; \$30,000-\$74,999; >\$75,000). This distribution changed in 2007 when roughly 43 percent of past-year players was located in the middle-income group of \$30,000-\$74,999, with the remaining 57 percent distributed relatively evenly in the other tiers. By 2009, the percentage breakdown for past-year players was 21 percent (<\$30,000), 44 percent (\$30,000-\$74,999), and 35 percent (>\$75,000).

Past-year Texas Lottery players were, moreover, represented across all educational levels in 2009. Nearly 70 percent had at least some college, 39 percent held at least a college degree, and four percent had not completed high school.

Overall, these demographic patterns suggest relative stability or slight variation compared to demographic material reported in the previous Strategic Plan (2009-2013).

The U.S. Census Bureau estimated that roughly 17.6 million adult Texans (aged 18 and older) resided in the state in 2008, a slight increase over 2006. The *2009 Demographic Study of Texas Lottery Players* demonstrated that roughly 42 percent of survey respondents played lottery games in the previous year. Extrapolating from these findings suggests a Texas lottery player base just less than 7.4 million adult Texans.

<sup>1</sup>All Texas Lottery demographic information comes from the *Demographic Survey of Texas Lottery Players* for the years cited herein unless noted otherwise. Available at: [http://www.txlottery.org/export/sites/default/About\\_Us/Publications/Reports.html](http://www.txlottery.org/export/sites/default/About_Us/Publications/Reports.html).

<sup>2</sup>U.S. Census Bureau. 2008. *American Community Survey*. "Hispanic or Latino Origin by Race-Universe: Total Population." Located at: [http://factfinder.census.gov/servlet/DTSUBJECTSHOWTABLES?\\_ts=220438148525](http://factfinder.census.gov/servlet/DTSUBJECTSHOWTABLES?_ts=220438148525).

# EXTERNAL FACTORS AFFECTING SERVICES

The following demographic information profiles Texas Lottery players in 2009 and compares them to the general adult population in Texas.

## ***Household Income***

Texas Lottery players were polarized in 2005 in terms of reported household income, but that trend changed in 2007 when players were increasingly likely to earn between \$30,000 and \$75,000. The distribution of players across different household income brackets in 2005 suggested that they were concentrated at the extremes (i.e. <\$30,000 and >\$75,000). More than 61 percent of 2005 lottery players claimed to have annual household incomes in one of these two groups. Just over 32 percent of 2005 players reported incomes below \$30,000, while 29 percent reported incomes exceeding \$75,000. Nearly 35 percent of *all* players was concentrated at the outermost extremes of <\$20,000 and >\$100,000 (17.9 percent and 17 percent, respectively), suggesting a decentralized income pattern among lottery players.

By 2007, however, nearly 43 percent of players were concentrated in the middle-income categories of \$30,000 and \$75,000, and this remained the case in 2009 when 44 percent of players fell into this bracket. The extreme income groups' (i.e. <\$30,000 and >\$75,000) proportions contracted in 2007 to 57.3 percent combined, and this stabilized at 56 percent in 2009. The proportion of players reporting household incomes exceeding \$75,000 increased in 2009 to 35.1 percent. The less-than \$20,000 group declined in 2009 to 8.6 percent compared to 13.6 percent in 2007. Players reporting household earnings exceeding \$100,000 increased slightly to 18.5 percent. Hence the decentralizing income pattern seen previously may have subsided from 2007 through 2009.

Texas Lottery player income levels continued to diverge from state patterns in 2009, as players were over-represented in upper income brackets and under-represented in lower income brackets.

Compared to 2008 Census Bureau household income data, players were 54 percent less likely than the Texas adult population to report household incomes below \$20,000. Compared to previous years, fewer past-year lottery players (21 percent) reported household incomes in 2009 of less than \$30,000; more (35 percent) reported incomes exceeding \$75,000, while the middle group remained roughly unchanged (44 percent). In 2009, lottery players were roughly nine percent more likely to report incomes exceeding \$75,000 than the general 2008 Texas population (35 percent v. 32 percent), and 30 percent less likely than to report incomes less than \$30,000 (21 percent v. 30 percent—see Chart A).<sup>3</sup> Finally, players were roughly 12 percent less likely than the general population to report household incomes below \$50,000, and 14 percent more likely to report incomes of \$50,000 or greater. The annual median household income for Texas was \$50,043 in 2008.<sup>4</sup>

## ***Education***

The distribution of Texas Lottery players across educational levels continued to exhibit a centralized pattern in 2007, with the majority of players gravitating toward the middle categories. For example, just over 83 percent of respondents reported holding high school or college degrees, or having some college. Roughly 55.5 percent claimed “some college, no degree” or a college degree. Individuals claiming less-than a high school education and those asserting post-graduate degrees combined to make up over 16 percent of the sample (6.0 percent and 10.6 percent, respectively). The largest proportions of lottery players held either a high school degree

<sup>3</sup>U.S. Census Bureau. 2008. *American Community Survey* “Household Income in the Past 12 Months—Universe: Households.” Available at: [http://factfinder.census.gov/servlet/DTSubjectKeywordServlet?\\_ts=284034726545](http://factfinder.census.gov/servlet/DTSubjectKeywordServlet?_ts=284034726545). Note that 2009 Census data were unavailable at the time of writing and thus 2008 Texas population data were used, and that holds for all references herein to the general Texas population. Figures are rounded.

<sup>4</sup>U.S. Census Bureau. 2010. “Median Household Income in the Past 12 Months.” *2008 American Community Survey* 1-Year Estimates. Available at: [http://factfinder.census.gov/servlet/DatasetMainPageServlet?\\_program=ACS&\\_submenuId=datasets\\_2&\\_lang=en](http://factfinder.census.gov/servlet/DatasetMainPageServlet?_program=ACS&_submenuId=datasets_2&_lang=en).

## EXTERNAL FACTORS AFFECTING SERVICES

CHART A: TEXAS HOUSEHOLD AND LOTTERY PLAYER INCOMES

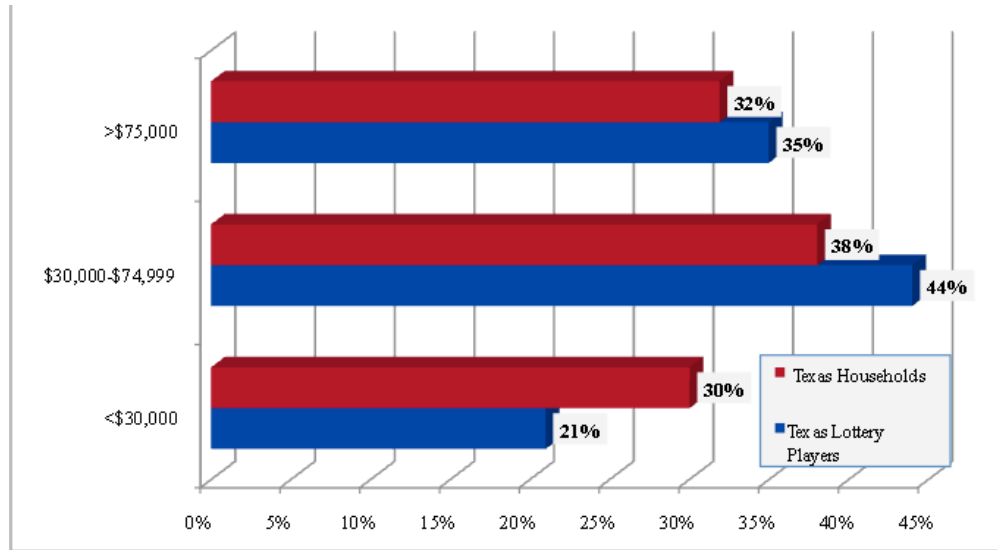
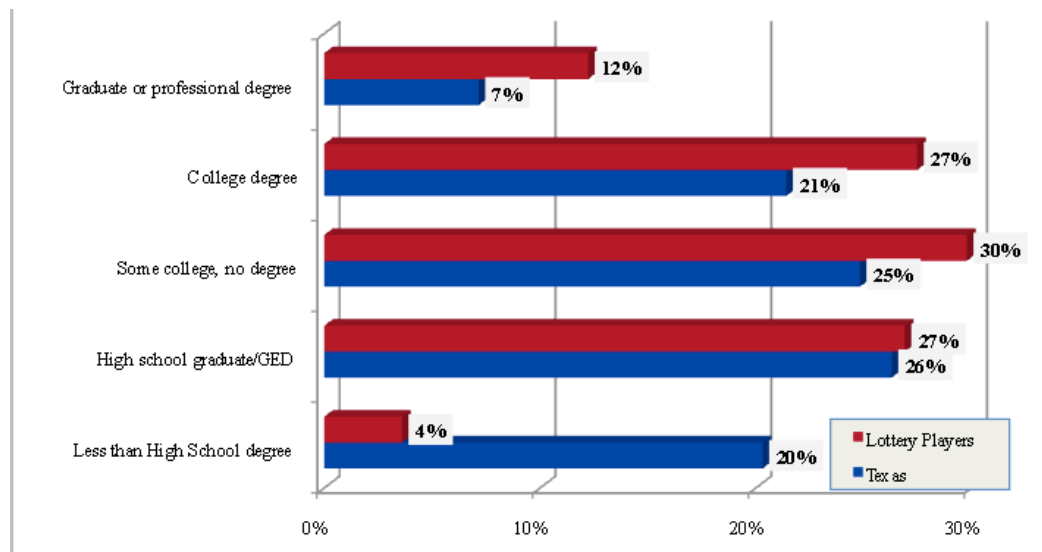


CHART B: TEXAS AND LOTTERY PLAYER EDUCATION LEVELS



(27.9 percent) or had “some college, no degree” (29.5 percent).

Texas Lottery players reported generally higher levels of education than what was found in the adult Texas population in 2006. Based on 2006 population estimates from the U.S. Census Bureau, players were roughly 32 percent more likely than the general adult population to hold college and post-graduate degrees: 36.7 percent,

opposed to 27.8 percent, respectively. Players were also less likely than the general population to not earn high school diplomas: 21.5 percent of Texans aged 18 and above had not completed high school in 2006, yet 6.0 percent of lottery players reported not finishing high school. Most educational comparisons between lottery players and the general public were relatively unchanged for 2009 (see Chart B).

## EXTERNAL FACTORS AFFECTING SERVICES

### *Age*

In 2009, the majority (66.7 percent) of Texas Lottery players were at least age 45, roughly 86 percent were older than 35, and about 17 percent were age 65 or older. The youngest demographic group, those aged 18 to 24, comprised the smallest percentage of Texas Lottery players (5.6 percent, up from 2.7 percent of players in 2007).

When compared to the adult Texas population, Texas Lottery players were under-represented in younger age categories and over-represented in older groups. Nearly 15 percent of players were age 18 to 34 in 2009, while 34 percent of the adult Texas population was in this age group in 2008. Further, 41 percent of players were age 55 or older, compared to 27 percent for adult Texans in this age bracket.

### *Gender*

Texas Lottery players were somewhat more likely to be male (51.4 percent) than female (48.6 percent) in 2009, while the adult Texas population in 2008 was 49.4 percent male and 50.6 percent female.

### *Race & Ethnicity*

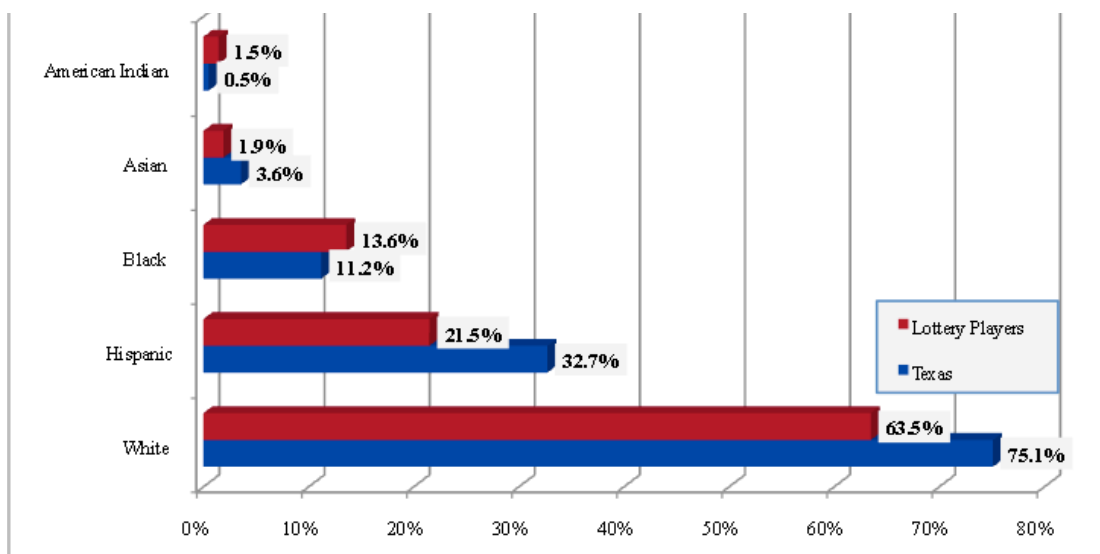
The ethnic and racial composition of lottery players suggested a diverse player base. Although Whites made up more than 63 percent of players, they represented roughly 75 percent of Texans aged 18 and above in 2009. Hispanics were underrepresented as players compared to the general population aged 18 and older (21.5 percent versus 32.7 percent, respectively), and African American players were overrepresented (13.6 percent of players versus 11.2 percent of the adult Texas population; see Chart C).

### Charitable Bingo Licensees

Total bingo attendance at licensed locations was more than 18 million in calendar year 2009.

In 2009 there were 1,708 charitable bingo licensees, including 1,255 conductors, 416 commercial lessors, 20 distributors and 17 manufacturers. Table 14 (see next page) shows the licenses issued by calendar year from 1986 through 2009 and the percentage changes from year to year.

**CHART C: TEXAS HOUSEHOLD AND LOTTERY PLAYERS BY RACE/ETHNICITY\***



\* The ethnicity/race percentages for "Texas" do not add up to 100 because the U.S. Census does not separate out races according to ethnicity for the general category "Hispanic." Therefore, some respondents may say they are both "White" and "Hispanic," leading to an inflated "White" category.

## EXTERNAL FACTORS AFFECTING SERVICES

The total number of licensed organizations peaked in 1989 at 2,652. The total number of licensed organizations decreased yearly from 1989 through 2009, with two exceptions—there were slight increases in 1992 and 1995.

From 1986 to 2009, the number of licensed conductor organizations peaked in 1989 with 2,033 conductor and declined each year, with the exception of a 2-percent increase from 1991 to 1992.

From 1986 through 2009, the number of licensed lessor organizations peaked in 1989 with 585

licensed lessors, and declined each year from 1989 through 2009, with two exceptions—there were slight increases in 1992 and 1995.

From 1986 through 2009, the number of licensed distributors varied, peaking in 1987 with 45 licensed distributors. The lowest number of licensed distributors in any year has been 15, with 15 licensed distributors in 2001, 2002, 2006 and 2007.

From 1986 to 2009, the number of licensed manufacturers per year has varied, peaking in 1987 with 30 licensed manufacturers, dropping

**TABLE 14**  
**ORGANIZATIONS THAT APPLIED FOR AND WERE ISSUED A LICENSE**  
**1986 – 2009**

YEAR	CONDUCTOR	LESSOR	DISTRIBUTOR	MANUFACTURER	SYSTEM SERVICE PROVIDER	TOTAL	% CHANGE
1986	1,451	427	27	25		1,930	
1987	1,776	495	45	30		2,346	21.55%
1988	1,813	543	28	15		2,399	2.26%
1989	2,033	585	23	11		2,652	10.55%
1990	1,844	537	25	11		2,417	-8.86%
1991	1,827	534	23	13		2,397	-0.83%
1992	1,863	554	24	11		2,452	2.29%
1993	1,811	549	25	11		2,396	-2.28%
1994	1,757	522	20	8		2,307	-3.71%
1995	1,775	547	20	9		2,351	1.91%
1996	1,707	531	20	12	1	2,271	-3.40%
1997	1,669	508	20	13	1	2,211	-2.64%
1998	1,616	491	19	12	2	2,140	-3.21%
1999	1,587	498	18	13	2	2,118	-1.03%
2000	1,536	491	17	13	1	2,058	-2.83%
2001	1,482	472	15	14	2	1,985	-3.55%
2002	1,447	461	15	15	2	1,940	-2.27%
2003	1,430	464	19	21	1	1,935	-0.26%
2004	1,419	459	18	18	1	1,915	-1.03%
2005	1,363	436	18	18	0	1,835	-4.18%
2006	1,318	425	15	19	0	1,777	-3.16%
2007	1,312	432	15	16	0	1,775	-0.11%
2008	1,310	431	16	17	0	1,774	-.06
2009	1,255	416	20	17	0	1,708	-3.72%

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

# EXTERNAL FACTORS AFFECTING SERVICES

**TABLE 15**  
**LICENSED AUTHORIZED CONDUCTOR ORGANIZATIONS BY ORGANIZATION TYPE**  
**1986 – 2009**

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

1986 - 2002 Source is Texas Lottery Commission (CBS)  
2003 - Source is Texas Lottery Commission (ACBS)

to a low of eight licensed manufacturers in 1994, rising to 21 in 2003. In 2009, there were 17 licensed manufacturers.

From 1996 to 2009, the number of licensed system service providers ranged from two to none, with a peak of 2 licensed system service providers in 1998, 1999, 2001 and 2002. There were no licensed system service providers in 2005 and 2009.

The groups conducting charitable bingo include nonprofit organizations such as fraternal organizations, veteran organizations, religious

societies, volunteer fire departments, groups supporting medical research programs and emergency medical services. All conductors are located in Texas, as required by the Bingo Enabling Act. Table 15 shows the types of conductor organizations licensed by year from 1986 through 2009.

The number of licensed religious conductor organizations was at its highest in 1987 with 356 licensed organizations, and declined yearly with the exception of 2004 and 2005, which showed increases of two and one licensed organization respectively.

# EXTERNAL FACTORS AFFECTING SERVICES

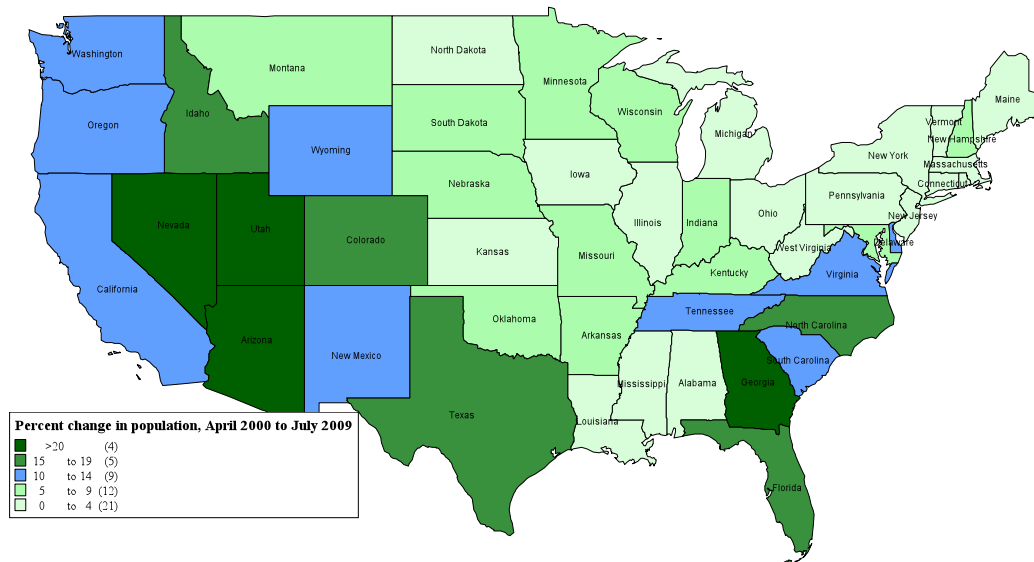
The number of licensed medical organizations peaked at 100 in 1989, and shows a steady decline, with the exception of 1995 and 2000, with increases of one and four licensed organizations respectively.

The number of licensed fraternal organizations peaked in 1989 with 923 licensed organizations

## Texas Lottery and State Demographic Trends and Impacts

With an adult population of roughly 17.6 million, Texas again ranked second in the United States in 2009, ranked behind only California.<sup>5</sup> California, Florida, and Texas were projected to account for nearly 50 percent

**FIGURE C  
U.S. POPULATION CHANGE  
2000-2009**



and shows yearly fluctuations from 1989, with the largest increase of 82 organizations from 2006 to 2007.

The number of licensed volunteer fire departments peaked in 1989, with 141 organizations and shows a steady decline to 52 licensed organizations in 2009.

The number of licensed veteran organizations peaked 1992, with 563 licensed organizations and shows yearly declines from 1992 to 2009, with a low of 236 licensed organizations in 2009.

of the total U.S. population growth between 2000 and 2030. Texas alone was expected to grow 60 percent during this period and between 2000 and 2005 had grown 9.6 percent,<sup>6</sup> and this trend continued through 2009 (see Figure C<sup>7</sup>). Population growth in Texas was already evident in U.S. Census Bureau population estimates for 2006. Compared to 2000, the adult population aged 18 and older increased 13.6 percent: from 14.9 million in 2000 to 17 million

<sup>5</sup>U.S. Census Bureau. 2010. "2006-2008 American Community Survey 3-Year Estimates." Located at: <http://factfinder.census.gov>.

<sup>6</sup>Bernstein, Robert. 2005. "Florida, California and Texas to Dominate Future Population Growth..."

<sup>7</sup>U.S. Census Bureau, Population Division, 2009. Available at: [http://www.census.gov/popest/gallery/maps/pctchg00\\_09.pdf](http://www.census.gov/popest/gallery/maps/pctchg00_09.pdf). Map reconstructed by Texas Lottery Commission Research staff.

## EXTERNAL FACTORS AFFECTING SERVICES

in 2006. The state's adult population increased another 3.5 percent between 2006 and 2008.<sup>8</sup> Finally, six of the 25 U.S. cities with the largest numerical growth between 2007 and 2008 were in Texas (Houston, San Antonio, Dallas, Austin, Fort Worth, and El Paso). Similarly, Texas had seven of the 25 fastest growth cities in the U.S. (Round Rock, McKinney, Killeen, Fort Worth, Lewisville, Denton, and Plano).<sup>9</sup>

With reference to ethnicity and race, Texas became in 2004 one of the few states to be categorized a "majority-minority" state, with roughly 50.2 percent of its population being minority.<sup>10</sup> By 2008, Non-Hispanic whites made up roughly 47 percent of the state's population, Hispanics nearly 36 percent, African Americans roughly 11.5 percent, Asians about 3.4 percent, and American Indian and Alaska Native .5 percent. A conservative 2003 estimate put Hispanics at more

than 44 percent of the total Texas population by 2040, Anglos just over 41 percent and African Americans roughly 10.5 percent.<sup>7</sup>

Based on 2008 Census Bureau estimates, non-Hispanic whites, American Indians, and Asians were more likely than Hispanics to be over age 35, while Hispanics were disproportionately found in younger age cohorts (see Table 16<sup>11</sup>). Roughly 46 percent of Hispanics were younger than age 24 and 36 percent less likely on average to be age 35 or older than the other groups listed in Table 19 (36.9 percent v. 50.1 percent). Furthermore, non-Hispanic whites were on average 26 percent more likely to be older than age 35 than the other groups listed (56.9 percent v. 45.1 percent). Finally, the median age for non-Hispanic whites exceeded that for all other ethnic and racial groups, and by considerable margins in some cases.

**TABLE 16**  
**AGE BY ETHNICITY AND RACE, TEXAS 2008**

AGE	TEXAS	AFRICAN AMERICAN	HISPANIC	WHITE	ASIAN	INDIAN
<18	27.6 %	29.0%	24.8%	25.3%	21.4%	35.1%
18-24	10.2	11.7	11.0	8.3	9.3	11.0
25-34	14.5	14.7	14.4	17.3	12.4	17.0
35-54	27.8	28.6	32.8	33.2	29.6	25.0
55-64	9.7	8.6	10.0	9.3	12.7	6.3
>65	10.1	7.4	7.1	6.7	14.7	5.6
<b>MEDIAN</b>	<b>33.2</b>	<b>31.1</b>	<b>34.9</b>	<b>34.5</b>	<b>40.1</b>	<b>27.2</b>

<sup>8</sup>United States Census Bureau. 2010. "Sex by Age for the Total Texas Population." *2008 & 2006 American Community Survey*. Located at: [http://factfinder.census.gov/servlet/DatasetMainPageServlet?\\_program=ACS&\\_lang=en&\\_ts=154870566846](http://factfinder.census.gov/servlet/DatasetMainPageServlet?_program=ACS&_lang=en&_ts=154870566846).

<sup>9</sup>U.S. Census Bureau. 2009. "New Orleans was Nation's Fastest-Growing City in 2008." Located at: <http://www.census.gov/Press-Release/www/releases/archives/population/013960.html>.

<sup>10</sup>Murdock, Steve H. et al. 2003. *The New Texas Challenge: Population Change and the Future of Texas*. P. 27. College Station, TX: Texas A&M University Press.

Hispanic population growth and its age distributions should be of interest to business in Texas given the population has experienced recent increases in buying power and income. Generally,

<sup>11</sup>U.S. Census Bureau. 2010. "2008 American Community Survey 3-Year Estimates." Sex by age and race/ethnicity. Available at: [http://factfinder.census.gov/servlet/DSubjectShowTablesServlet?\\_ts=284640378701](http://factfinder.census.gov/servlet/DSubjectShowTablesServlet?_ts=284640378701).

Hispanic buying power in the United States is expected to reach an estimated \$1 trillion.<sup>12</sup> Economic studies have suggested that Hispanic buying power is growing more steeply than any other group in the United States.<sup>13</sup> By 2007, for example, Hispanic buying power increased 307 percent over 1990 (from \$212 billion to \$862 billion)—outpacing the growth for all consumers (134 percent) and all other minority group rates in the United States. Hispanic buying power in Texas exhibited similar growth where it surged nearly 341 percent, from \$34.9 billion in 1990 to roughly \$154 billion in 2007.<sup>14</sup>

The increase in Hispanic buying power is significant to Texas for several reasons. First, Hispanics comprised 35.6 percent of the 2006 Texas population, up from 32 percent in 2000, with continued growth expected. Second, Hispanics' market share climbed 62 percent between 2000 and 2008 (12.4 percent to 20.1 percent) when it ranked second at \$171 billion, behind only California.<sup>15</sup> Third, Hispanic population growth in Texas has had a concomitant increase in earnings. The number of U.S. Hispanics earning more than \$50,000 increased nearly 130 percent between 1994 and 2000, 30 percent between 2000 and 2004, and another 23 percent between 2006 and 2008.<sup>16</sup> Population estimates from the U.S. Census Bureau indicated that the trend of increasing earnings in the Texas Hispanic population has continued in recent years. Finally, Texas had three of the top 10 U.S. cities experiencing Hispanic growth: Houston, Dallas, and the McAllen region. In a similar vein,

San Antonio and Houston/Galveston, were two of the top 10 U.S. metro areas with the highest concentrations of Hispanics.<sup>17</sup>

However, Hispanic income and buying power growth should not be exclusive foci, particularly given short-term trends. The state's Asian population, for example, experienced the highest rate of median household income growth compared to all other ethnic/racial groups between 2004 and 2006—increasing 15.8 percent. During this period, the number of Asian households earning \$200,000 or more per year more than doubled, despite Asians comprising only a small proportion of the state's adult population. Finally, between 2000 and 2002 Asian buying power in Texas increased more than 250 percent, with total Asian buying power reaching \$32.7 billion for 2008.<sup>18</sup>

Psychographic profile differences were evident among Texans in 2009. Most Texans, for example, agreed it was important that money from the lottery “goes to a good cause” and liked “to play lottery games or participate in other forms of gaming” to “support worthy causes” (88 and 70 percent, respectively). Fewer people (50 percent), however, believed the lottery “makes a positive contribution” to the state.<sup>19</sup> Beliefs were fractured about what the Texas Lottery *should* do and what Texans think it actually *does*. Finally, knowing lottery profits were dedicated to education did not necessarily have a positive effect on spending sentiments. In fact, fewer survey respondents claimed that such knowledge would affect spending positively (44 percent in 2009 versus 46 percent in 2008). Texans increasingly asserted that this information made no difference to them (a shift from 41 percent in 2008 to 43 percent in 2009). However, the positive sentiment for 2008 and 2009 increased several percentage points over previous years.

<sup>12</sup>Degross, Renee. 2005. “Home Depot Courts Hispanics.” *The Atlanta Journal Constitution*. Feb. 15. Business section: p. D1.

<sup>13</sup>Humphreys (2002, p. 1) defined buying power as “the total personal income of residents that is available, after taxes, for spending on goods and services.” The term is equated with “disposable income.”

<sup>14</sup>Humphreys, Jeffrey M. 2007. “The Multicultural Economy 2007.” *Georgia Business and Economic Conditions*. 67: 1-15.

<sup>15</sup>Humphreys, Jeffrey M. 2002. “The Multicultural Economy 2002: Minority Buying Power in the New Century.” *Georgia Business and Economic Conditions*. 62: 1-22. See also “The Multicultural Economy 2008.” *Georgia Business and Economic Conditions*. 68:15. Available at: [http://www.terry.uga.edu/selig/docs/executive\\_summary\\_2008.pdf](http://www.terry.uga.edu/selig/docs/executive_summary_2008.pdf).

<sup>16</sup>Ibid. 2008. *American Community Survey*. “Median Household Incomes...” by ethnicity.

<sup>17</sup>Diversity Best Practices WOW Facts. Year unknown.

<sup>18</sup>See Humphreys 2002 & 2008.

<sup>19</sup>Source: Ipsos-Reid's 2009 *Annual Segmentation Study* conducted on the Texas Lottery Commission's behalf.

# EXTERNAL FACTORS AFFECTING SERVICES

Texas Lottery player demographics and psychographics may be expected to shift as the state's population grows and changes in the direction of youth and minority groups and with respect to changing socioeconomic conditions. Matters of age, ethnicity, population growth, income, and buying power should therefore be significant to the development of

Texas Lottery services and products. It seems imperative that the Texas Lottery recognize and understand the interests and needs of younger generations and minority groups. Demographic shifts toward younger, non-Anglo minority groups are expected to continue in Texas through the early part of the 21<sup>st</sup> century.<sup>20</sup>

**TABLE 17**  
**COMPARISON OF BINGO CARD SALES TO PULL-TAB SALES**  
**1982 - 2009**

YEAR	CARD SALES	CHANGE CARD SALES	% CHANGE CARD SALES	PULL-TAB SALES	CHANGE PULL-TAB SALES	% CHANGE PULL-TAB SALES
1982	\$66,488,368			\$-		
1983	\$163,172,680	\$96,684,312	145.42%	\$87		
1984	\$217,137,488	\$53,964,808	33.07%	\$4,676,582	\$4,676,495	5375281.61%
1985	\$243,420,805	\$26,283,317	12.10%	\$11,872,941	\$7,196,359	153.88%
1986	\$289,108,477	\$45,687,672	18.77%	\$13,548,709	\$1,675,768	14.11%
1987	\$331,938,566	\$42,830,089	14.81%	\$36,086,789	\$22,538,080	166.35%
1988	\$365,110,091	\$33,171,525	9.99%	\$101,901,561	\$65,814,772	182.38%
1989	\$419,677,774	\$54,567,683	14.95%	\$130,997,997	\$29,096,436	28.55%
1990	\$467,113,452	\$47,435,678	11.30%	\$154,335,596	\$23,337,599	17.82%
1991	\$499,971,275	\$32,857,823	7.03%	\$173,501,233	\$19,165,637	12.42%
1992	\$503,400,917	\$3,429,642	0.69%	\$164,719,328	\$(8,781,905)	-5.06%
1993	\$500,434,638	\$(2,966,279)	-0.59%	\$151,592,343	\$(13,126,985)	-7.97%
1994	\$496,971,984	\$(3,462,654)	-0.69%	\$141,599,698	\$(9,992,645)	-6.59%
1995	\$498,377,085	\$1,405,101	0.28%	\$139,807,479	\$(1,792,219)	-1.27%
1996	\$485,532,608	\$(12,844,477)	-2.58%	\$121,926,846	\$(17,880,633)	-12.79%
1997	\$449,141,019	\$(36,391,589)	-7.50%	\$104,888,564	\$(17,038,282)	-13.97%
1998	\$431,161,924	\$(17,979,095)	-4.00%	\$99,177,810	\$(5,710,754)	-5.44%
1999	\$390,256,972	\$(40,904,952)	-9.49%	\$96,753,377	\$(2,424,433)	-2.44%
2000	\$356,408,584	\$(33,848,388)	-8.67%	\$89,353,141	\$(7,400,236)	-7.65%
2001	\$334,606,017	\$(21,802,567)	-6.12%	\$85,122,819	\$(4,230,323)	-4.73%
2002	\$319,865,576	\$(14,740,441)	-4.41%	\$88,979,503	\$3,856,685	4.53%
2003	\$296,955,280	\$(22,910,296)	-7.16%	\$129,825,563	\$40,846,060	45.91%
2004	\$280,365,533	\$(16,589,747)	-5.59%	\$173,828,243	\$44,002,680	33.89%
2005	\$260,841,381	\$(19,524,152)	-6.96%	\$223,189,408	\$49,361,165	28.40%
2006	\$251,273,670	\$(9,567,711)	-3.67%	\$253,552,957	\$30,363,549	13.60%
2007	\$229,601,120	\$(21,672,550)	-8.63%	\$272,957,738	\$19,404,781	7.65%
2008	\$219,326,678	\$(10,274,442)	-4.47%	\$305,659,183	\$32,701,445	11.98%
2009	\$213,737,648	\$(5,589,030)	-2.55%	\$318,705,640	\$13,046,457	4.27%

1986 - 2002 Source is Texas Lottery Commission (CBS)

2003- Source is Texas Lottery Commission (ACBS)  
Figures as of 2/26/2010. Unaudited.

<sup>20</sup>Murdock, Steve H., Steve White, Md. Nazrul Hoque, Beverly Pecotte, Xuihong You, and Jennifer Balkan. 2003. *The New Texas Challenge: Population Change and the Future of Texas*. College Station, TX: Texas A&M University Press.

# EXTERNAL FACTORS AFFECTING SERVICES

## Charitable Bingo Trends and Their Impact

Table 17 shows card sales peaked at over \$503 million in 1992, declined in 1993 and 1994, rose slightly in 1995 and declined yearly from 1996 through 2009. Some of the decline in card sales is attributable to the increase in pull-tab sales, but it is difficult to attribute the entire decline to increased pull-tab sales, as other factors could affect card sales, including declining attendance.

Electronic bingo was authorized in 1996 and has increased each year, with the exception of 2005 when it showed a slight decline. The popularity of electronic bingo may be because it is a high-tech way to play bingo. Electronic bingo is an electronic or computerized device and related hardware and software that is interfaced with or connected to equipment used to conduct a game of bingo. The player may play up to 66 card faces on one device by entering the number called into the card minder. While there is a limit on the number of cards that can be played on one card

**TABLE 18  
ELECTRONIC CARD SALES  
1996 – 2009**

YEAR	ELECTRONIC CARD SALES	CHANGE IN ELECTRONIC CARD SALES	% CHANGE IN ELECTRONIC CARD SALES
1996	\$3,806,301		
1997	\$42,783,034	\$38,976,733	1024.01%
1998	\$75,687,551	\$32,904,517	76.91%
1999	\$120,060,166	\$44,372,615	58.63%
2000	\$137,005,668	\$16,945,502	14.11%
2001	\$143,791,528	\$6,785,860	4.95%
2002	\$148,241,778	\$4,450,250	3.09%
2003	\$148,921,116	\$679,338	0.46%
2004	\$150,550,721	\$1,629,605	1.09%
2005	\$150,000,823	\$(549,898)	-0.37%
2006	\$153,498,545	\$3,497,722	2.33%
2007	\$155,641,627	\$2,143,082	1.40%
2008	\$160,432,804	\$4,791,177	3.08%
2009	\$160,484,266	\$51,462	0.03%

Figures as of 2/26/2009. Unaudited.  
Source: Texas Lottery Commission

minder, there is no limit on the number of card minders a player may purchase.

Table 18 shows electronic bingo rose yearly from 1996 through 2004, declined in 2005, and increased in 2006 and 2009.

Table 19 shows attendance from 1982 through 2009. Attendance has shown a steady decline from 1992 to 2008 with a slight increase of .44 percent from 2008 to 2009. It appears that the

**TABLE 19  
ATTENDANCE AT BINGO OCCASIONS  
1982 – 2009**

YEAR	ATTENDANCE	CHANGE ATTENDANCE	% CHANGE ATTENDANCE
1982	0		
1983	900		
1984	15,292	14,392	1599.11%
1985	239,703	224,411	1467.51%
1986	21,928,014	21,688,311	9047.99%
1987	24,720,392	2,792,378	12.73%
1988	27,435,271	2,714,879	10.98%
1989	30,768,010	3,332,739	12.15%
1990	33,551,956	2,783,946	9.05%
1991	37,030,913	3,478,957	10.37%
1992	35,400,888	-1,630,025	-4.40%
1993	34,774,830	-626,058	-1.77%
1994	34,125,815	-649,015	-1.87%
1995	34,102,757	-23,058	-0.07%
1996	32,692,610	-1,410,147	-4.13%
1997	31,074,536	-1,618,074	-4.95%
1998	29,926,084	-1,148,452	-3.70%
1999	27,916,597	-2,009,487	-6.71%
2000	25,820,526	-2,096,071	-7.51%
2001	24,385,464	-1,435,062	-5.56%
2002	23,718,342	-667,122	-2.74%
2003	22,749,669	-968,673	-4.08%
2004	21,398,659	-1,351,010	-5.94%
2005	19,908,409	-1,490,250	-6.96%
2006	19,348,594	-559,815	-2.81%
2007	17,926,119	-1,422,475	-7.35%
2008	17,737,361	-188,758	-1.05%
2009	17,815,017	77,656	0.44%

Figures as of 2/26/2009. Unaudited.  
Source: Texas Lottery Commission

# EXTERNAL FACTORS AFFECTING SERVICES

introduction of the new style of instant event tickets may have altered player patterns in an environment of declining attendance, with players choosing to spend their funds on instant tickets rather than paper.

## B. Impact of Recent and Proposed Legislation

During the 81<sup>st</sup> Legislative Session, the following legislation was enacted impacting the Texas Lottery Commission.

**HB 1474 – Relating to the operation and regulation of charitable bingo and use of bingo proceeds.** This legislation includes general provisions related to the regulation and administration of bingo, including provisions to streamline licensing and other administrative processes. The bill also provides for reforms on the accounting and reporting requirements for licensees, increases the allowable number of temporary licenses for organizations wanting to conduct bingo from 12 to 24, requires organizations conducting bingo to submit business plans to the agency, amends the charitable distribution formula, and deletes obsolete language.

**HB 1963 – Relating to eliminating the limitation on lottery advertising expenses based on the lottery prize payout percentage.** This legislation repealed the provision in the State Lottery Act that correlated the Texas Lottery Commission's advertising budget with the percentage paid out in prizes.

**HB 2509 – Relating to the payment of a lottery prize awarded to a minor.** This legislation clarified the definitions of an "adult" as an individual that is at least 18 years of age and a "minor" as an individual who is younger than 18 years of age. The bill further clarified definitions between the State Lottery Act and the Property Code.

### **SB 1 General Appropriations Act**

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

#### **Rider 10 – Relating to Retailer**

**Commissions** – Rider 10 provides an additional 0.5 percent of gross sales each fiscal year for the purpose of paying sales performance retailer commissions. Prior to providing an additional retailer commission above the current 5 percent of gross sales, the Commission shall provide a report to the Governor and Legislative Budget Board outlining the Commission's plan to implement a retailer sales performance commission or similar sales performance incentive program.

#### **Rider 12 – Unexpended Balance of**

**Increased Revenues** – Rider 12 provides for the transfer of any unexpended balances from the revenue increase from FY 2010 to FY 2011.

#### **Rider 15 – Relating to the Adjustment to**

**Appropriated Funds** – Rider 15 provides the ability for the Commission to request additional appropriations and capital budget authority should the Commission determine activities currently being provided by a single contract for lottery operations and services should be provided by the agency and/or multiple vendors.

#### **Rider 16 – Contingent Capital Budget**

**Increase** – Rider 16 provides additional capital budget authority of \$2.5 million upon obtaining a certification from the Comptroller of Public Accounts for the acquisition of the Automated Charitable Bingo System (ACBS) capital budget item.

**SB 1655 – Relating to the organization, duties and functions of the Texas Veterans Commission and to providing funding for**

**assistance for veterans through a lottery game.** This legislation includes a provision requiring the Texas Lottery Commission to create and operate an instant ticket lottery game that benefits the Texas Veterans Commission's Fund for Veterans' Assistance. It also provided for the distribution of any unclaimed prizes attributable to the game.

During the 81<sup>st</sup> Regular Legislative Session, the following legislation was proposed which would have had an impact on the Texas Lottery Commission, but were not enacted. They include:

**HB 222 – Relating to the authorization of poker gaming and the duties of the Texas Lottery Commission.** This legislation would have authorized poker gaming. It also included the establishment of a Poker Gaming Division at the Texas Lottery Commission for the regulation of these activities.

**HB 357 – Relating to the sale of lottery tickets at a location at which a person holds an alcoholic beverage permit.** This legislation would have authorized the sale of lottery tickets at locations at which a person holds a permit issued under the Alcoholic Beverage Code for on-premise consumption of alcoholic beverages.

**HB 1279 and SB 1649 – Relating to the dedication of a portion of unclaimed lottery revenues to the Texas rail relocation and improvement fund.** This legislation would have amended section 466.408(b), of the Government Code by dedicating a portion of unclaimed lottery prize money to the Texas rail improvement fund, which was created under Article III of the Texas Constitution.

**HB 3024 – Relating to the allocation of a portion of the revenue of from lottery ticket sales to combat problem and compulsive gaming.** This legislation would have amended the State Lottery Act, section 466.355(b) of the Government Code, by requiring that \$1 million be al-

located annually from a portion of lottery ticket sales revenue towards combating problem and compulsive gambling.

**HB 3214 – Relating to the exemption of certain units conducting bingo games from the franchise tax.** The legislation would have amended the Tax Code to provide an exemption from the franchise tax for a unit as defined by the Bingo Enabling Act. Similar language is contained in HB 1474, which was enacted.

**HB 3806 through HB 3815** – These bills are related to the administration and regulation of charitable bingo and were individual components of the comprehensive bill HB 1474, which was enacted.

**HJR 37** – This joint resolution would have amended the constitution to dedicate lottery proceeds to fund public education and would have prohibited any advertisement or promotion that would encourage or attempt to influence a person to purchase lottery tickets for the purposes of supporting public education.

**SB 210 – Relating to certain prohibited games.** This legislation would have prohibited the sale of an instant game at a price point greater than \$25. The legislation would have allowed the agency or sales agent to pay prizes for games over \$25, if the ticket was sold before the effective date.

**SB 227 – Relating to a fee on certain lottery prizes to fund the Texas grant program.** This legislation would have imposed a prize fee equal to 5 percent of the amount of the prize from any lottery prize of \$600 or more. Prize fees would have been deposited to the General Revenue Fund and may have only been used for the Toward Excellence, Access and Success (TEXAS) grant program.

**SB 1108 – Relating to the closure of certain instant lottery games.** This legislation would have amended Section 466.257 of the Govern-

## EXTERNAL FACTORS AFFECTING SERVICES

ment Code to prohibit the Texas Lottery Commission from initiating procedures to close an instant lottery game until at least 85 percent of all tickets for the game have been sold.

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

### Federal Legislation Pending

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

**H.R. 2266 – The Reasonable Prudence in Regulation Act and Internet Gambling Regulation** – by Chairman Barney Frank would extend until December 1, 2010, the requirements imposed by the Unlawful Internet Gambling Enforcement Act, which was enacted during a prior session. The Act makes it illegal for banks, credit card companies and other financial institutions or intermediaries to transfer funds to online gambling sites. It does not outlaw the sites; it just makes it illegal to settle online wagers. The Act contains an exception for state lotteries operating intrastate.

**H.R. 2267 – The Consumer Protection and Enforcement Act** – also filed by Chairman Barney Frank, would provide a complete framework for licensing and regulating the Internet gambling industry throughout the United States.

**S. 1567 – The Internet Poker and Game of Skill Regulation, Consumer Protection, and Enforcement Act** – filed by Senator Robert Menendez, would accomplish the same result as H.R. 2267, but would additionally establish a framework for Internet poker games.

**H.R. 4976 – The Internet Gambling Regulation and Tax Enforcement Act** – filed by Representative Jim McDermott, calls for the taxation of licensed Internet Gambling operators at a federal rate of 2 percent and a state rate of 6 percent.

### C. Other Legal Issues

#### Impact of Current and Outstanding Court Cases

##### *Attorney General Ruling on Open Records*

In April 2005, the Open Records Division of the Attorney General's office issued a letter ruling that certain communications between the Texas Lottery Commission and a licensed bingo manufacturer were public documents for purposes of the Public Information Act, reasoning that the litigation exception no longer applied to information exchanged by all parties to pending or anticipated litigation and instructing that the communications be released to the public. The manufacturer filed suit for declaratory judgment and injunctive relief against the Texas Lottery Commission and the Office of the Attorney General in Travis County. The Texas Lottery Commission filed a Motion for Summary Judgment asserting that the communications were informal settlement communications and thus should be afforded the same confidentiality provided formal settlement communications. The Texas Lottery Commission also asserted that it is contrary to public policy for parties who do not incur the time and expense of formal alternative dispute resolution to somehow be afforded less confidentiality than those who do. The Travis County District court granted summary judgment in favor of the manufacturer and the Texas Lottery Commission, ruling that

documents relating to informal settlement negotiations should be kept confidential. This decision was appealed by the Attorney General's office in the Third Court of Appeals, Austin, Texas, which found that informal settlement communications were not protected in the same way as formal settlement communications, thus reversing the summary judgment ruling. The manufacturer filed a petition for review by the Supreme Court of Texas, which was denied.

### ***Assignment of Lottery Prize Installment Payments***

In March 2007, pursuant to a Motion for Summary Judgment in a declaratory judgment action, a Travis County District Court ruled that Texas Business and Commerce Code provisions (UCC) prevailed over the more specific State Lottery Act relating to assignments of lottery prize installment payments. The State Lottery Act restricts prizewinners from assigning the last two years of prize installment payments. The plaintiff in the case argued that the UCC provides that lottery payments are considered an account under the UCC and therefore any assignment thereof cannot be in any way restricted. The district court ruled in favor of the plaintiff. The Commission appealed the ruling to the Third Court of Appeals, which upheld the District Court's ruling that the UCC prevailed over the State Lottery Act. The Commission filed a petition for review in the Supreme Court, which heard oral arguments in December 2009. The ruling is pending at this time.

### ***Claim for Child Support Payments and Assigned Lottery Payments***

In 1994 an individual claimed a lottery jackpot prize that was to be paid out in annual installments until 2014. The prizewinner divorced in 1998 and was ordered by the divorce

court to pay monthly child support and to deposit an amount annually in a fund for the children. In 1999, the legislature passed the State Lottery Act assignment statute and the prizewinner assigned all of the future payments, except for the last two years. Shortly thereafter, the prizewinner ceased making either the monthly or the annual court ordered child support payments. In 2005, the court found the prizewinner to be delinquent in child support payments. In 2008, the Office of the Attorney General, Child Support Division (CSD) served notice of the Child Support Lien and a Writ of Withholding on the Commission for an amount in excess of \$170,000. CSD claimed that the assignment, per the assignment court order, was subject to offsets or withholding required by the State Lottery Act, or other law. The State Lottery Act requires the Commission to withhold certain child support payments from the winnings. The Assignee, Great-West, made a competing claim for the funds as assigned. The Commission filed a Petition in Interpleader and paid the funds into the registry of the Travis County District Court. (A supplement petition was also filed due to claims for additional funds as of September 2009.) Cross-Motions for Summary Judgment were heard by the District Court in September 2009. The Court ruled in favor of CSD. Great-West's motion for rehearing was granted, but the court, after hearing additional arguments, again ruled in favor of CSD. Great West has filed a Notice of Appeal with the Third Court of Appeals. A ruling for either party will have an impact on the availability of assignments in consideration of court ordered child support.

### ***Personal Liability of Officers, Directors and Shareholders of Lottery Retailers***

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

## EXTERNAL FACTORS AFFECTING SERVICES

bank account of a director of the retailer.

After the levy, the director requested a tax re-determination hearing for refund of the monies. The matter was referred to the State Office of Administrative Hearings and an administrative law judge issued a Proposal for Decision (PFD) that was adopted by Commission Order. The PFD contained findings of facts and conclusions of law that concluded that the director was personally liable pursuant to the State Lottery Act, and that the State Lottery Act provision evidences the intent to create an exception to established law relating to businesses and corporations in order to assess liability against individuals. The director claimed that the Tax Code limited his personally liability and that the Texas Lottery Commission must prove how much money was actually collected by the director, that he had actual knowledge that the money had been collected by the retailer, and that he had the requisite financial control of the retailer's assets. The director filed a petition for judicial review of the Commission Order, which was heard in the Travis County District Court on February 20, 2008. The district court upheld the Commission Order, ruling against the director. The director filed an appeal with the Third Court of Appeals in Austin, which reversed the District Court's ruling, noting that director was not personally liable as his resignation, of which the Commission had not received required notice, was effective as of the date he resigned. The Court did not address the Tax Code issue. This case was not further appealed.

### *Attorney General Opinions*

In July 2008, the Office of the Attorney General issued an opinion on whether Government Code section 467.025(a)(5) could apply to prohibit a member of the Texas Lottery Commission from inviting a person to a political fundraising event, authorizing the inclusion of the member's name as a sponsor or host of a political fundraising event, or soliciting a contribution to a candidate

for a federal office. The opinion indicated that whether this was prohibited depended on the particular facts, but that prohibition was likely, and that the applicability of the statute would not depend on the current status of the candidate as a state officeholder. Further, the opinion noted that a court would not likely find section 467.025(a)(5) unconstitutional as applied in particular circumstances.

In October 2008, the Office of the Attorney General issued an opinion regarding the Commission's request to access the electronically readable information on a driver's license to verify that age of a person attempting to purchase a lottery ticket. The opinion found that because such access serves a legitimate law enforcement or governmental purpose, the Texas Lottery Commission is not prohibited by section 521.126 of the Transportation Code from using self-service terminals and vending machines to accomplish that purpose.

### *Other Legal Issues:*

#### *Powerball*

The Texas Lottery Commission has joined with the other 11 *Mega Millions* states in a reciprocal agreement with the Multi-State Lottery Association (MUSL), a non-profit, government-benefit association owned and operated by its 33-member lottery jurisdictions. This agreement will allow Texas to participate in the sale of *Powerball* lottery tickets in Texas. Since Texas and the other *Mega Millions* states did not join as members of MUSL, the *Powerball* game is conducted in accordance with the MUSL rules and procedures. This arrangement creates an external factor that may affect the *Powerball* services provided through the Texas Lottery Commission. Legal issues could arise pursuant to this arrangement.

## *Gray Machines*

The proliferation of “gray machines,” including eight-liners and other games of chance, in lottery retail sales locations and bingo halls continues to potentially impact revenue to the Foundation School Fund, charities and other designated good causes as defined by state law. The Commission’s authority to ban or restrict certain gray machines as a condition of licensing in retail sales locations and in connection with the conduct of bingo is unclear and, acting on its own, the Commission does not have the resources to address this matter statewide. If there was a desire by the state of Texas to establish a policy to regulate and/or eradicate these machines, to effectively do so would require statutory changes as well as coordination with state and local law enforcement, state regulatory agencies and the courts for such an effort to be effective. Significant legal issues could arise as a result of such an initiative.

On April 27, 2010, Texas Lottery Commission chairman requested an Attorney General Opinion on whether bingo cards or paper, electronic or mechanical card-minding devices and pull-tab bingo used in accordance with the Bingo Enabling Act are considered “non-cash merchandise, prizes, toys or novelties” under Texas Penal Code § 47.01(4)(B) and, also, on whether a gift certificate issued by an organization licensed to conduct bingo that is redeemable for bingo cards or paper, electronic or mechanical card-minding devices and/or pull-tab bingo used in accordance with the Bingo Enabling Act is considered “non-cash merchandise, prizes, toys or novelties” under § 47.01(4)(B).

The Attorney General Opinion responding to the questions is critical in determining whether eight-liner machines awarding as prizes a “representation of value” in the form of coupons, tickets, etc. that are redeemable

only for bingo items or bingo gift certificates constitute prohibited games of chance under § 2001.416 of the Bingo Enabling Act.

## **D. Economic Variables**

Economic trends and fluctuations may affect the agency’s ability to generate revenue for the state of Texas through the conduct of the *Games of Texas* and charitable bingo. Alternative gaming venues may also compete for the entertainment dollars of potential Texas Lottery and charitable bingo players.

### **Texas Lottery and the Economy**

As with any sales oriented business, the Texas Lottery Commission’s ability to generate revenue may be affected by myriad economic variables, including changes in the cost of living, fluctuating interest rates, shifts in discretionary dollars, economic swings, inflation, and so on. The United States recently experienced one of what some claim was the worst recession since the 1930s-era depression.<sup>21</sup> Texas was not, however, immediately vulnerable to the recession. Rather, Texas expanded through much of 2008 due in large part to growth in the energy and high-tech sectors, as well as having experienced rising home prices at the time.<sup>22</sup> The National Bureau of Economic Research (NBER) found that the Dallas district (one of 12 in the U.S.) was one of two districts to enter the recession in the first quarter of 2009, thus following behind most other districts as well as the U.S. generally, which fell into recession in 1Q 2008.<sup>23</sup> Throughout the recession, various economic conditions

<sup>21</sup> Willis, Bob. 2009. “U.S. Recession Worst Since Great Depression, Revised Data Show.” Available at: <http://www.bloomberg.com/apps/news?pid=20601087&sid=aNivTjr852TI>.

<sup>22</sup> Phillips, Keith R. and Jesus Cañas. 2009. “Recession Arrives in Texas: A rougher Ride in 2009. Federal Reserve Bank of Dallas. Available at: <http://www.dallasfed.org/research/swe/2009/swe0901b.cfm>.

<sup>23</sup> Chad R. Wilkerson. 2009. “Recession and Recovery across the Nation: Lessons from History.” *Economic Review*. QII: 5-24.

## EXTERNAL FACTORS AFFECTING SERVICES

may have weighed negatively on and/or been associated with Texas Lottery sales variations. These conditions included, but were not limited to, rising gasoline prices and worsening retail sales, diminishing consumer confidence, accelerating unemployment, and continuing declines in home building.

For example, in 2005 the average retail price of a gallon of gasoline in Texas increased from approximately \$1.78 to \$2.57, up 44 percent. By January 2008, the average price of regular gasoline in Texas was \$2.98, ultimately peaking in July 2008 at \$3.98 per gallon (see Chart D). The lottery industry anticipated a drop in sales related to higher gasoline prices as people theoretically had less disposable income. Such concerns motivated a nationwide survey of lottery players in September 2005.<sup>24</sup> According to the report, 26 percent of lottery players claimed to spend less on lottery products because of higher fuel prices. A 2008 national study of roughly 1,200 respondents found that nearly 20 percent had purchased a more fuel-efficient car in the past year.<sup>25</sup> The trend in

<sup>24</sup> Mueller, Margaret. 2006. "Lottery Players Driven Away by Gas Prices." *Lottery Insights*.

<sup>25</sup> The Association for Convenience and Petroleum Retailing (NACS). 2008. "Gas Prices are Consumers' Top Economic Concern." Available

escalating gasoline prices over time is outlined in Table 23 below and is charted in contrast to select total monthly Texas Lottery sales (January 2006 through August 2009).<sup>26</sup> There was a statistically significant, though weak, negative correlation between these data.

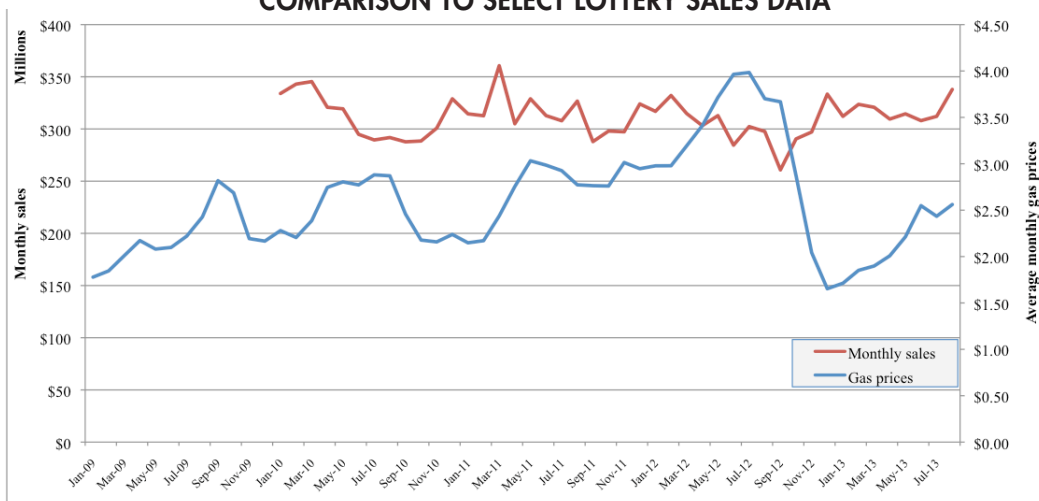
The U.S. economy was fairly stable in recent years through 2006 and 2007, although some indicators experienced declines near the end of 2007 and then significant downwards shifts through most of 2008 and early 2009. Consumer confidence in the United States, for example, was relatively stable between the end of 2005 and most of 2007, but slipped dramatically afterwards, coinciding with the beginning of the recession in early 2008 (see Chart E). Note, however, that the West-South-Central region's index, though certainly exhibiting a downward trajectory, tended to be somewhat greater than the national index.<sup>27</sup>

at: [http://www.nacsonline.com/NACS/Resource/PRTToolkit/Campaigns/prtk\\_gp2008\\_TopConcerns.htm](http://www.nacsonline.com/NACS/Resource/PRTToolkit/Campaigns/prtk_gp2008_TopConcerns.htm).

<sup>26</sup> Total monthly Texas Lottery sales data were extracted from the agency's Annual Financial Reports located at: [http://www.txlottery.org/export/sites/default/About\\_Us/Publications/Financial\\_Information.html](http://www.txlottery.org/export/sites/default/About_Us/Publications/Financial_Information.html). Average gas prices data were collected from the Energy Information Administration, Dept. of Energy and are located at: [http://www.eia.doe.gov/oil\\_gas/petroleum/data\\_publications/wrgp/mogas\\_history.html](http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_history.html).

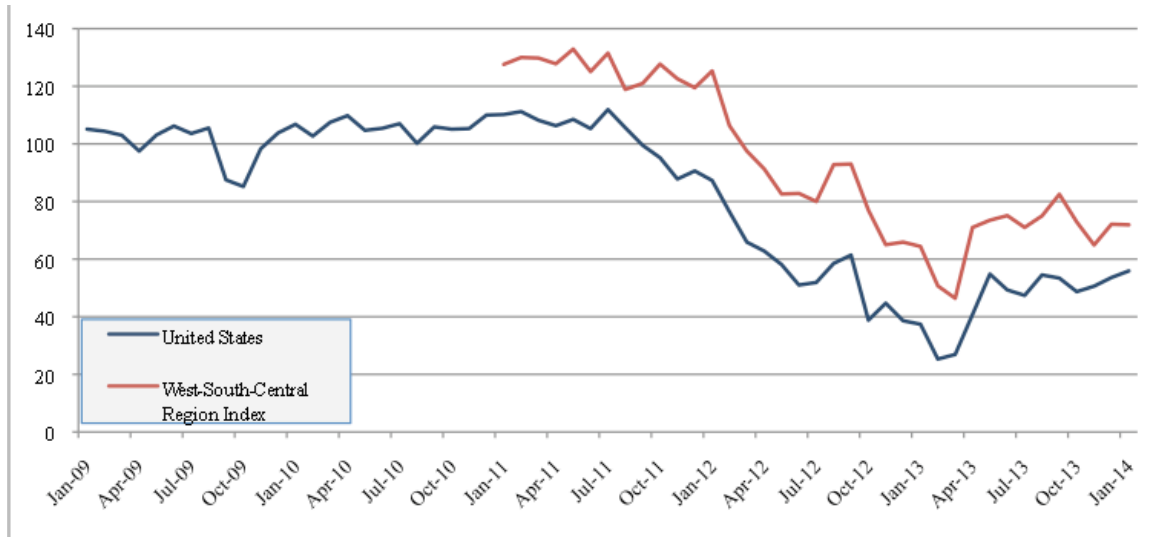
<sup>27</sup> Texas Comptroller of Public Accounts. 2010. Available at:

**CHART D: TEXAS ALL GRADES CONVENTIONAL RETAIL GASOLINE PRICES  
JANUARY 2005 - JANUARY 2010 (MONTHLY AVERAGES, PER GALLON) WITH  
COMPARISON TO SELECT LOTTERY SALES DATA**

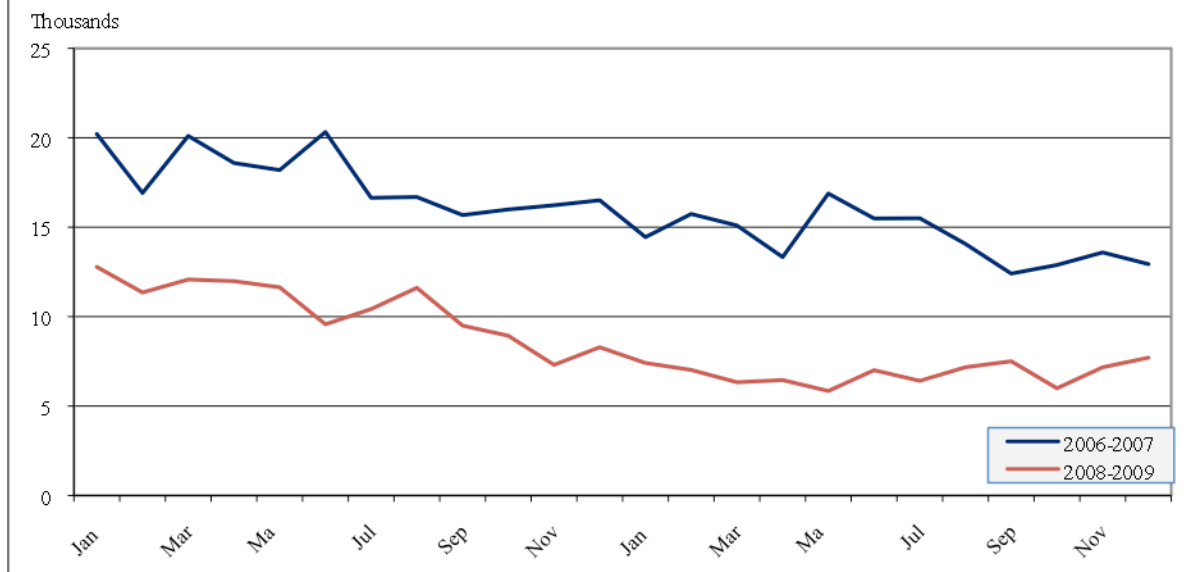


# EXTERNAL FACTORS AFFECTING SERVICES

**CHART E: U.S. AND SELECT WEST-SOUTH-CENTRAL REGION  
CONSUMER CONFIDENCE INDEX  
2005-2010**



**CHART F: TEXAS RESIDENTIAL HOUSING PERMITS  
MONTHLY, SEASONALLY ADJUSTED, JANUARY 2006 - DECEMBER 2009**



Evidence of an economic slowdown also existed for Texas. For example, the number of Texas housing permits has declined steadily since 2006, with upticks occurring in the summer

months, as Chart F demonstrates.<sup>28</sup>

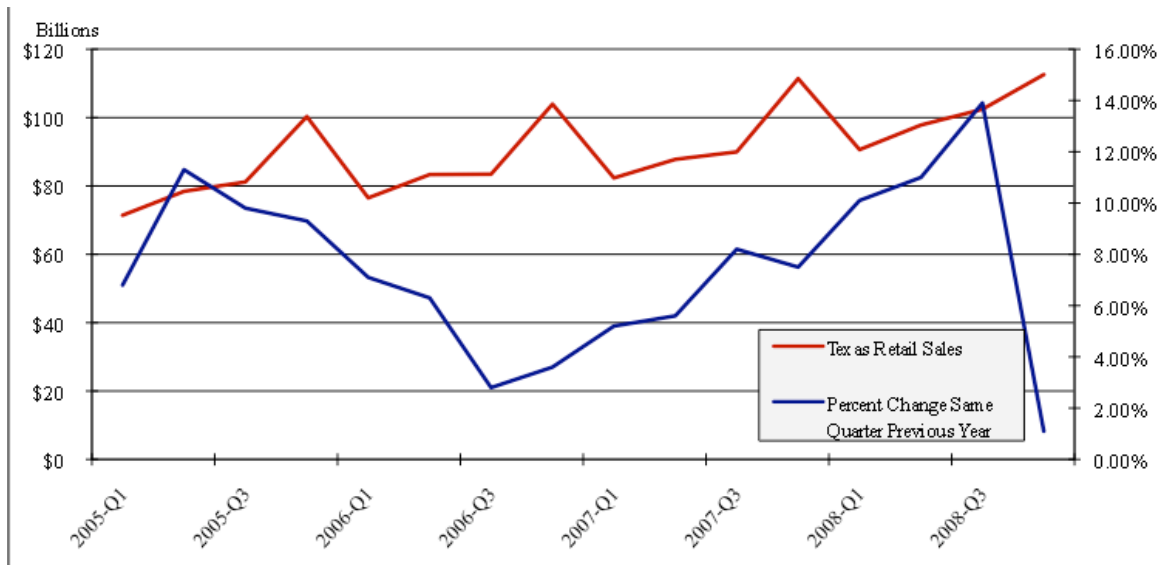
Another economic indicator had to do with retail sales in Texas. Retail sales in Texas generally demonstrate how the state resisted much of

<http://www.texasahead.org/economy/indicators/eoind/eoind2.html#consumer>. Note: the West-South-Central region includes Texas, Arkansas, Louisiana and Oklahoma.

<sup>28</sup> Federal Reserve Bank of Dallas. 2010. "Texas Residential Housing Permits: Monthly, Seasonally Adjusted, Number of Permits." Located at: <http://dallasfed.org/data/data/tprmtot.tab.htm>.

## EXTERNAL FACTORS AFFECTING SERVICES

**CHART G: TEXAS RETAIL SALES  
QUARTERLY TOTALS, Q1 2005 - Q4 2008**



the economic downturn occurring nationally the last several years. Chart G demonstrates, for example, an upward trend in retail sales generally since late in 2006. The sharp decline in sales for 4Q 2008 is perhaps indicative of suggestions that Texas' economy did not see the effects of the recession until most other states were in the midst of it.<sup>29</sup>

According to the U.S. Bureau of Labor Statistics, business sector productivity in the United States has slowed down recently. For example, between 2000 and 2004, U.S. business productivity increased at an average of 3.2 percent annually.<sup>30</sup> By 2007, the annual increase declined to 1.6 percent. By the fourth quarter of 2009, however, business sector labor productivity increased at a 5.2 percent annual rate.<sup>31</sup>

<sup>29</sup> Texas Comptroller of Public Accounts. 2010. "Texas Retail Sales." Located at: <http://www.window.state.tx.us/ecodata/eoind/eoind2.html#retail>.

<sup>30</sup> United States Bureau of Labor Statistics. 2008. "Productivity and Costs, Fourth Quarter, Preliminary." Available at: <http://www.bls.gov/news.release/prod2.nr0.htm>. BLS defines "productivity" as "output per hour of all persons."

<sup>31</sup> United States Bureau of Labor Statistics. 2010. <http://www.bls.gov/news.release/prod2.nr0.htm>

These economic trends affected Texas lottery participation, as is evidenced by data gathered in the Texas's 2009 Player Segmentation Study. This study demonstrated that 71 percent of players reporting to spend less money on Texas Lottery games agreed with the statement that they had "less money available for entertainment." This figure was up from 57 percent in 2007 and 65 percent in 2008, which suggests that an increasing percentage of players associated spending less money on lottery products with having less discretionary income.

To further gauge the effect of the economic environment on lottery participation and spending, the Texas Lottery included a series of questions in the 2008 and 2009 Segmentation Studies that specifically asked respondents whether current economic conditions affected their lottery purchases. Twenty-nine percent of 2009 respondents reported that recent economic conditions had affected their lottery purchases. This figure was nearly unchanged from 28 percent in 2008. Among respondents that reported an effect on their lottery purchases, 48 percent claimed to be spending less money on the lottery in 2008, while 51 percent said so in 2009. The percentage that claimed to have

stopped playing altogether declined from 41 percent to 34, respectively. Among respondents that claimed to be spending less on lottery games, 47 percent reported spending \$1-\$20 less per year in 2008, which increased to 53 percent in 2009. The percentage that claimed to spend \$40 less per year or more declined from 34 to 32 percent.

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

## Texas Lottery and Competition

### Gray Machines

The proliferation of “gray machines,” including eight-liners and other games of chance, in lottery retail sales locations and bingo halls continues to potentially impact revenue to the Foundation School Fund, charities and other designated good causes as defined by state law. The Commission’s authority to ban or restrict certain gray machines as a condition of licensing in retail sales locations and in connection with the conduct of bingo is unclear and, acting on its own, the Commission does not have the resources to address this matter statewide. If there was a desire by the state of Texas to establish a policy to regulate and/or eradicate these machines, to effectively do so would require statutory changes as well as coordination

with state and local law enforcement, state regulatory agencies and the courts for such an effort to be effective.

The Texas Lottery technically has no direct intrastate competition, but other gaming options exist which compete for Texans’ entertainment dollars. According to *Harrah’s Survey ‘06* profiling the American casino gambler, Texas ranked seventh among the top 10 states in 2005 that generated casino trips in the last 12 months.<sup>32</sup> Harrah’s found that southern states, including Texas, had casino participation rates that exceeded the national average of 25 percent (based on adults that gambled at least once in a casino in the last 12 months). Dallas/Fort Worth and Houston ranked among the top 20 U.S. casino feeder markets with casino participation rates of 20 percent and 22 percent, respectively. They also ranked 21<sup>st</sup> and 26<sup>th</sup> among feeder markets generating one million or more casino trips in 2005. Texas had an overall casino participation rate of 21 percent in 2003, with Lake Charles, LA, Las Vegas, NV, and Shreveport/Bossier City, LA, among top destinations. A sizeable proportion of Texans therefore finds casino gambling alluring.

The Texas Lottery has monitored casino gaming expansion in Texas Border States and Mexico. At least four casino gambling facilities were planned along the Texas-Mexico border in 2005, and more than 35 gaming sites existed within 50 miles of all the state’s borders.<sup>33</sup> Although Mexico prohibited casino gambling, it continued to press ahead with alternative games including “electronic bingo” machines. International Gaming Technology had installed roughly 5,000 of these machines in Mexico by the end of 2006 and expected to install another 7,000 in 2007.<sup>34</sup>

<sup>32</sup> *Harrah’s Survey 2006: Profile of the American Casino Gambler*. 2006. Published by Harrah’s License Company, LLC. No publication city listed.

<sup>33</sup> Castillo, Mariano. 2006. “Mexico’s Casinos Up the Ante for Texas.” *San Antonio Express-News*. Metro section, 1/16/2006.

<sup>34</sup> Burke, Anne. No date. “Bordering on Success: Mexico Proves a Fertile Market for Electronic Bingo Manufacturers.” Located at: <http://www.igwb.com/article.php?id=774>.

## EXTERNAL FACTORS AFFECTING SERVICES

Domestically, however, evidence suggested that Oklahoma casinos were competing effectively for Texas' gaming population. Choctaw and Chickasaw Native American Indian Nations in Oklahoma expanded along the Texas border since Oklahoma's 2004 referendum gave tribes the right to offer poker, blackjack, and Las Vegas-style slots. In May 2006, for example, the Choctaw Nation opened a \$60 million casino-hotel in Durant, about 90 miles north of Dallas. Newspaper accounts of Oklahoma-Texas border casino expansion claimed casino managers expected 1.3 million customers in 2006, with Dallas-Fort Worth cited by them as a "primary market."<sup>35</sup> The potential impacts on the Texas Lottery are, however, unknown in terms of gaming opportunities in Mexico and other border regions.

### Charitable Bingo

Charitable Bingo attendance peaked in 1991 and has been in steady decline since that period until 2009, with an increase of .44 percent from 2008 to 2009. Even with approval of the new style of play pull-tab games that increased total gross receipts each year from 2002 to

2009, attendance declined each year. From 2006 to 2009, pull-tab sales exceeded card sales. Table 11 (page 38) illustrates key trends in attendance, gross receipts, prizes paid, fees and taxes collected, allocations and charitable distributions for the past eight years.

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

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

<sup>35</sup> Korosec, Thomas. 2006. "Oklahoma Slots Lure Texans, and Hold 'em" *Houston Chronicle*. June 25. Section B, p. 1.

# TEXAS LOTTERY COMMISSION

## Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

### V. INTERNAL FACTORS AFFECTING SERVICES

#### A. Long-Range Business Planning

The *Texas Lottery Commission Comprehensive Business Plan for FY 2008 – 2011* was prepared by the management of the agency, inclusive of all divisions within the agency.

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

#### B. Employee Attitudes Toward the Organization

The Texas Lottery Commission's employees rate the agency as a good place to work in all the general categories measured by the Survey of Employee Engagement (formerly called the Survey of Organizational Excellence) administered by the University of Texas at Austin School of Social Work. A comparison of the 2009 results in the five survey dimensions of Work Group, Accommodations, Organizational Features, Information, and Personal, show that the agency outperformed the benchmark scores for all other state agencies taking the survey,

as well as for agencies with similar missions and agencies of a similar size. In comparison to the results of the previous survey conducted in 2007, the 2009 survey results indicate that the agency improved scores in 18 of the 20 constructs, with the Fairness construct remaining the same. Scores improved the most in the four survey constructs of Fair Pay, Benefits, Job Satisfaction, and Availability.

The employees' response rate was 67 percent. Although down from an exceptionally high rate of 80 percent in 2007, the response rate shows positive employee involvement, in addition to denoting a high degree of confidence that the survey results accurately reflect employee attitudes.

Areas of strength noted in the 2009 survey results show that Texas Lottery Commission employees feel that quality principles, such as customer service and continuous improvement, are part of the organizational culture and that employees have the resources to deliver quality services. In addition, employees view the work setting positively. Employees generally feel that job demands are reasonable given time and resource limitations; and that the work environment supports a balance between work and home life. Employees also feel that minimum needs are being met for personal development and enhancement of job skills.

All of the agency's 20 construct ratings were scored higher than 300 points, meaning that they are all perceived more positively than negatively by agency employees. No survey areas were identified as areas of significant concern.

Improvements in scores over previous years can be seen as evidence that action plans put into place in response to results of previous surveys have been effective. Survey score advances may result in part from previous actions by the Commission, including: adopting a new Personnel Handbook; creating an agency Ombudsman function; giving employees additional avenues to voice their concerns or complaints; and initiating a new employee performance evaluation system.

The Texas Lottery Commission operates in a rapidly changing environment, and employees are asked daily to meet new challenges and accept new responsibilities. The agency's management recognizes this and supports its employees through its salary and benefits administration, and through training opportunities, promotion opportunities, advanced technology, and its Employee Assistance Program.

### **C. Capital Asset Strengths and Weaknesses**

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

During the 2012-2013 biennium, the agency will need to replace its laptop and desktop computers. This equipment is currently leased through a statewide contract and will be reaching the end of its life cycle. The equipment is necessary for daily business operations and replacement is required to ensure adequate resources exist to support all business applications, and minimize downtime and costly repairs on aging and obsolete equipment. A cost-benefit analysis will be completed prior to preparation of the FY 2012-2013 Legislative Appropriations Request to evaluate if capital budget authority should be requested for the purchase of the equipment as opposed to continuing with a lease arrangement.

During the 2013-2014 biennium, the Charitable Bingo Operations Division will need to redesign and convert the Automated Charitable Bingo System (ACBS). The ACBS supports the critical functions needed in the administration and management of Charitable Bingo in Texas. Since its implementation, there have been numerous changes to business process, including system application changes. Vendor maintenance of the current ACBS platform toolset will only be supported through 2013. In order to meet the ongoing needs of the Charitable Bingo Operations Division, it is vital that the existing system be redesigned and converted to ensure its continued availability. The agency included an Exceptional Item request for the ACBS redesign in its FY 2010 and 2011 Legislative Appropriations Request, but the item was deferred. The agency will again include this Exceptional Item request in its FY 2012 and 2013 Legislative Appropriations Request.

## TEXAS LOTTERY COMMISSION

### Agency Strategic Plan

#### For the Fiscal Years 2011 – 2015 Period

## VI. EVALUATION AND OPPORTUNITIES

### A. Accomplishments

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

#### Effective Economic Development

From its inception in May 1992 through the end of FY 2009, the Texas Lottery generated more than \$54.7 billion in sales and returned more than \$17 billion in revenue to the state of Texas. Of that amount, more than \$11.6 billion went to the Foundation School Fund. More than \$31.7 billion was returned to players in the form of lottery prizes. Licensed Texas Lottery retailers earned approximately \$2.7 billion in commissions and \$73.6 million in bonuses. Since the first licenses were issued in 1982 through calendar year 2009, gross receipts from the conduct of charitable bingo have totaled approximately \$15 billion. Bingo prizes awarded have been in excess of \$11 billion, and charitable distributions have totaled more than \$937.1 million.

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

#### Performance Measures

During FY 2009, the Texas Lottery Commission attained within 5 percent or exceeded targeted performance for 11 of its 15 key performance

measures, including four of five of its key outcome measures and seven of its 10 output and efficiency measures, as indicated in Table 20 (see page 87).

#### *Lottery Retailer Satisfaction*

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

In November 2008, as a result of retailer input, the agency implemented a change to the agency rule regarding damaged tickets designed to reduce the financial burden lottery retailers experience from fire, flood and other causes outside of their control.

Recognizing that daily accounting for scratch-off ticket sales can be challenging, the agency began printing tickets with reverse numbering in FY 2007. To make ticket accounting easier, the ticket number includes a “reverse” number in parentheses indicating the actual number of tickets remaining in the pack. The agency also established consistent pack sizes based on ticket price point to facilitate retailer accounting processes.

# EVALUATION AND OPPORTUNITIES

**TABLE 20  
KEY PERFORMANCE MEASURES  
FISCAL YEAR 2009**

KEY PERFORMANCE MEASURES	TARGETED 2009 PERFORMANCE	ACTUAL PERFORMANCE	% OF TARGET
OUTCOME MEASURES			
PERCENT OF RETAILERS SATISFIED WITH LOTTERY COMMISSION	94.00%	95.07%	101.14%
STATE REVENUE RECEIVED PER ADVERTISING DOLLAR EXPENDED	\$32.37	\$35.43	109.45%
PERCENTAGE OF COMPLAINTS RESULTING IN DISCIPLINARY ACTION	8.00%	9.03%	112.88%
NET BINGO GAMES REVENUE RECEIVED BY CHARITABLE ORGANIZATIONS (MILLIONS)	\$31.60	\$34.67	109.72%
PERCENTAGE OF ORGANIZATIONS WHO MET THE STATUTORY CHARITABLE DISTRIBUTION REQUIREMENT	99.00%	98.97%	99.97%
OUTPUT MEASURES			
NUMBER OF RETAILER BUSINESS LOCATIONS LICENSED	16,800.00	16,647.00	99.09%
DOLLAR AMOUNT OF ADVERTISING BUDGET SPENT ON TELEVISION (MILLIONS)	\$17.00	\$11.23	66.06%
NUMBER OF LICENSES ISSUED TO INDIVIDUALS AND ORGANIZATIONS	6,400.00	7,135.00	111.48%
NUMBER OF BINGO COMPLAINTS COMPLETED	175.00	144.00	82.29%
NUMBER OF DAYS TO ALLOCATE PAYMENTS TO LOCAL JURISDICTIONS	17.00	16.75	98.53%
EFFICIENCY MEASURES			
AVERAGE COST PER RETAILER LOCATION LICENSE ISSUED	\$160.00	\$135.38	84.61%
AVERAGE COST PER SURVEY ISSUED	\$2.45	\$1.69	68.98%
PERCENTAGE OF ADULT TEXANS AWARE OF LOTTERY ADVERTISING	67.00%	59.27%	88.46%
AVERAGE COST OF BINGO TRAINING CLASS	\$850.00	\$931.09	109.54%
AVERAGE COST PER BINGO COMPLAINT COMPLETED	\$250.00	\$1178.29	471.32%

The introduction of new player self-check technology reduces retailer labor transaction time in processing ticket inquiries. The Texas Lottery Commission has acquired 15,250 check-a-ticket devices as well as 2,000 player-activated sales terminals from the lottery operator, which allow players to check the prize status of their own tickets.

Additionally, Texas Lottery Commission and lottery operator personnel continue to reach out

to retailers in small group settings called Retailer Links meetings held throughout the state each year in every sales district. Links meetings provide retailers the most current information on Texas Lottery policies and game initiatives while offering an open forum for addressing retailer concerns. Retailers view these meetings as a positive means of furthering communication between the Texas Lottery Commission, the lottery operator and lottery retailers.

# EVALUATION AND OPPORTUNITIES

**TABLE 21  
CBOD TRAINING SURVEY  
CALENDAR 2000 - 2009**

YEAR	NUMBER RESPONDING	% RESPONDING "EXCELLENT OR "GOOD"
2000	1,117	94%
2001	804	97%
2002	1,646	95%
2003	1,324	96%
2004	1,595	96%
2005	1,378	97%
2006	1,438	96%
2007	1,142	96%
2008	1,126	96%
2009	1,325	91%

In September 2009, the agency introduced its first retailer sales incentive program which awards payments to retailers for meeting sales goals. Funds were made available for FY 2010 and 2011, and a plan was developed to implement regularly scheduled programs with varying criteria for retailer participation. Many retailers have received the program positively and actively participated by increasing ticket sales in their locations. To support the program, retailers were provided with incentive program sales reports via their lottery sales terminals so the retailers could monitor their progress toward their sales goals. This same sales tracking information is available on the Retailer Services Center on the agency's website.

System modifications were also implemented in September 2008 to reduce daily system down time from 12:00 a.m. to 6 a.m., to 12:00 to 12:30 a.m. This initiative provided retailers additional lottery sales opportunities previously unavailable.

## Charitable Bingo Licensee Satisfaction

The CBOD's efforts to increase communication with licensees through initiatives such as the Bingo Bulletin and the Bingo Training Programs have resulted in favorable ratings in the quality of customer service provided by the division. The division routinely surveys charitable bingo conductor licensees regarding their opinion of the quality of customer service they receive. The survey includes the question, "How would you

rate the quality of services you receive from the CBOD?" and is given to each individual attending the Bingo Training Program.

Table 21 shows the results of the responses to the survey question rating the quality of customer service provided by the CBOD by calendar year.

## Charitable Bingo Milestones

Since the publication of the Agency Strategic Plan FYs 2009 – 2013, the CBOD attained the following milestones:

In FY 2008 and 2009, the following Charitable Bingo Administrative Rules were amended, as seen in Table 22.

**TABLE 22  
AMENDED CHARITABLE BINGO ADMINISTRATIVE RULES  
FISCAL YEAR 2009**

RULE NUMBER	TITLE	EFFECTIVE DATE OF AMENDMENT
§402.100	DEFINITIONS	SEPTEMBER 13, 2007
§402.200	GENERAL RESTRICTIONS ON THE CONDUCT OF BINGO	NOVEMBER 19, 2008
§402.400	GENERAL LICENSING PROVISIONS	NOVEMBER 19, 2008
§402.402	REGISTRY OF BINGO WORKERS	JUNE 7, 2009
§402.406	BINGO CHAIRPERSON	FEBRUARY 10, 2009

# EVALUATION AND OPPORTUNITIES

**TABLE 23**  
**ADOPTED CHARITABLE BINGO ADMINISTRATIVE RULES**  
**FISCAL YEAR 2008 - 2009**

<b>RULE NUMBER</b>	<b>TITLE</b>	<b>EFFECTIVE DATE OF ADOPTION</b>
§402.102	BINGO ADVISORY COMMITTEE	SEPTEMBER 13, 2007
§402.103	TRAINING PROGRAM	FEBRUARY 10, 2009
§402.205	UNIT AGREEMENTS	NOVEMBER 19, 2008
§402.210	HOUSE RULES	MAY 20, 2008
§402.406	BINGO CHAIRPERSON	DECEMBER 9, 2009
§402.409	AMENDMENT FOR CHANGES OF PREMISES OR OCCASIONS DUE TO LEASE TERMINATION OR ABANDONMENT	MARCH 16, 2009
§402.410	ADMENDMENT OF A LICENSE-GENERAL PROVISIONS	FEBRUARY 10, 2009
§402.412	SIGNATURE REQUIREMENTS	MARCH 16, 2009
§402.420	QUALIFICATIONS AND REQUIREMENTS FOR CONDUCTOR'S LICENSE	DECEMBER 9, 2009
§402.422	AMENDMENT TO A REGULAR LICENSE TO CONDUCT CHARITABLE BINGO	FEBRUARY 10, 2009
§402.424	AMENDMENT OF A LICENSE BY TELEPHONE OR FACSIMILE	MARCH 16, 2009
§402.442	AMENDMENT TO A COMMERCIAL LESSOR LICENSE	NOVEMBER 19, 2008
§402.500	GENERAL RECORDS REQUIREMENTS	APRIL 15, 2008
§402.506	DISBURSEMENT RECORDS REQUIREMENTS	APRIL 15, 2008
§402.511	REQUIRED INVENTORY RECORDS	APRIL 15, 2008
§402.604	DELINQUENT PURCHASER	FEBRUARY 10, 2009
§402.708	DISPUTE RESOLUTION	OCTOBER 14, 2007
§402.709	CORRECTIVE ACTION	MARCH 13, 2008
§402.715	COMPLIANCE AUDIT	OCTOBER 14, 2007

In FY 2008 and 2009, 19 new Charitable Bingo Administrative Rules were adopted by the Commission, as seen in Table 23.

## Public Perception

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

and other Commission activities.

Public perception is important to the Texas Lottery Commission. Texas residents are surveyed monthly via tracking and annual segmentation studies conducted by the agency's market research firm. Several questions gauge the public's perception of the Texas Lottery as detailed in Table 24.

**TABLE 24  
ANNUAL SEGMENTATION SURVEY RESULTS  
2006 - 2009**

<b>HOW WOULD YOU DESCRIBE YOUR OVERALL OPINION OF THE TEXAS LOTTERY (COMMISSION*)?</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
POSITIVE	46%	48%	44%	51%
NEGATIVE	35%	32%	35%	32%
NEUTRAL	19%	20%	21%	17%
<b>HOW MUCH DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENTS THAT COULD BE MADE ABOUT LOTTERIES AND GAMING IN TEXAS? THE TEXAS LOTTERY IS OPERATED FAIRLY AND HONESTLY.</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
AGREE	55%	56%	57%	58%
DISAGREE	25%	25%	25%	25%
NEUTRAL	20%	20%	21%	20%
<b>WHERE DO YOU THINK PROFITS FROM THE TEXAS LOTTERY GO?*</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
EDUCATION	52%	48%	46%	42%
GENERAL FUND	13%	11%	13%	9%
POLITICIAN'S POCKETS	10%	13%	8%	7%
ROAD REPAIR	4%	5%	4%	5%
<b>OVERALL, HOW SATISFIED ARE YOU WITH THE GAMES PROVIDED BY THE TEXAS LOTTERY?</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
PERCENT SATISFIED	63%	65%	64%	67%

Source: Ipsos Reid annual segmentation studies

The 2009 segmentation study found that of the 1,200 Texas residents surveyed, 51 percent held a positive overall opinion of the Texas Lottery, while 32 percent responded negatively (see Table 24).

The 2007 segmentation study found that of the 1,200 Texas residents surveyed, 48 percent held a positive overall opinion of the Texas Lottery, while 32 percent responded negatively (see Table 24)

**TABLE 25  
TOP 10 U.S. LOTTERIES  
CALENDAR YEAR 2009**

<b>STATE LOTTERY</b>	<b>SALES (\$ MIL.)</b>
NEW YORK	6,776.0
MASSACHUSETTS	4,394.3
FLORIDA	3,909.2
TEXAS	3,773.6
GEORGIA	3,676.3
PENNSYLVANIA	3,050.0
CALIFORNIA	2,984.1
NEW JERSEY	2,575.3
OHIO	2,450.3
MICHIGAN	2,382.7

Source: *La Fleur's Magazine*, January/February 2010

## National and International Comparisons

### *Texas Lottery National Ranking*

According to sales summaries provided by *La Fleur's Magazine*, the Texas Lottery was the 4<sup>th</sup> ranked lottery in the U.S. for overall total sales in calendar year 2009, behind the New York, Massachusetts and Florida lotteries.

### *Texas Lottery International Ranking*

Based on calendar year 2009 sales, the Texas Lottery ranked 15<sup>th</sup> among lotteries worldwide, according to *La Fleur's Magazine*. International lotteries claimed the first nine positions in sales, while the New York and Massachusetts lotteries were ranked 10<sup>th</sup> and 11<sup>th</sup>, as shown in Table 26 on the next page.

**TABLE 26**  
**INTERNATIONAL LOTTERY RANKINGS**  
**CALENDAR YEAR 2009**

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

Source: *La Fleur's Magazine*, March/April 2010

## Industry Resource

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

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

The Executive Director is an active member of the National Association of State and Provincial Lotteries (NASPL), currently serving as Chair of the Accounting Subcommittee for NASPL. The Executive Director also serves as a member of the Cross-Sell Committee for the *Mega Millions* consortium, representing the *Mega Millions* states in the cross-sell initiative for the selling of both *Mega Millions* and *Powerball* tickets nationwide.

The Director of the CBOD is also an active member of the North American Gaming Regulators Association (NAGRA) and has served as co-chair on the Charitable Gaming Committee since 2003. NAGRA was established in 1984 and is comprised of federal, state, local, tribal, and provincial government agencies that are responsible primarily for the regulation of legalized gaming activities. NAGRA brings together agencies that regulate gaming activities and provides them a forum for the mutual exchange of regulatory information and techniques.

## B. Areas for Improvement

### Ongoing Audits

Like all state agencies, the Texas Lottery Commission is subject to audit by the State Auditor's Office (SAO). In February 2009, the SAO contacted the agency to announce an audit of the Charitable Bingo Operations Division. The agency anticipates working closely with the auditors to identify any issues and seek effective solutions.

In addition, the agency's Internal Audit function also evaluates the various processes and programs of the agency. Agency management is committed to developing and taking effective corrective actions that ensure agency policies and practices are in line with state requirements and best practices.

## C. Future Challenges and Opportunities

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

### Texas Lottery Revenue Opportunities

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

### On-line and Instant Games

#### *On-line Games*

Texas Lottery staff is currently reviewing changes to several existing on-line games. The Texas Lottery has recently introduced a fourth jackpot-style on-line game to its product portfolio with the addition of *Powerball*. While this game is anticipated to increase on-line product revenue overall, the Texas Lottery will need to closely monitor the impact of this new offering on other games in its portfolio. Possible game modifications being evaluated by product include:

**Pick 3** – additional game drawings

**Daily 4** – additional game drawings.

**Cash Five** – additional drawings, possible game redesign options

**Texas Two Step** – general evaluation related to the overall on-line product portfolio.

**Lotto Texas** – add-on features, such as a multiplier, an additional prize tier and/or other options.

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

**Green Ball** – a feature involving a separate drawing that is held immediately following a drawing. If the Green Ball is drawn, prize amounts are increased by some added percent for the drawing. This feature is typically utilized with daily numbers games like *Pick 3* and *Daily 4*.

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

**Combo Purchases/Package Play** – a way to market existing on-line games by selling products in packages and promoting trial of lesser played games.

**Second-Chance Drawings** – Players could send in their non-winning on-line tickets and be eligible for a prize through a second-chance drawing for merchandise or cash prizes.

There are also opportunities being utilized in the lottery industry that are not being pursued at the Texas Lottery Commission, as they would require changes in legislation. Many states have expanded their game portfolio to include Keno to offer their players a better variety and different game experience in a non-traditional lottery venue:

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

## **Instant Games**

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

**Price point variety in core games** – Core games are those that are continuously available for players. Current core games exist at the \$1, \$2, \$3, \$5, \$10 and \$20 price points. Successful games at other price points may be evaluated for reintroduction as core games at new price points.

**Licensed property games** – Certain licensed property/branded games have

appealed to new and lapsed players, such as *World Poker Tour*® \$100,000 Texas Hold ‘Em™, *Major League Baseball*®, *I Love Lucy*®, *Houston Texans* and *Dallas Cowboys*. Other licensed property games will be evaluated for introduction such as the *Price Is Right*, *Monopoly*, *Elvis Presley* and branded vehicle-themed games.

**Suites** – When multiple games, utilizing the same brand/theme at several different price points, are introduced concurrently in market they are collectively called a “suite”. The Texas Lottery has developed suites previously by monitoring successful core games and then introducing variations on the core game at other price points. Currently *Break the Bank* (\$2 *Break the Bank* and \$5 *Bonus Break the Bank*) and *Set for Life* (\$10 *Set for Life* and \$20 *Super Set for Life*) are examples of “core” suite game offerings. The agency previously introduced a *Jumbo Bucks* suite that realized positive sales and revenue results. An expanded *Jumbo Bucks* suite offering was introduced in FY 2010 based on the success of earlier introductions. The suite introduction strategy will be evaluated for possible expansion over the coming years.

**Mega/Spotlight games** – Mega/Spotlight games typically have very large print runs and elevated prize payout percentages. The prize structures typically have either very large top prizes and/or a large number of top prizes. All of these factors permit the game to have very appealing marketing call-outs, which are typically printed on the face of the ticket and used in the marketing campaigns for the games. Mega/Spotlight games have proved successful in many lottery jurisdictions throughout the United States and in 2009 the Texas Lottery introduced its own Spotlight game, \$500,000,000

*Blockbuster*, at the \$20 price point. The game has been very successful and it is anticipated that as \$500,000,000 *Blockbuster* approaches the end of its life cycle, a replacement spotlight game will be evaluated. The agency will also evaluate the viability of such offerings at other price points.

**Games with Internet second-chance drawings** – The Texas Lottery has offered many games with second-chance drawing options. However, in focus group research sessions, participants have commented that they do not enter the drawings due to postage costs and the inconvenience of mailing tickets as entries. Many other jurisdictions have been successfully accepting entries into second-chance drawings through the Internet. Entries into the drawings typically grow substantially when the Internet entry option is offered. Internet entries also offer the agency the opportunity to interact with players through the agency’s website where other games and/or game features can be communicated related to the entry process.

**Games with play areas on front and back** – Instant ticket manufacturers are developing new scratch-off production methods that permit play areas to now appear on the front and back of the ticket. This option offers the players more play action without the need to increase the physical size of the ticket. The agency plans to evaluate whether this added-value play may increase player enthusiasm for games that offer this feature and therefore increase game sales.

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

**Instant games with on-line prizes** – Instant games can be created with on-line tickets (Quick Picks) as prizes. This allows for cross-promotion of the on-line product and is used as a tool to introduce the scratch-off player to the on-line product line. In FY 2008, two games of this type were introduced. *Boot Scootin’ Bucks* was an instant game that was created with *Texas Two Step* Quick Picks as prizes and *Instant Cash Five* was created with *Cash Five* Quick Picks as prizes. Staff is considering creating new instant games with on-line prizes to increase player exposure to and trial of on-line games via the instant product category. In FY 2010, the agency will introduce a *Powerball*-themed instant game that features *Powerball* Quick Picks as prizes. This will continue to promote the addition of *Powerball* to the on-line product line while simultaneously cross-promoting both product categories. The agency will continue to evaluate other instant games of this type in support of the on-line product portfolio.

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

## **Internet-based instant game products**

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

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

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

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

## ***Video Lottery Terminals***

The State Lottery Act currently requires the Texas Lottery Commission to adopt rules prohibiting the operation of any game using a video lottery machine, more commonly referred to as video lottery terminals (VLTs). As defined by the State Lottery Act, the term “video lottery

machine” means any electronic video game machine that, upon insertion of cash, is available to play or simulate the play of a video game, including video poker, keno, and blackjack, using a video display and microprocessors in which the player may receive free games or credits that can be redeemed for cash, coins, or tokens, or that directly dispenses cash, coins, or tokens. Therefore, the statute and rule prohibiting VLTs have been in effect since the inception of the Texas Lottery.

## **Charitable Bingo Revenue Opportunities**

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

### ***Progressive Bingo Games***

A progressive bingo game is one in which the jackpot is allowed to grow until a winner achieves a winning bingo pattern within a specific number of balls being drawn. A progressive bingo jackpot game adds tremendous excitement to long-time bingo players who are accustomed to the standard \$500 to \$750 per game maximum payout. A progressive bingo jackpot game could attract new people to play bingo because the prize payouts could grow well beyond the \$2,500 current maximum payout per occasion.

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

Progressive bingo was first considered by the Texas Legislature during the 76<sup>th</sup> Legislature, Regular Session, as HB 3087, but was not passed. During the 77<sup>th</sup> Legislature, Regular Session, HB 2119, authorizing a progressive bingo game, was passed but was subsequently vetoed by the Governor. During the 78<sup>th</sup> Legislature, Regular Session, HB 1317 and SB 507, authorizing progressive bingo, were considered but did not pass. No bills related to progressive bingo were introduced in any of the 79<sup>th</sup> Legislative sessions. In the 80<sup>th</sup> Legislature, Regular Session, HB 2265, relating to the award of prizes in, and the conduct of, a progressive bingo game passed, but was vetoed by the governor.

### ***Electronic Pull-tab Bingo***

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

HB 2792 and SB 1422, filed in the 78<sup>th</sup> Legislature, Regular Session, addressed electronic pull-tab bingo; however, the bills did not pass. Two bills that were filed in the 79<sup>th</sup> Legislature, First Called Session, addressed electronic pull-tab bingo; however, the bills did not pass. In the 80<sup>th</sup> Legislature, Regular Session, HB 2206 and SB 1110, relating to the use of a card-minding device to play bingo, were filed but did not pass.

### ***Restructuring Pull-tab Ticket Sales***

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

Minnesota is an example of a jurisdiction that offers additional opportunities for pull-tab sales. While these states still require strict record keeping measures and for the proceeds to be devoted to charitable purposes, they do not limit pull-tab sales to a regular bingo occasion. Therefore, pull-tab ticket sales in Minnesota in 2008 were \$982.4 million, and in Texas, pull-tab ticket sales were \$305.5 million. HB 3360, filed during the 77<sup>th</sup> Legislature, Regular Session, relating to the authorization to expand the time and location where bingo pull-tabs could be sold, had the potential to increase pull-tab ticket sales in Texas, but the bill did not pass.

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

# EVALUATION AND OPPORTUNITIES

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

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

## ***Consistency in Regulations for Charitable Gaming***

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

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

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

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

Spurred by the Texas Hold ‘Em craze, many charitable organizations in other jurisdictions are finding poker tournaments a profitable form of fundraising. As attendance at bingo games declines, many organizations in other states see charitable poker tournaments as a way to capture a new market and increase revenues. A bill was filed in the 79<sup>th</sup> Legislature, Regular Session, addressing charitable poker games; however, the bill did not pass. In the 80<sup>th</sup> Legislature, Regular Session, HB 3186, relating to the authorization and regulation of poker gaming and the duties of the Texas Lottery Commission; providing civil and criminal penalties was filed but did not pass. SB 1478, relating to authorizing certain nonprofit organization to conduct charitable poker tournament; providing penalties, was also filed in the 80<sup>th</sup> Legislature, Regular Session, but did not pass.

In the NAFTM 2008 Annual Report of Charity Gaming in North America (Table 13), 22 jurisdictions reported raffle gross receipts and 20 jurisdictions reported gross receipts from “raffle” and “other” gaming activities. Raffles gross receipts for 2008 ranged from \$3 million (Louisiana) to \$317 million (Ontario). In many jurisdictions, “Texas Hold ‘Em” tournaments are authorized under Las Vegas type games.

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

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

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

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

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

## **Opportunities for Enhancing Efficiency and Customer Service**

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

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

## **Lottery Product Distribution Expansion**

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

### ***Retailer Recruitment Efforts***

The more than 16,700 Texas retailers that sell lottery products represent the most significant channel through which the agency generates contributions for the Foundation

School Fund. The retailer base is a dynamic business environment where business sales and acquisitions are a part of the normal operating environment. The economic climate of the state can also have a significant impact on the retailer base. The agency works to support existing retailers and to recruit new retailers to ensure a stable but growing product distribution channel.

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

## ***Player Activated Terminals***

The majority of Texas Lottery sales are generated through traditional clerk-assisted transactions at convenience stores. However, many retail venues are best suited for a self-service model due to multiple venue entrances and a variety of customer traffic patterns. The Texas Lottery currently deploys three configurations of player activated terminals (PATs) in these locations. The self-service terminal (SST) is a kiosk-type terminal that offers Texas Lottery on-line game products and provides access for players to check their own tickets for winning status. The agency has deployed up to 1,000 SSTs at selected retail locations and continually plans for strategic placement and sales enhancement programs for these terminals. Instant ticket vending machines (ITVMs) provide a player-friendly module for expanding consumer access to the instant ticket product, the core of lottery sales in Texas. While these terminals are typically deployed in grocery stores, the addition of new technologies will provide added flexibility and opportunities for placement of ITVMs in other trade styles. GamePoint terminals combine the convenience of an ITVM with an SST in one piece of equipment, and also enable players to check their

own tickets for winning status. Deployment of this equipment began in FY 2008 with a focus on growing the retailer base and identifying opportunities for exposure to expanded player segments.

In 2010 the agency issued an RFP for Lottery Operations and Services that contains requirements for the lottery operator vendor and the Texas Lottery to jointly develop deployment criteria and requirements for retailer sales terminals and related system sales equipment to support an expansion of the retailer base. For the term of any contract arising from this RFP, the lottery operator vendor must provide retailer sales terminals and related system sales equipment for all new retailers. In an effort to support a variety of trade styles with the PATs, the agency has required that scalable terminal configurations be available to ensure the best fit for a particular trade style and its potential ticket sales levels.

## ***New High-Traffic Sales Venues***

With the amount of foot traffic in airports, “big-box” retailers, and national chains such as drug stores throughout Texas, the agency is actively evaluating the opportunity to establish ticket sales in these areas. These locations require unique sales solutions due to floor area and customer base, and are desirable settings for lottery products. Input from potential retailers within these trade styles indicates that a route sales model using PAT configurations is preferred.

## ***Reaching New Demographic Markets***

The markets for on-line and instant lottery games are considered mature given that the games have been available to Texans for many years and, without the addition of new gaming activities, market demand is not expected to grow significantly on its own. It can be a tremendous challenge for lotteries in mature markets to

grow sales and revenue at rates that satisfy stakeholders.

The Texas Lottery Commission will continue to use information gathered from its marketing research to expand product offerings that appeal to existing market segments, enhancing products to appeal to individuals who are not frequent lottery players, and developing new products for new players across all demographics.

Exploring growth through segment-focused marketing and product development strategies will not require additional resources, but rather the continued focus of existing staff and dedication of agency resources.

## Research and Development

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

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

### *Resource Center*

Successful organizations must allocate resources for forward-looking activities so that managers and staff may engage in proactive and efficient planning rather than reactive and inefficient problem solving. Industry research must therefore be conducted to measure trends

and technological developments that affect the Texas Lottery Commission's revenues and net contributions to the Foundation School Fund or Charitable Bingo distributions.

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

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

## Public Awareness

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

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

Texas Lottery prizes can be claimed by an individual or by any other properly created legal entity, such as a trust, partnership or corporate entity.

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

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

## Advertising Dollars

Table 27 (see next page) details the challenges associated with advertising and communicating effectively with the public regarding Texas Lottery products.

## Agency Operations

### *Electronic Records Management*

Technological advances in recent years have changed the way the agency does business. From business transactions to administrative functions, more and more business is being done electronically. Recent e-government legislation encourages agencies to use information technology

to streamline processes, reduce paperwork, improve response time and provide better access to government services. The management of electronically generated records creates new and additional challenges for the agency. While electronic records are included in the statutory definition of a state record, clear guidelines and parameters must be established to assist divisions in identifying what type of electronic records need to be saved, what process or technology should be used for the preservation of the record and how those records will be retrieved.

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

## D. Key Resources

### State Employee Recruitment

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

### Minority Businesses

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

In FY 2009, the Texas Lottery Commission paid more than \$35.7 million in contracts and subcontracts to HUBs and minority businesses.

# EVALUATION AND OPPORTUNITIES

**TABLE 27  
TEXAS LOTTERY ADVERTISING OVERVIEW  
FEBRUARY 2010**

	FISCAL YEAR 1993	FISCAL YEAR 2009
<b>IMPACT OF INFLATION</b>	<ul style="list-style-type: none"> <li>\$40 MILLION ADVERTISING BUDGET</li> <li>12.6 MILLION TEXANS 18 OR OLDER</li> <li>\$3.17 AD SPEND PER CAPITA</li> </ul>	<ul style="list-style-type: none"> <li>\$30 MILLION ADVERTISING BUDGET --\$40 MILLION IN 1993 DOLLARS EQUATES TO \$59.1 MILLION IN 2009 --ADJUSTED FOR INFLATION, \$30 MILLION IN 2009 EQUATES TO \$20.3 MILLION 1993 DOLLARS</li> <li>17.9 MILLION TEXANS 18 OR OLDER</li> <li>\$1.68 AD SPEND PER CAPITA --\$3.17 AD SPEND PER CAPITA IN 1993 DOLLARS EQUATES TO \$4.68 IN 2009 --ADJUSTED FOR INFLATION, \$1.68 IN 2009 EQUATES TO \$1.14 IN 1993 DOLLARS</li> </ul>
<b>INCREASE IN PRODUCTS</b>	TWO PRODUCTS: <ul style="list-style-type: none"> <li>LOTTO TEXAS</li> <li>2 SCRATCH-OFF GAMES</li> </ul>	EIGHT-PLUS PRODUCTS: <ul style="list-style-type: none"> <li>LOTTO TEXAS</li> <li>SCRATCH-OFF GAMES (APPROX. 90 LAUNCHED ANNUALLY)</li> <li>PICK 3/SUM IT UP</li> <li>CASH FIVE</li> <li>TEXAS TWO STEP</li> <li>MEGA MILLIONS/MEGAPLIER</li> <li>DAILY 4/SUM IT UP</li> <li>POWERBALL/POWER PLAY</li> </ul>
<b>PRODUCT LIFE CYCLE</b>	LOTTERY PRODUCT WAS BRAND NEW, GENERATING IMMENSE EXCITEMENT AND INTEREST.	LOTTERY PRODUCTS ARE MATURE, MEANING THAT ADVERTISING DOLLARS MUST WORK HARDER TO CREATE PLAYER EXCITEMENT AND INTEREST IN THE GAMES. NEW GAMES, GAME CHANGES AND ADD-ON FEATURES CONTINUE TO BE INTRODUCED, ALL REQUIRING ADDITIONAL ADVERTISING SUPPORT.
<b>FREE MEDIA EXPOSURE</b>	EXTENSIVE FREE COVERAGE OF WINNERS, GAMES AND BALL DRAWINGS BY ALL MEDIA TYPES DUE TO NEWNESS OF GAMES.	EXTREMELY LIMITED COVERAGE OF POSITIVE NEWS STORIES LIKE WINNERS AND ALMOST NO COVERAGE OF LIVE DRAWINGS.
<b>TEXAS ETHNICITY</b>	CAUCASIANS MADE UP THE SIGNIFICANT MAJORITY OF THE POPULATION.	POPULATION IS MUCH MORE DIVERSE WITH A MAJORITY MINORITY POPULATION.
<b>MEDIA PROLIFERATION</b>	PLAYERS WERE EASY TO REACH FREQUENTLY VIA TV AND RADIO ADVERTISING.	ALTERNATIVE MEDIA EXPANSION OCCURS (SATELLITE TV/RADIO, INTERNET, TIVO, IPODS), DILUTING EFFECTIVENESS OF CONVENTIONAL TV/RADIO ADVERTISING.
<b>PAY AT THE PUMP</b>	BECAUSE PAY-AT-THE-PUMP TECHNOLOGY WAS NEW AND LIMITED, MOST PEOPLE WENT INTO THE STORE TO PAY FOR GAS, ALLOWING FOR EXPOSURE TO LOTTERY PRODUCTS.	ALMOST 90 PERCENT OF STORES HAVE PAY-AT-THE-PUMP TECHNOLOGY, AND ABOUT 60 PERCENT OF CONSUMERS USE IT, REQUIRING ADVERTISING TO WORK HARDER TO DRIVE PLAYERS INTO THE STORE FOR LOTTERY PRODUCTS.

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

The objectives of the Mentor-Protégé Program are to foster positive long-term relationships between primary vendors (mentors) and HUBs (protégés), and to increase the ability of protégés to contract with the state. The program is

designed to provide professional assistance and support to HUB vendors that will facilitate their development and growth in areas other than their current business expertise.

## Department of Information Resources

The Texas Lottery Commission utilizes state-wide contracts acquired by the Department of

Information Resources (DIR) for technical goods and services.

## E. Human Resources Strengths and Weaknesses

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

To maintain its diverse employee population, the agency offers employment opportunities through a variety of resources, including the WorkIn-Texas online job bank ([www.workintexas.com](http://www.workintexas.com)); the Texas Workforce Commission; a TDD Phone Line for the hearing impaired; the agency's 24-hour job line, website and intranet site.

To retain skilled employees, the agency invests resources into offering competitive salaries and developmental training. Additionally, the agen-

cy provides training and continuing education opportunities for management and front-line employees to assist in their professional and personal growth.

The Texas Lottery Commission remains mindful of employee turnover and its effect on the agency's cost of operations. In FY 2005, an agency reorganization pushed the turnover rate to 22.9 percent – slightly above the state agency average. In 2006 the rate declined to 6.1 percent and rose slightly to 9.2 percent in 2007, but remained below the state agency average for both years. Turnover figures dropped to 5.7 percent in 2008 and 5 percent in 2009, while the average state agency turnover was at 17.3 percent in 2008 and 14.4 percent in 2009. Human Resources continues to work with agency managers to emphasize workforce and succession planning. This process involves closely monitoring staff turnover and building a talent pool within the agency that will contribute to the current and future success of the agency.

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

**TABLE 28  
TURNOVER RATES**

YEARS	2005	2006	2007	2008	2009
TEXAS LOTTERY	22.9%	6.1%	9.2%	5.7%	5.0%
STATEWIDE	18.9%	15.8%	17.4%	17.3%	14.4%

Source: SAO Electronic Classification Analysis System

## AGENCY GOALS, OBJECTIVES AND MEASURES TEXAS LOTTERY COMMISSION Agency Strategic Plan Appropriation Structure for Fiscal Years 2011 – 2015

GOAL A:	Operate Lottery  Generate revenue for the state of Texas through the responsible management and sale of entertaining lottery products, while incorporating the highest standards of security and integrity.
OBJECTIVE A.1:	Promote and maintain an eligible, effective and productive retailer base in order to produce revenue for the state; maintain ticket sales and awareness of lottery products to produce revenue for the state; administer all games with the utmost security and integrity; and oversee major contractual obligations unique to a state lottery operation.
Outcomes:	Percent of retailers satisfied with Lottery Commission Per capita net Lottery sales Percentage of net Lottery sales spent on agency administration Percentage of bad debt to Lottery sales Ratio of advertising expense to net Lottery sales State revenue received per advertising dollar expended Percent of licensees with no recent violations Percent of retailer surveys completed Percent of eligible players served
STRATEGY A.1.1.:	Lottery Operations
Definition:	Ensure player, vendor and retailer compliance with Title 16 T.A.C., Section 401, Texas Government Code Chapters 466 and 467. The strategy ensures the needs of the Commission and its customers are met in certain areas of vendor compliance, instant ticket warehousing/distribution, retailer services, prize payments, retailer inspections and support services.  <u>Output Measures:</u> Number of retailer business locations licensed Number of denials or revocations of licenses

# AGENCY GOALS, OBJECTIVES AND MEASURES

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

Efficiency Measure:

Average cost per retailer location license issued

## STRATEGY A.1.2.:

### Lottery Field Operations

Definition:

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

Output Measure:

Number of prize checks issued from claim centers (thousands)

## STRATEGY A.1.3.:

### Marketing and Promotion

Definition:

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

Output Measures:

Number of newsletters distributed to retailers

Number of retailer visits

Efficiency Measure:

Average cost per survey issued

## STRATEGY A.1.4.:

### Security

Definition:

Protect and maintain the security and integrity of lottery games, systems and drawings, assure the physical security of all commission operating sites, and investigate possible criminal and regulatory violations. Investigate complaints, conduct background investigations

# AGENCY GOALS, OBJECTIVES AND MEASURES

on prospective employees, conduct background investigations on bingo distributors and manufacturers, and Texas Lottery vendors. Cooperate with local law enforcement agencies to solve crimes involving stolen lottery tickets.

## Output Measure:

Number of Lottery investigations initiated

Number of Lottery investigations completed

Number of Lottery background investigations completed

## Efficiency Measures:

Average time to complete lottery investigation (days)

Average cost per lottery investigation completed

Average time to complete lottery background investigations (days)

### STRATEGY A.1.5.:

#### Central Administration

#### Definition:

Provide executive and support functions of the Texas Lottery Commission through executive management, financial services, information technology, communications, legal services, governmental affairs, internal audit and human resources.

### STRATEGY A.1.6.:

#### Lottery Operator Contract

#### Definition:

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

### STRATEGY A.1.7.:

#### Instant Ticket Production Contract(s)

#### Definition:

Contract for instant ticket development and manufacturing services through an instant ticket vendor(s). Other services under this contract include production of coupons, second-chance drawing sales monitoring and trends analysis of instant tickets. These functions are governed under Title 16 T.A.C., Chapter 401 and Texas Government Code Chapters 466 and 467.

# AGENCY GOALS, OBJECTIVES AND MEASURES

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

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

Output Measures:

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

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

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

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

Efficiency Measure:

Percentage of adult Texans aware of Lottery advertising

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

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

STRATEGY A.1.10.: Market Research Services Contract(s)

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

STRATEGY A.1.11.: Retailer Bonus

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

# AGENCY GOALS, OBJECTIVES AND MEASURES

STRATEGY A.1.912: Instant Ticket Vending Machines Contract

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

GOAL B: Enforce Bingo Laws

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

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

**Outcomes:**

- Percent#age of licensees with no recent violations
- Percentage of Bingo audits referred for disciplinary action
- Percent of complaints referred for disciplinary action
- Percent of documented complaints completed within six months
- Net Bingo games revenue received by Charitable Organizations (in millions)
- Percentage of organizations who met the statutory charitable distribution requirement
- Percentage of organizations receiving an audit
- Percentage of organizations receiving an inspection

STRATEGY B.1.1.: Bingo Licensing

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

**Output Measures:**

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

# AGENCY GOALS, OBJECTIVES AND MEASURES

## Efficiency Measures:

Average Bingo license (new) processing time (days)

Average Bingo license (renewal) processing time (days)

Average cost per license issued

## Explanatory Measure:

Number of annual license holders

STRATEGY B.1.2.: Bingo Education and Development

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

## Output Measures:

Number of individuals receiving education

## Efficiency Measures:

Average cost of Bingo Training Class

STRATEGY B.1.3.: Bingo Law Compliance Field Operations

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

## Output Measures:

Number of inspections conducted

Number of Bingo audits and reviews completed

Number of Bingo complaints completed

Dollar amount of adjustment to charitable distribution

Number of Bingo background investigations completed

## Efficiency Measures:

Average time for Bingo complaint completion (days)

Average cost per Bingo complaint completed

Average time to conduct an audit (hours)

Average time to complete Bingo background investigations (days)

Average cost per audit completed

# AGENCY GOALS, OBJECTIVES AND MEASURES

STRATEGY B.1.4.: Bingo Prize Fee Collection and Accounting

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

Output Measures:

Number of days to allocate payments to local jurisdictions

Percentage of licensees who fail to pay fees and taxes by due date

Number of Bingo reports processed

STRATEGY B.1.5.: Bingo Prize Fee Allocations

Definition: Bingo prize fee allocations to counties and municipalities are required by Texas Occupation Code, Chapter 2001.  
Estimated and nontransferable.

## TEXAS LOTTERY COMMISSION

### Agency Strategic Plan

For the Fiscal Years 2011 – 2015 Period

## Technology Resources Planning

### A. Technology Assessment

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

### Planned Technology Initiatives

- **Internet Services** – The Texas Lottery Commission will continue to make improvements to its websites, [www.txlottery.org](http://www.txlottery.org) and [www.txbingo.org](http://www.txbingo.org), in order to more effectively communicate agency information and provide additional services to customers. One planned initiative to meet this goal is the implementation of an email notification system that will deliver lottery updates to customers on a subscription basis. Other Internet initiatives include expanding the web business portal to add new and more detailed reports and additional data formats like XML and PDF, and continue to work with the Department of Information Resources (DIR) and NICUSA to make the Lottery Retailer Application process available online at [www.texas.gov](http://www.texas.gov).
- **Security** – As with all entities, the Texas Lottery Commission continues to be confronted with the latest security threats and continually considers changes to help protect the security of the network and data. Planned security initiatives include providing programming staff with training on the development of secure applications, annual participation in DIR's network and website penetration testing services, and conducting a biannual agency-wide security review.
- **Technology Infrastructure** – The agency's storage area network (SAN) and server leases expired in FY 2010. A new SAN lease was negotiated; however as a cost saving measure, the agency has adopted a strategy of purchasing servers. Additionally, the agency is moving towards "virtualizing" servers, in order to more effectively leverage hardware resources and reduce the agency's physical footprint.
- **Operational Initiatives** – To increase operational efficiency and enhance effectiveness, other planned initiatives include the expanded use of electronic records management, implementation of a browser-based system using handheld bar-code readers to track information related to mail and packages received at the agency, and the construction and relocation of the Internal Control System to a more secure environment.

## Statewide Technology Goal 1

*Strengthen and Expand the Use of Enterprise Services and Infrastructure.*

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

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

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

## Statewide Technology Goal 2

*Secure and Safeguard Technology Assets and Information*

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

## Statewide Technology Goal 3

*Serve Citizens Anytime, Anywhere*

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

is also working with DIR and NICUSA to make the Lottery Retailer Application process available online.

- 3.b The agency will continue to make improvements to its websites to ensure that they provide current and comprehensive agency information in a highly accessible and usable fashion. The agency also plans to continue to expand and improve its bulletin board technology and 1-800 number information service.

## Statewide Technology Goal 4

*Pursue Excellence and Foster Innovation across the Enterprise*

- 4.a The Texas Lottery Commission has integrated technology in the workplace to enable a more flexible and responsive environment—one that supports online training initiatives, teleconferencing, and the sharing of information through an agency-wide intranet and newsletter.
- 4.b The agency will continue to use the Texas Project Delivery Framework for developing applications on a standardized platform in order to benefit from the consistent process and skill set. Staff also is working to improve methods for deploying desktop software from a central repository.
- 4.c Plans are underway to create an internal, browser-based application to track information resources inventory, such as laptops and printers. Additionally, staff plan to complete implementation of an internal, browser-based system using handheld bar-code readers to track information related to mail and packages received at the agency.

- 4.d The agency recently implemented a web-based, interactive training for Charitable Bingo workers using an open source content management tool to create training content, authenticate, track and even grade training participants. Further plans are in place to expand the use of RSS feeds and XML when exchanging information with business partners and customers. Additionally, the agency provides information on its websites about a number of health and emergency related services, such as AMBER/Silver/Blue Alerts, the Problem Gambling Hotline and Texas Homeland Security.

## B. Technology Alignment Initiative

The Texas Lottery Commission recognizes the importance of staying current with technology in order to increase operational efficiency and enhance the agency's effectiveness. The agency is committed to deploying innovative technologies that will deliver world-class services to our players and customers. See Table 29 on the following pages for more information on the Texas Lottery Commission's Technology Alignment.

**TABLE 29**  
**TECHNOLOGY ALIGNMENT**

TECHNOLOGY INITIATIVE	RELATED AGENCY OBJECTIVE	RELATED SSP STRATEGY/ (IES)	STATUS	ANTICIPATED BENEFITS	INNOVATION, BEST PRACTICE, BENCHMARK
1. Refresh of Storage Area Network (SAN) – The current lease of the SAN expired in FY 2010. The agency has negotiated a new lease for a new SAN with additional disk storage.	All Objectives	1.1	Current	Replacement of outdated server appliance; reduced footprint/ energy consumption; improved management interface; and increase in available storage.	
2. Refresh Servers – The server lease expires in FY 2010. In lieu of leasing the agency has adopted a strategy of purchasing servers. The agency has also begun to virtualize some servers to more effectively leverage hardware resources and to reduce the physical footprint.	All Objectives	3.2	Current	Replacement of outdated server appliance; reduction in overall costs; reduced footprint/ energy consumption; and enhanced disaster recovery mechanism.	
3. Security – The agency continues to be confronted with the latest security threats and considers changes to protect network security and data. Planned security initiatives include providing programming staff with training on the development of secure applications, participation in DIR's network and website penetration testing services, and conducting a biannual security review.	All Objectives	2.1 2.2	Planned	Network security includes intrusion detection and email, firewall and content filtering. Security devices enhance the information security environment by providing automated inspection of network traffic, threat detection and active blocking of potential threats.	
4. Telecommunications –The agency received capital budget authority in FY 2010 to purchase equipment and refresh the voice mail reporting system.	All Objectives	1.3 1.a 3.a	Current	Replacement of outdated hardware and software, and provide additional customer self-service options, which will yield increased call capacity and better customer service.	
5. Internal Control System – Complete construction and relocation of the Internal Control System (ICS) to a more secure environment.	All Objectives	2.a 3.a 4.1	Current	Strengthens the integrity of the internal control process. Streamlines the dissemination of business critical data throughout the agency.	
6. Retailer Application – The agency is working with DIR and NICUSA to make the Lottery Retailer Application available online at texas.gov.	All Objectives	1.b 3.a 3.b 4.d	Current	Increases the efficiency of the license application process; and provides expanded services to the public.	
7. Business Portal – The agency plans to expand the Web business portal, the Retailer Service Center, to add new and more detailed reports and additional data formats like XML and PDF.	All Objectives	1.b 3.a 3.b 4.d	Current	Improved access to operational data for business partners and provides expanded services to the public.	

# TECHNOLOGY RESOURCES PLANNING

TECHNOLOGY INITIATIVE	RELATED AGENCY OBJECTIVE	RELATED SSP STRATEGY / (IES)	STATUS	ANTICIPATED BENEFITS	INNOVATION, BEST PRACTICE, BENCHMARK
8. Websites – The agency will continue to make improvements to its websites, in order to more effectively communicate agency information and provide additional services.	All Objectives	1.b 3.a 3.b 4.d	Current	Satisfies public's demand for more openness in government; supports more informed public input during hearings; promotes products and services helping to increase state revenue; and extends players' access to lottery game related information allowing them to be more informed customers.	Best Practice: Utilize standardized data formats.
9. Mail Tracking System – Complete implementation of an internal, browser-based system using hand held bar code readers to track information related to mail and packages received by the agency.	All Objectives	4.4	Current	Adds efficiency to the package and mail tracking process, saving costs and increasing intra-agency collaboration.	Innovation: Implement custom code on a micro processor on hand held devices.
10. Email Notification – Implement an email notification system that will deliver game updates to customers on a subscription basis. The agency has contracted with a vendor that is providing similar services to other Texas state agencies.	All Objectives	4.1 4.3 4.a	Current	Promotes Texas Lottery products and services, helping to increase state revenue. Provides players access to lottery-related information on a subscription basis, which will personalize their gaming experience and their interest in games, while allowing them to become more informed consumers.	
11. Electronic Records – The agency intends to expand the use of electronic records management where it creates operational efficiencies and value for the state.	All Objectives	1.a 1.b 3.a 4.b	Current	Streamlined and faster access to agency information and reduction of paper.	Innovation: Eliminating paper, enhance sharing of electronic information, and increasing information security. Best Practice: Compliance with Records Retention Rules to preserve and produce electronically stored information.
12. Inventory Tracking – The agency plans to create an internal, browser-based application to track information resources inventory, such as laptops and printers.	All Objectives	4.3 4.a	Current	Reduces risk of lost equipment and associated expenses. Also reduces the risk of the loss of sensitive data.	Innovation: Eliminating paper, enhance sharing of electronic information, and increasing information security. Best Practice: Compliance with Records Retention Rules to preserve and produce electronically stored information.

# APPENDICES

<b>A. DESCRIPTION OF AGENCY'S PLANNING PROCESS</b>	<b>118</b>
<b>B. ORGANIZATIONAL STRUCTURE</b>	<b>119</b>
<b>C. OUTCOME PROJECTIONS FY 2011-2015</b>	<b>120</b>
<b>D. PERFORMANCE MEASURE DEFINITIONS</b>	<b>122</b>
<b>E. WORKFORCE PLAN</b>	<b>182</b>
<b>F. SUMMARY OF 2009 SURVEY OF EMPLOYEE ENGAGEMENT</b>	<b>190</b>
<b>G. HISTORICALLY UNDERUTILIZED BUSINESS (HUB) PLAN</b>	<b>192</b>

## **APPENDIX A**

### **Texas Lottery Commission**

#### **Description of Strategic Planning Process**

The Texas Lottery Commission's 2011-2015 Strategic Plan is the culmination of a collaborative planning process that spanned several months and involved staff from all areas of the organization, including the commissioners, senior and middle management, and designated staff liaisons with responsibility for providing content from their respective divisions. This plan represents the agency's commitment to implementing strategies and activities that support the mission, philosophy, and goals of the Texas Lottery Commission and the state of Texas.

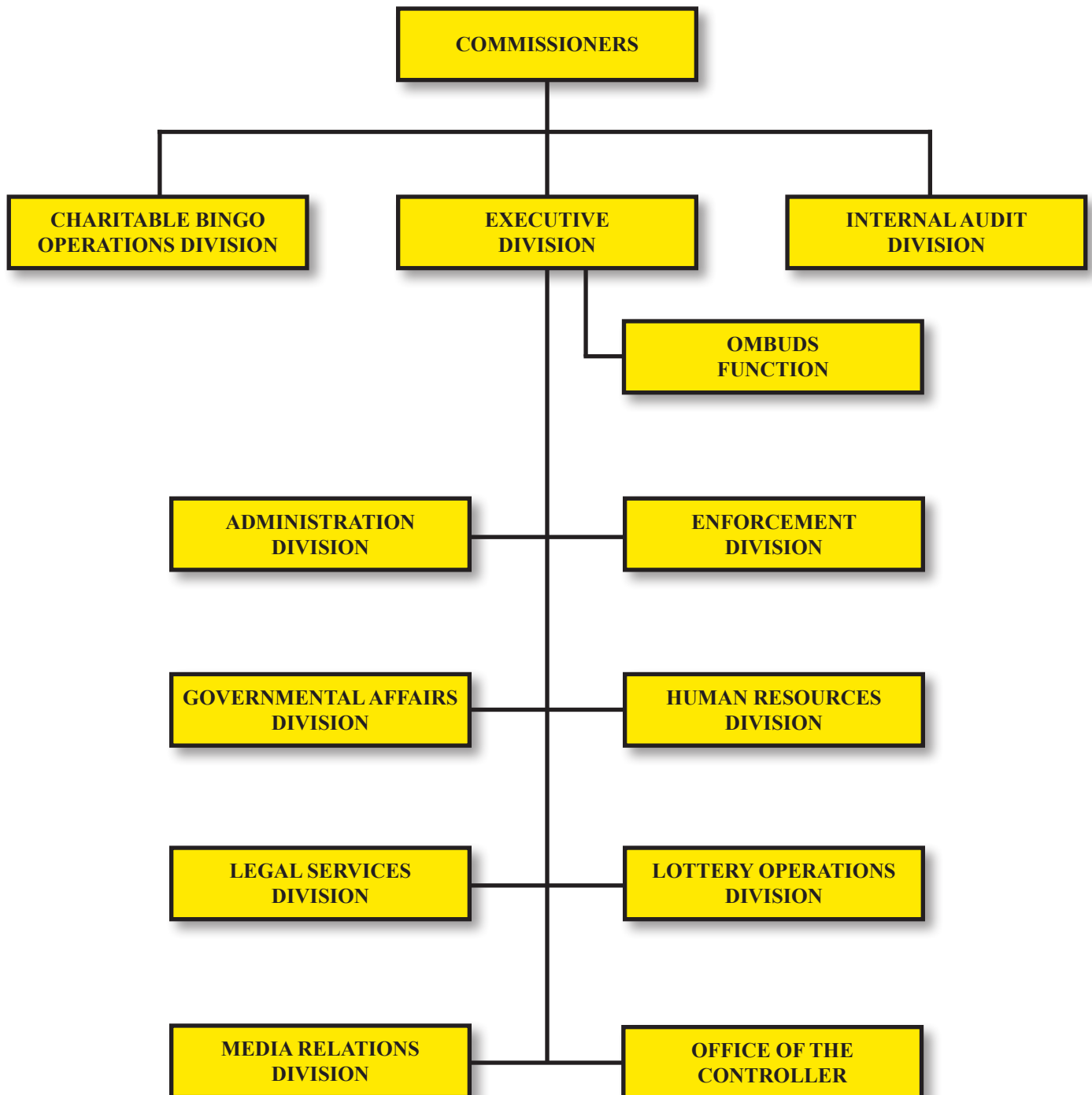
The planning process began in December 2009 when the then-deputy executive director designated the Administration Division's publications and graphics coordinator as project manager for the development of the strategic plan. The project manager subsequently developed a detailed work plan and timeline, and identified a project liaison in each division, in order to launch the project agency wide.

The strategic planning process began with a review of previous strategic plans, in order to ensure continuity from one plan to the next and to build on the agency's past work. While some existing sections were updated, new sections were also created under a new strategic plan outline designed to highlight the agency's strategic direction and enhance the plan's readability.

As the strategic planning process moved forward, the project liaisons contributed content from their respective divisions and reviewed numerous drafts. The Office of the Controller managed the process of revising and submitting the agency's performance measures through the ABEST system for purposes of budget planning. The Lottery Operations Division produced and submitted the Customer Service Report; the Human Resources Division provided the Workforce Plan; and the Administration Division assumed responsibility for developing and submitting the strategic plan for Information Resources Management, as well as the Technology Resources Planning section.

At many points along the way, the strategic plan content was developed collaboratively through formal meetings that were convened as part of the long-range planning process; through smaller working groups focusing on and refining particular areas of expertise; and through the sharing of completed drafts with executive management and the agency's three-member Commission. The culmination of months of careful planning and work, the 2011-2015 Strategic Plan will serve as the Texas Lottery Commission's roadmap for future plans and activities and will ensure that those activities support the vision and goals of the state of Texas.

**APPENDIX B**  
Texas Lottery Commission  
Organizational Structure  
FY 2011-2015



# APPENDIX C

Texas Lottery Commission  
Outcome Projections  
FY 2011-2015

	2011	2012	2013	2014	2015
<b>Lottery Outcomes</b>					
Percent of Retailers Satisfied with the Texas Lottery Commission	96.00%	96.00%	96.00%	96.00%	96.00%
Per Capita Net Lottery Sales	149.84	147.58	145.36	143.19	141.05
Percentage of Net Lottery Sales Spent on Agency Administration	5.60%	5.60%	5.60%	5.60%	5.60%
Percentage of Bad Debt to Lottery Sales	0.02%	0.02%	0.02%	0.02%	0.02%
Ratio of Advertising Expense to Net Lottery Sales	0.85%	0.85%	0.85%	0.85%	0.85%
State Revenue Received per Advertising Dollar Expended	33.13	33.13	33.13	33.13	33.13
Percent of Licensees with No Recent Violations	98.00%	98.00%	98.00%	98.00%	98.00%
Percent of Retailer Surveys Completed	85.00%	85.00%	85.00%	85.00%	85.00%
Percent of Eligible Players Served	34.00%	34.00%	34.00%	34.00%	34.00%

	2011	2012	2013	2014	2015
<b>Charitable Bingo Outcomes</b>					
Percentage of Licensees with No Recent Violations	92.50%	92.50%	92.50%	92.50%	92.50%
Percentage of Bingo Audits Referred for Disciplinary Action	60.00%	60.00%	60.00%	60.00%	60.00%
Percentage of Complaints Referred for Disciplinary Action	15.00%	15.00%	15.00%	15.00%	15.00%
Percent of Documented Complaints Completed Within Six Months	92.00%	92.00%	92.00%	92.00%	92.00%
Net Bingo Games Revenue Received by Charitable Organizations (Millions)	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00
Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement	98.00%	98.00%	98.00%	98.00%	98.00%
Percentage of Organizations Receiving an Audit	4.08%	4.08%	4.08%	4.08%	4.08%
Percentage of Organizations Receiving an Inspection	45.00%	45.00%	45.00%	45.00%	45.00%

# **APPENDIX D**

## **Texas Lottery Commission**

### **Performance Measure Definitions**

#### **FY 2011-2015**

#### **Goal A: Lottery**

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

**Short Definition:**

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

**Purpose/Importance:**

This key measure demonstrates whether the Texas Lottery Commission is responsive to retailer needs.

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

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

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

**Purpose/Importance**

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

**Source/Collection of Data:**

The annual ticket sales amount is reported in the Lottery's Financial Accounting system. Population estimates are provided by the U.S. Census Bureau Interim State Projections of Population by Sex.

**Method of Calculation:**

This measure is calculated by taking the annual net ticket sales, which is adjusted for returned tickets, stolen tickets, ticket corrections and promotional ticket credits, and dividing by total state population (as reported or estimated by the U.S. Census Bureau).

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### Goal A: Lottery

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

The annual ticket revenue and the operating cost amounts are obtained from the Lottery's Financial Accounting system.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

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

This measure calculates the ratio (in percent) of bad debt deemed to be uncollectible after 12 months of collection efforts and/or bankruptcy to total ticket sales at the end of the fiscal year.

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

### Goal A: Lottery

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

The amounts of gross lottery sales and advertising are obtained from the Lottery's Financial Accounting System.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

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

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

The net revenue to the state and advertising expenditures are obtained from the Lottery's Financial Accounting System.

**Method of Calculation:**

This measure is calculated by dividing state revenue by the amount spent on advertising.

**Data Limitations:**

The final amount of revenue to the state is dependent upon the level of sales for the fiscal year.

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

## Goal A: Lottery

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

#### Short Definition:

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

#### Purpose/Importance:

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

#### Source/Collection of Data:

The number of active and licensed retailer locations licensed at the end of the reporting period is taken from a report generated from the Retailer Management System and is based on data maintained in the Lottery Operator's retailer database which shows all active and licensed retailer locations as of the last day of the previous quarter. The number of licensed and active lottery retailer locations that incurred violations during the current fiscal year is tracked on databases maintained by agency staff and obtained by Retailer Services staff from reports produced from these lottery retailer database tracking systems.

#### Method of Calculation:

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

#### Data Limitations:

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

#### Calculation Type:

Non-cumulative.

#### New Measure:

No.

#### Desired Performance:

Higher than target.

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

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

The surveying process is a voluntary one for the retailers.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### Goal A: Lottery

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

**Goal A: Lottery****Strategy A.1.1. Lottery Operations****Output Measure A.1.1.a: Number of Retailer Business Locations Licensed****Short Definition:**

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

**Purpose/Importance:**

This measure provides an indication of the Commission's concerted effort to license and maintain a base of retailer businesses adequate to serve the public and generate revenue for the state.

**Source/Collection of Data:**

The number of retailer business locations is taken from a report generated at the beginning of each quarter from the Retailer Management System which is based on data maintained in the Lottery Operator's retailer database. The report shows all retailer business locations licensed and active on the last day of the previous quarter. This report includes a total of the number of active retailers listed on the report.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### Goal A: Lottery

### Strategy A.1.1. Lottery Operations

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

**Short Definition:**

The number of denials or revocations of licenses reflects businesses that do not comply with the Lottery Act or an applicable rule. Revocations of licenses are defined as orders received from a hearing on licensees that do not comply with the Lottery Act or an applicable rule. Retailer Services staff refer cases to the Legal Services Division for revocation of licenses from information tracked in retailer database tracking systems.

**Purpose/Importance:**

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

**Source/Collection of Data:**

Application denials are tracked by Retailer Services staff in the Retailer Management System. Orders for license revocations are tracked and recorded in spreadsheets maintained by the Governmental Affairs Division staff.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

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

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### Goal A: Lottery

### Strategy A.1.1. Lottery Operations

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

The number of new licenses issued to retailers within each quarter is taken from a report generated at the end of the reporting period from the Retailer Management System by Retailer Services staff.

**Method of Calculation:**

The total number of new licenses issued to retailers is taken from a report generated from the Retailer Management System listing the retailers that were issued new licenses during the reporting period.

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

**Goal A: Lottery****Strategy A.1.1. Lottery Operations****Output Measure A.1.1.e: Number of Licenses Renewed to Individual Retailers****Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

The number of licenses renewed within each quarter is taken from a report generated at the end of the reporting period from the Retailer Management System by Retailer Services staff.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### Goal A: Lottery

### Strategy A.1.1. Lottery Operations

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

The number of new active licensees processed within the quarter is taken from a report generated at the end of the quarter from the Lottery Operator's retailer database. The cost to process new license applications is compiled from salary information for Retailer Services staff responsible for processing new license applications and the cost the Lottery incurs for conducting criminal history investigations and credit history reviews obtained from the Lottery's Financial Accounting System.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

**Goal A: Lottery****Strategy A.1.2. Lottery Field Operations****Output Measure A.1.2.a: Number of Prize Checks Issued from Claim Centers (Thousands)****Short Definition:**

This measure reports the total number of prize checks processed by the Commission claim centers located throughout the state. Due to tax reporting requirements, prizes in excess of \$599 must be claimed at a claim center either in person or via mail. Prizes of lesser amounts may be claimed at licensed Texas Lottery retailers but may also be claimed in claim centers.

**Purpose/Importance:**

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

**Source/Collection of Data:**

Checks are processed after a player submits a winning ticket and completes a Texas Lottery Winner Claim Form. A validation is performed on the ticket and the claimant's personal information indicated on the claim form is entered into the ProSys validation system. The successful validation and entry of the personal information results in the creation of a uniquely numbered prize check. Unique check number ranges are assigned to each claim center and change with each claim in a numerically ascending order in each office according to the assigned range. The ticket, claimant, and check information are all posted to databases within the ProSys system. Weekly summary reports are generated from this information sorted by each of the claim centers.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

## Goal A: Lottery

## Strategy A.1.3. Marketing and Promotions

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

**Goal A: Lottery****Strategy A.1.3. Marketing and Promotions****Output Measure A.1.3.b: Number of Retailer Visits****Short Definition:**

This performance measure reflects the number of retailers visited by the Lottery Operator's sales representatives.

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

Lottery Sales Representatives (LSRs) record retailer visits electronically using a card with a magnetic strip swiped on the on-line terminal and recorded in the Lottery Operator's retailer database system. Visits that cannot be recorded electronically due to electrical and/or communications issues at retailer locations are tracked and reported via a spreadsheet maintained by the Lottery Operator. Retailer Services staff aggregates all retailer visit reporting for the quarter.

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

### Goal A: Lottery

### Strategy A.1.3. Marketing and Promotions

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

**Short Definition:**

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

**Purpose/Importance:**

It demonstrates the Texas Lottery Commission's intent to solicit meaningful feedback from retailers in a cost-effective manner.

**Source/Collection of Data:**

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

**Method of Calculation:**

Cost per survey issued is determined by taking the total dollar amount incurred for conducting retailer surveys during the course of the quarter and dividing that amount by the number of surveys distributed for retailer response during that same period. The cost per survey is calculated by adding together the Claim Center administration cost, Claim Center travel cost, Research administration cost, data tabulation cost, printing cost and press costs, and dividing by the number of surveys issued.

**Data Limitations:**

Costs may vary due to changes in salaries, travel, printing, and the distribution schedule of retailer newsletters.

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

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

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

### Goal A: Lottery

### Strategy A.1.4. Security

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

A completed lottery investigation is noted on the investigative report under the case heading as approved. The number of completed investigations with approval dates is recorded in the Enforcement Case Management system.

**Method of Calculation:**

This measure is calculated by recording the number of lottery complaints received from the public and internal agency referrals that are requested for investigation and are closed by approval from the Enforcement Division Director or designee regardless of when the case was actually opened. The approval dates of the investigation are recorded in the Enforcement Case Management System.

**Data Limitations:**

Delay in the receipt of information and documents from outside sources and the availability of the complainant, suspect, or witness cooperation may affect the number of investigations completed.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

**Goal A: Lottery****Strategy A.1.4. Security****Output Measure A.1.4.c: Number of Lottery Background Investigations Completed****Short Definition:**

This measure reports the number of lottery background investigations completed by the Enforcement Division. Lottery background investigations include investigations on lottery retailers, lottery vendors, lottery operator employees, potential commission employees and or other individuals as assigned. Lottery background investigations are conducted in order to determine the eligibility requirements of the requested party.

**Purpose/Importance:**

This measure assists in determining the total number of background investigations completed by the Enforcement Division.

**Source/Collection of Data:**

A completed lottery background investigation is noted on the investigative report case heading as approved. The number of completed background investigations with approval dates is recorded in the Enforcement Case Management system.

**Method of Calculation:**

This measure is calculated by recording the number of completed background investigations on lottery retailers, lottery vendors, and potential commission employees as closed by the approval by the Enforcement Division Director regardless of when the case was actually opened. The approval date of an investigation is recorded in the Enforcement Case Management System.

**Data Limitations:**

Delay in the receipt of information and the request and receipt of documents from outside sources may affect the time and number of investigations completed.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### Goal A: Lottery

### Strategy A.1.4. Security

#### Efficiency Measure A.1.4.a: Average Time to Complete Lottery Investigations (Days)

**Short Definition:**

This measure reports the average time for each Lottery investigation to be completed by the Enforcement Division.

**Purpose/Importance:**

This measure allows the Enforcement Division the ability to identify problem areas on the efficiency and timely completion of lottery investigations. It also provides specific data to help identify patterns of activity, develop pro-active measures and or allocate staffing and resources appropriately.

**Source/Collection of Data:**

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

**Method of Calculation:**

This measure is calculated by recording the number of days from the date each lottery investigation is assigned to an investigator until closed for approval by the Enforcement Division Director or designee divided by the total number of lottery investigations completed within the time period. The date a lottery investigation is assigned to an investigator and approved by the Enforcement Division Director is recorded in the Enforcement Case Management System.

**Data Limitations:**

Delay in the receipt of information and documents from outside sources and the availability of the complainant, suspect, or witness cooperation may affect the number of investigations completed.

**Calculation Type:**

Non-cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Lower than target.

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

This measure reports the average cost per Lottery investigation completed by the Enforcement Division within the quarter.

**Purpose/Importance:**

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

**Source/Collection of Data:**

The number of completed Lottery investigations is captured by the Compliance Activity Monitoring Process (CAMP) case management tracking system. The Enforcement Division's cost for investigator salary and travel expenses are obtained from records maintained in the Office of the Controller.

**Method of Calculation:**

The average cost is determined from the total salary expense and travel costs during the quarter for the enforcement investigators assigned to lottery investigation completion (excluding supervisory salaries and salary benefits costs) divided by the number of approved completed Lottery investigations completed within the quarter.

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

## Goal A: Lottery

## Strategy A.1.4. Security

### Efficiency Measure A.1.4.c: Average Time to Complete Lottery Background Investigations (Days)

#### Short Definition:

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

#### Purpose/Importance:

This measure allows the Enforcement Division the ability to identify problem areas on the efficiency and timely completion of lottery background investigations. It also provides specific data to help identify patterns of activity, develop pro-active measures and/or allocate staffing and resources appropriately.

#### Source/Collection of Data:

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

#### Method of Calculation:

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

#### Data Limitations:

Delay in the receipt of information and the request and receipt of documents from internal and outside sources may affect the time and number of investigations completed.

#### Calculation Type:

Non-cumulative.

#### New Measure:

Revised.

#### Desired Performance:

Lower than target.

**Goal A: Lottery****Strategy A.1.8. Mass Media Advertising Contracts****Output Measure A.1.8.a: Dollar Amount of Advertising Budget Spent on Print Advertising (Millions)****Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

Estimated targets are based on projected annual advertising plans which are subject to change, based on product modifications, product introduction schedules and media optimization efforts. Targets are also estimated using current year appropriations which can vary each fiscal year.

**Calculation Type:**

Cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Lower than target.

### Goal A: Lottery

### Strategy A.1.8. Mass Media Advertising Contracts

#### **Output Measure A.1.8.b: Dollar Amount of Advertising Budget Spent on Radio Advertising (Millions)**

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

This measure is calculated by taking the total approved amounts for spending on radio media and adding them together for a quarterly total.

**Data Limitations:**

Estimated targets are based on projected annual advertising plans which are subject to change, based on product modifications, product introduction schedules and media optimization efforts. Targets are also estimated using current year appropriations which can vary each fiscal year.

**Calculation Type:**

Cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Lower than target.

**Goal A: Lottery****Strategy A.1.8. Mass Media Advertising Contracts****Output Measure A.1.8.c: Dollar Amount of Advertising Budget Spent On TV Advertising (Millions)****Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

This measure is calculated by taking the total approved amounts for spending on television media and adding them together for a quarterly total.

**Data Limitations:**

Estimated targets are based on projected annual advertising plans which are subject to change, based on product modifications, product introduction schedules and media optimization efforts. Targets are also estimated using current year appropriations which can vary each fiscal year.

**Calculation Type:**

Cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Lower than target.

### Goal A: Lottery

### Strategy A.1.8. Mass Media Advertising Contracts

#### Output Measure A.1.8.d: Dollar Amount of Advertising Budget Spent in Other Advertising (Millions)

**Short Definition:**

This performance measure shows the number of dollars the Texas Lottery Commission spends on vendor account management and administration fees, as well as media and production expenditures for all types of advertising (point-of-sale, billboard, etc.) not included in the print, radio or television categories.

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

Estimated targets are based on projected annual advertising plans which are subject to change, based on product modifications, product introduction schedules and media optimization efforts. Targets are also estimated using current year appropriations which can vary each fiscal year.

**Calculation Type:**

Cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Lower than target.

**Goal A: Lottery****Strategy A.1.8. Mass Media Advertising Contracts****Efficiency Measure A.1.8.a: Percentage of Adult Texans Aware of Lottery Advertising****Short Definition:**

This performance measure is intended to show that the Lottery makes a concerted effort to track the awareness of Texas Lottery game advertising.

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

The percentage is based on self-reported data.

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### **Goal B: Charitable Bingo**

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

##### **Short Definition:**

This measure reports the ratio (in percent) of Bingo organizations that have not incurred violation for the fiscal year to the total number of Bingo organizations that were licensed. A violation is defined as any violation of the Bingo Enabling Act and/or the Charitable Bingo Administrative Rules noted during an Inspection, Review, Game Observation, and Audit. A bingo organization is considered licensed if it is in an active status during the fiscal year.

##### **Purpose/Importance:**

This measure provides an indication of the effectiveness of taxpayer education through audits and inspection of the taxpayer's books and records.

##### **Source/Collection of Data:**

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

##### **Method of Calculation:**

This measure reports the ratio (in percent) of currently licensed Bingo organizations that have not incurred an audit violation for the fiscal year to the total number of Bingo organizations currently licensed.

##### **Data Limitations:**

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

##### **Calculation Type:**

Non-cumulative.

##### **New Measure:**

No.

##### **Desired Performance:**

Higher than target.

## Goal B: Charitable Bingo

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

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

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

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

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

## Goal B: Charitable Bingo

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

#### Short Definition:

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

#### Purpose/Importance:

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

#### Source/Collection of Data:

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

#### Method of Calculation:

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

#### Data Limitations:

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

#### Calculation Type:

Non-cumulative.

#### New Measure:

No.

#### Desired Performance:

Lower than target.

**Goal B: Charitable Bingo****Outcome Measure B.1.d: Percent of Documented Complaints Completed Within Six Months****Short Definition:**

This measure reports the percentage of Bingo complaint investigations completed within six months, by the Charitable Bingo Operations Division and Enforcement Division.

**Purpose/Importance:**

The purpose of this measure is to assure that complaints are quickly and efficiently addressed.

**Source/Collection of Data:**

This data is captured in the Compliance Activity Monitoring Process (CAMP) system for Bingo complaints investigated by either the Enforcement Division, Licensing Services, or Audit Services.

**Method of Calculation:**

The measure is calculated by dividing the number of Bingo complaint investigations completed within six months or less by the total number of Bingo complaint investigations completed for the fiscal year. The data for this measure is collected and maintained in the CAMP system.

**Data Limitations:**

The complexity of the allegations(s) made may affect the number of days it takes to resolve an investigation. Additionally, the availability of the complainant, suspect or witnesses may also affect the number of investigations resolved.

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

## Goal B: Charitable Bingo

### Outcome Measure B.1.e: Net Bingo Games Revenue Received by Charitable Organizations (Millions)

#### Short Definition:

This measure captures the amount of dollars (expressed in millions) reported as distributed by licensed conductors of bingo games for their bingo bank account for charitable purpose.

#### Purpose/Importance:

This measure provides the amount of dollars used by licensed conductors for charitable purposes in Texas, which is the purpose of charitable bingo.

#### Source/Collection of Data:

The data is reported by the licensee to the Commission on the quarterly report and is noted as “Charitable distributions”. The ultimate amount distributed is dependent on the licensee’s ability to efficiently operate its Bingo games, control expenses and comply with the provisions of the Bingo Enabling Act and Rules. The data for this measure is obtained from the division’s Automated Charitable Bingo System (ACBS) computer application system.

#### Method of Calculation:

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

#### Data Limitations:

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

#### Calculation Type:

Non-cumulative.

#### New Measure:

No.

#### Desired Performance:

Higher than target.

**Goal B: Charitable Bingo****Outcome Measure B.1.f: Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement****Short Definition:**

This measure reports the ratio (in percent) of organizations who met their required charitable distribution.

**Purpose/Importance:**

This measure will help determine the percentage of organizations in compliance with the Bingo Enabling Act, Section 2001.457.

**Source/Collection of Data:**

The data is captured from the Automated Charitable Bingo System – 4 Quarter Distribution.

**Method of Calculation:**

Currently, bingo licensees report on a calendar quarter basis. As such, the third and fourth quarters from the preceding calendar year, as well as the first and second calendar quarters of the current calendar year will be utilized for this measure. This measure is calculated by dividing the number of organizations meeting the required minimum charitable distribution by the number of authorized organizations licensed during the year.

**Data Limitations:**

Number of organizations required to file quarterly reports.

**Calculation Type:**

Non-cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Higher than target.

### Goal B: Charitable Bingo

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

None.

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

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

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

None.

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

## Goal B: Charitable Bingo

## Strategy B.1.1. Bingo Licensing

### Output Measure B.1.1.a: Number of Licenses Issued to Individuals and Organizations

**Short Definition:**

This measure reports the number of licenses issued to individuals and organizations for a Charitable Bingo activity in this state.

**Purpose/Importance:**

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

**Source/Collection of Data:**

The Commission's Automated Charitable Bingo System (ACBS) provides the licensing information through the Application Processing Statistics report.

**Method of Calculation:**

Total of all renewal licenses issued to Conductors, Lessors, Manufacturers and Distributors.

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Higher than target.

**Goal B: Charitable Bingo****Strategy B.1.1. Bingo Licensing****Output Measure B.1.1.b: Number of Applications Processed****Short Definition:**

This measure reports the number of applications processed for all Bingo licenses. This includes applications for original, renewal, amended and temporary licenses for Manufacturers, Distributors, Lessors and Conductors of Bingo operations. An application is considered processed when a license is issued or the application is denied, withdrawn, or discontinued.

**Purpose/Importance:**

This measure provides data relating to the total number of applications received from individuals and organizations desiring to be licensed under the Bingo Enabling Act.

**Source/Collection of Data:**

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

**Method of Calculation:**

The Commission's Automated Charitable Bingo System (ACBS) provides the licensing information, through the Applications Issued, Denied, Withdrawn, or Discontinued report. The number of applications for original, renewal, amended and temporary licenses for Manufacturers, Distributors, Lessors and Conductors of Bingo operations is totaled and those that have been denied, withdrawn or discontinued are added to the total.

**Data Limitations:**

The ultimate number of applications processed is dependent on the number of organizations requesting a license.

**Calculation Type:**

Cumulative.

**New Measure:**

Revised

**Desired Performance:**

Higher than target.

### Goal B: Charitable Bingo

### Strategy B.1.1. Bingo Licensing

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

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

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

**Purpose/Importance:**

This measure reflects the responsiveness of the Licensing Section staff to our customers' needs. It is an indicator of our efficiency.

**Source/Collection of Data:**

The data for this measure is obtained from the division's Automated Charitable Bingo System (ACBS) computer application system through the report "Average Turnaround Time for License Issued" – LIRAVGTG.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

### Goal B: Charitable Bingo

### Strategy B.1.1. Bingo Licensing

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

**Short Definition:**

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

**Purpose/Importance:**

This measure reflects the responsiveness of the Licensing Section staff to our customers' needs. It is an indicator of our efficiency.

**Source/Collection of Data:**

The data for this measure is obtained from the division's Automated Charitable Bingo System (ACBS) computer application system through the report "Average Turnaround Time for License Issued" – LIRAVGTG.

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

**Goal B: Charitable Bingo****Strategy B.1.1. Bingo Licensing****Efficiency Measure B.1.1.c: Average Cost Per License Issued****Short Definition:**

This measure reports the cost of issuing a license or an amendment to a license.

**Purpose/Importance:**

This measure reflects the responsiveness of the Licensing Section staff to our customers' needs. It is an indicator of our efficiency.

**Source/Collection of Data:**

Automated Charitable Bingo System.

**Method of Calculation:**

It is calculated by dividing the number of licenses and amendments to licenses issued into the total estimated costs associated with processing licenses and amendments within the Charitable Bingo Division. Calculate the percentage of time spent by licensing examiners entering, reviewing and processing applications. Multiply that percentage by the licensing examiner's salary. Total the percentage of monthly salaries for the Data Entry Clerk, Administrative Technician, and Licensing Examiners. Multiply the sum by three for the three months in the quarter. Add the postage for mailing renewal notices and other licensing mail. Divide the sum by the total number of licenses and amendments issued for the quarter. This figure represents the average cost per license issued for the current quarter.

**Data Limitations:**

None

**Calculation Type:**

Non-cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Lower than target.

### Goal B: Charitable Bingo

### Strategy B.1.1. Bingo Licensing

#### Explanatory Measure B.1.1.a: Number of Annual License Holders

**Short Definition:**

This measure reports the number of organizations that held an active bingo license during the fiscal year.

**Purpose/Importance:**

This measure identifies the number of licensees who can renew.

**Source/Collection of Data:**

The Automated Charitable Bingo System provides a report of active organizations at the end of the fiscal year and of those organizations, whose license was surrendered, revoked or application for a renewal was denied during the fiscal year.

**Method of Calculation:**

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

**Data Limitations:**

None

**Calculation Type:**

Non-cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Higher than target.

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

This measure reports the number of individuals completing the Bingo Training Program via in person, video, website, or other interactive modes.

**Purpose/Importance:**

The number and frequency of administrative actions and compliance actions as a result of violations of the Bingo Enabling Act and Administrative Rules should be positively impacted as more individuals complete the Bingo Training program.

**Source/Collection of Data:**

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

**Method of Calculation:**

The number of individuals recorded as completing the Bingo Training Program (BTP).

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Higher than target.

### Goal B: Charitable Bingo

### Strategy B.1.2. Bingo Education and Development

#### Efficiency Measure B.1.2.a: Average Cost of Bingo Training Class

**Short Definition:**

This measure reports the costs associated with presenting a Bingo Training class which include but is not limited to staff hours, travel expenses, supplies, materials, postage and equipment.

**Purpose/Importance:**

The average cost of each class must be identified to determine the impact on Charitable Bingo Operations Division's budget as a result of increased travel costs and salaries.

**Source/Collection of Data:**

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

**Method of Calculation:**

Cumulative cost of Bingo Training Program (staff hours, travel expenses, supplies, materials, postage and equipment) divided by the total number of Bingo Training Programs conducted, in dollars.

**Data Limitations:**

None.

**Calculation Type:**

Non-cumulative.

**New Measure:**

Revised

**Desired Performance:**

Lower than target.

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

This measure reports the total number of Bingo inspections, including Book and Records inspections, Game Inspections, and Complaint Investigations conducted and reported to headquarters by Audit or Enforcement staff for the fiscal year.

**Purpose/Importance:**

This measure provides education to taxpayers with the goal of training them in the proper method of establishing and maintaining bingo related accounting records. The measure also provides an assessment of compliance with the Act and Rules by organizations.

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

None.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### Goal B: Charitable Bingo

### Strategy B.1.3. Bingo Law Compliance Field Operations

#### Output Measure B.1.3.b: Number of Bingo Audits and Reviews Completed

**Short Definition:**

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

**Purpose/Importance:**

An audit is a more detailed examination of a Bingo licensee in which the auditor determines if the Bingo licensee is in compliance with the Bingo Enabling Act and/or Charitable Bingo Administrative Rules, Texas Bingo Quarterly Report information submitted to the Commission is reasonably accurate, bingo proceeds are used for authorized purposes, and bingo is conducted fairly.

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

None.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

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

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

The complexity of the allegation(s) made may affect the number of investigations resolved within the quarter. Additionally, the availability of the complainant, suspect or witnesses may also affect the number of investigations resolved.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

### Goal B: Charitable Bingo

### Strategy B.1.3. Bingo Law Compliance Field Operations

#### **Output Measure B.1.3.d: Dollar Amount of Adjustments to Charitable Distributions by Audit and Inspection**

**Short Definition:**

This measure reports the dollar amount of adjustments made to the Charitable Distribution as reported on the Conductor Quarterly Report as a result of an Audit or Inspection.

**Purpose/Importance:**

This measure reflects effectiveness of inspection activities and impacts the extent of compliance by the licensed organizations.

**Source/Collection of Data:**

This data will be captured from the Automated Charitable Bingo System – (ACBS)

**Method of Calculation:**

Total dollar amount of adjustments to the amount of Charitable Distributions reported by licensed organizations identified as a result of Audits Inspections, and Complaint Investigations completed during the reporting period.

**Data Limitations:**

The reporting accuracy by licensed authorized organizations, and the allowable uses of proceeds from the conduct of bingo for a charitable purpose.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

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

This measure reports the number of bingo background investigations completed by the Enforcement Division. Bingo background investigations are conducted on licensees and others identified in the Bingo Enabling Act. Bingo background investigations are referred by the Charitable Bingo Division in order to determine the eligibility requirements for licensing or placement in the Bingo Worker Registry as indicated by the BEA.

**Purpose/Importance:**

This measure assists in determining the total number of background investigations completed by the Enforcement Division.

**Source/Collection of Data:**

A completed bingo investigation is noted on the investigative report as approved. The number of completed investigations with the approval dates is recorded in the Enforcement Case Management system.

**Method of Calculation:**

This measure is calculated by recording the number of completed bingo background checks that are closed by approval by the Enforcement Division Director or designee regardless of when the case was actually opened. The approval dates of the investigation are recorded in the Enforcement Case Management System.

**Data Limitations:**

Delay in receiving required information from the Bingo Division to complete background checks may delay the investigation.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

## Goal B: Charitable Bingo

## Strategy B.1.3. Bingo Law Compliance Field Operations

### Efficiency Measure B.1.3.a: Average Time for Bingo Complaint Completion (Days)

#### Short Definition:

This measure reports the average time for Bingo complaints completed by the Charitable Bingo Operations Division and the Enforcement Division.

#### Purpose/Importance:

This measure is important because it serves as a gauge to measure the efficiency and timeliness of complaint investigations and completions.

#### Source/Collection of Data:

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

#### Method of Calculation:

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

#### Data Limitations:

The complexity of the allegation(s) made may impact the number of days it takes to resolve an investigation. Additionally, the availability of complainant, suspect and witness ability may also affect the length of time it takes to resolve an investigation.

#### Calculation Type:

Non-cumulative.

#### New Measure:

Revised.

#### Desired Performance:

Lower than target.

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

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

The number of investigations completed by the Charitable Bingo Operations Division is stored in the Automated Charitable Bingo System (ACBS). The number of investigations completed by the Enforcement Division is stored in the Enforcement section of CAMP. The travel cost per investigation is stored in the Automated Charitable Bingo System (ACBS).

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

### Goal B: Charitable Bingo

### Strategy B.1.3. Bingo Law Compliance Field Operations

#### Efficiency Measure B.1.3.c: Average Time to Conduct Audit (Hours)

**Short Definition:**

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

**Purpose/Importance:**

The average number of hours spent on verifying taxpayer compliance with the Bingo Enabling Act and/or Charitable Bingo Administrative Rules.

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

None.

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

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

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

Delay in receiving required information from the Bingo Division may impact the number of days to complete background checks.

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

### Goal B: Charitable Bingo

### Strategy B.1.3. Bingo Law Compliance Field Operations

#### Efficiency Measure B.1.3.e: Average Cost per Bingo Audit Completed

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

The number of audits completed by the Charitable Bingo Operations Division, the travel costs per audit, and the hours per audit are stored in the Automated Charitable Bingo System (ACBS).

**Method of Calculation:**

The average cost is determined from the total salary expense and travel costs during the quarter, for the individuals performing the audits, divided by the number of completed Bingo audits within the quarter.

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

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

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

**Purpose/Importance:**

Prize fee allocation is one of the primary functions performed in this division. We have a responsibility to local jurisdictions to return local prize fees collected in the most efficient and effective manner possible. This measure provides an indicator of how timely the allocation is returned.

**Source/Collection of Data:**

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

**Method of Calculation:**

Each quarter, the actual number of business days is counted between the first day of the month following the Texas Bingo Conductor's Quarterly return due date to the date the allocation payments are released to local jurisdictions.

**Data Limitations:**

None.

**Calculation Type:**

Non-cumulative.

**New Measure:**

Revised.

**Desired Performance:**

Lower than target.

### Goal B: Charitable Bingo

### Strategy B.1.4. Bingo Prize Fee Collection and Accounting

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

**Short Definition:**

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

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Non-cumulative.

**New Measure:**

No.

**Desired Performance:**

Lower than target.

**Goal B: Charitable Bingo****Strategy B.1.4. Bingo Prize Fee Collection and Accounting****Output Measure B.1.4.c: Number of Bingo Reports Processed****Short Definition:**

This measure reports the number of Bingo quarterly reports processed. Data includes all quarterly reports and any estimated, amended or adjusted reports for the quarter.

**Purpose/Importance:**

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

**Source/Collection of Data:**

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

**Method of Calculation:**

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

**Data Limitations:**

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

**Calculation Type:**

Cumulative.

**New Measure:**

No.

**Desired Performance:**

Higher than target.

## APPENDIX E

### Texas Lottery Commission Workforce Plan FY 2011-2015

## I. OVERVIEW

### AGENCY VISION

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

### AGENCY MISSION

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

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

### AGENCY CORE VALUES

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

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

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

**Customer Responsiveness** - The Commission takes pride in providing exemplary service to the people of Texas through the courteous dissemination of clear and accurate information about our

products, services and regulatory functions. We seek and respond to feedback expressed by our employees, retailers, licensees and the playing and non-playing public. We apply this feedback in the development of our products and in the services that we provide.

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

**Excellence** - We strive for excellence by taking a position of leadership on issues that impact the Commission and achieve challenging goals by focusing on our core values.

## STRATEGIC GOALS AND OBJECTIVES:

**A. GOAL:** Operate Lottery. Generate revenue for the state of Texas through the responsible management and sale of entertaining lottery products, while incorporating the highest standards of security and integrity.

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

**B. GOAL:** Enforce Bingo Laws. Timely and fairly enforce all statutes and regulations relating to charitable bingo to determine that all proceeds derived from bingo are used for a lawful purpose and charitable bingo games are conducted fairly.

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

## FUNCTIONS

The Texas Lottery Commission has two main functions:

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

The Charitable Bingo Operations Division is charged under the Bingo Enabling Act with the regulation and administration of all charitable bingo-related activities in the state of Texas and contributes to the regulatory and tax and revenue collection functions of the agency. The division

licenses all bingo-related activities; collects taxes and prize fees generated from the conduct of charitable bingo; audits bingo licensees; conducts tests on bingo products intended for use in Texas, such as bingo paper, pull-tabs and electronic equipment; and makes quarterly allocations to local units of government for their share of the prize fees collected.

## STRUCTURE

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

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

The Executive Director, the Charitable Bingo Operations Division Director, and the Internal Audit Director are appointed by and report to the three-member Commission. The Texas Lottery Commission Executive Director provides leadership to eight divisions

within the agency, ensuring that staff carries out applicable state law and Commission policies. The Charitable Bingo Operations Director is responsible for the day-to-day operations relating to the regulation of charitable bingo, ensuring that the staff carries out applicable state law and Commission policies. The Internal Audit Director works to ensure that internal and external controls are adequate to improve the efficiency and effectiveness of the Texas Lottery Commission.

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

## ANTICIPATED CHANGES TO THE MISSION, STRATEGIES, AND GOALS

The Texas Lottery Commission anticipates no major changes to its mission, strategies and goals over the next five years. However, the agency stands ready to adapt to any changes that may be required by legislation.

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

DIVISION	FTE
ADMINISTRATION	68
CHARITABLE BINGO OPERATIONS	47
ENFORCEMENT	15.5
EXECUTIVE	3.5
GOVERNMENTAL AFFAIRS	4
HUMAN RESOURCES	7
INTERNAL AUDIT	5.75
LEGAL SERVICES	16.5
LOTTERY OPERATIONS	126.25
MEDIA RELATIONS	6
OFFICE OF THE CONTROLLER	22
<b>TOTAL</b>	<b>321.5</b>

Source: Texas Lottery Commission

## II. Current Workforce Profile (Supply Analysis)

### A. Critical Workforce Skills

The Texas Lottery Commission has 321.5 full-time equivalent (FTE) positions allocated to accomplish the functions performed in each of its divisions. Although the agency has many talented and qualified employees, there are a number of critical skills that are important to the agency's ability to operate. These skills enable staff to effectively perform key business functions and are critical to the missions of the agency. These skills are listed below:

- Leadership and management skills
- Ability to effectively communicate
- Sense of teamwork
- Innovative thinking
- Strategic planning expertise
- Ability to analyze and solve problems
- Interpersonal sensitivity
- Customer service orientation
- Proficiency in negotiation strategies and techniques
- Contract management skills
- Financial management, financial analysis and accounting theory expertise
- Competency in state purchasing and procurement
- General and state agency auditing capabilities
- Expertise in regulation and enforcement of licensees, including processing of licensee applications and fees
- Ability to monitor legislation and serve as a resource to the Texas Legislature
- Computer literacy
- Software proficiency
- Web development and maintenance expertise
- Application development capabilities
- Business continuity planning expertise
- Facility operations and security skills
- Advertising and promotions expertise
- Proficiency in research and analysis
- General and administrative law expertise
- Investigative skills
- Ability to interpret and enforce statutes, administrative rules, policies and procedures

## B. Workforce Demographics

The Texas Lottery Commission takes pride in the diversity of its workforce, which is illustrated in Tables E-2, E-3 and E-4. The agency's average workforce composition during FY 2009 was: 12 percent African American, 30 percent Hispanic, 57 percent White and 1 percent Asian. During the same time period, the agency's staff was 63 percent female and 37 percent male, and 70 percent of the workforce was more than 40 years of age.

**TABLE E-2  
AGE OF EMPLOYEES  
(FY 2009 AVERAGE)**

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

Source: Uniform Statewide Payroll/Personnel System (USPS)

**TABLE E-3  
EMPLOYEE ETHNIC AND GENDER REPRESENTATION (FY 2009 AVERAGE)**

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

Source: Uniform Statewide Payroll/Personnel System (USPS)

**TABLE E-4  
WORKFORCE DIVERSITY DATA (FY 2009 AVERAGE)**

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

Source: Uniform Statewide Payroll/Personnel System (USPS)

## C. Employee Turnover

The Texas Lottery Commission remains mindful of employee turnover and its effect on operating costs. Since FY 2006, the agency's turnover rate has been below the state's average. The turnover rate was 22.9 percent in FY 2005, partly as a result of a reduction in force associated with a reorganization of the agency. Table E-5 compares the agency's turnover rates with that of the state average turnover rate for the past five years.

**TABLE E-5  
TURNOVER RATES**

YEARS	2005	2006	2007	2008	2009
TEXAS LOTTERY	22.9%	6.1%	9.2%	5.7%	5.0%
STATEWIDE	18.9%	15.8%	17.4%	17.3%	14.4%

Source: SAO Electronic Classification Analysis System

## D. Retirement Eligible Employees

In FY 2011 through 2015, approximately 115 Texas Lottery Commission employees are projected to be eligible to retire at age 60—with a minimum of five years of service—and receive the minimum annuity from the Employees Retirement System. Approximately 29 current employees are projected to have at least 10 years of service at age 65 and become eligible for an annuity and health insurance benefits. Approximately 66 current employees are projected to be eligible to retire based on the rule of 80—years of age and service adding up to 80—and at least 10 years of state service.

# III. FUTURE WORKFORCE PROFILE (DEMAND ANALYSIS)

## A. Expected Workforce Changes

With technological advances, the information needs and expectations of the public continue to expand. The agency must continue to develop the skills of current workers and identify future workforce skill sets necessary to serve these needs. In addition, the agency will continue to use technology to revise and streamline work processes and provide web-related services. Any additional legislative changes could expand or modify the workforce needs and FTE requirements of the agency.

## B. Future Critical Functions

The Texas Lottery Commission does not currently anticipate changes to the current critical functions needed to achieve the goals of the 2011 – 2015 Strategic Plan. However, legislative changes could affect agency functions by having an impact on lottery game offerings or charitable bingo initiatives. As new technology is applied to agency processes, certain job functions may be performed differently.

### C. Future Workforce Skills Needed

All of the current critical skills listed in Section II will continue to be needed and, as technology moves ahead, advanced competencies in these skills will need to be obtained and maintained.

### D. Anticipated Increase in Number of Employees to Do the Work

If additional programs or responsibilities are added to the functions of the agency, then additional staffing levels and workforce composition might need to be considered. For example, three charitable-bingo related proposals have been discussed during recent legislative sessions: Multi-Hall Bingo, Instant Bingo Card Minding Devices, and the authorization of the conduct of charity poker tournaments. If passed, these initiatives would require additional skills and staff.

Similarly, if Keno, video lottery, or other legalized gaming is approved and the Texas Lottery Commission is the implementing/regulatory agency, there may be a need for additional staff. If the number of lottery game drawings is increased, additional staff might be needed as well.

## IV. GAP ANALYSIS

The Texas Lottery Commission has sufficient staff and expertise to accomplish the agency's current mission, goals and objectives. Any legislative changes to the current programs of the Texas Lottery Commission would require a reexamination of the agency's workforce to identify gaps in knowledge, experience and resources. The Texas Lottery Commission does not anticipate any changes occurring that would require reduction in current skill sets.

## V. STRATEGY DEVELOPMENT

It is the policy of the Texas Lottery Commission to encourage all employees to continually improve their job skills; to be more productive and knowledgeable within their current job assignment; and to prepare for the possibility of future assignments.

The Texas Lottery Commission trains its workforce to acquire and implement the skills outlined in Section II of this appendix. Additional competency gaps identified for existing staff will be addressed through internal and external training, e-training initiatives, and continuing education programs offered through colleges and mentoring programs.

Employee retention is of equal importance. The agency maintains a number of programs to retain qualified employees, including tuition reimbursement, one-time merit increases and continuing education programs. The agency's Tuition Reimbursement Program provides financial assistance to employees who wish to improve or supplement their knowledge and skills by attending classes at colleges, community colleges, universities or technical schools.

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

**Conclusion:**

The Texas Lottery Commission evaluates and attempts to forecast future shortages and surpluses in agency skills requirements. Whenever possible, the agency's management adjusts to these skill requirement changes in an appropriate and timely manner to ensure that staff and skills are appropriately matched to agency needs.

## **APPENDIX F**

### **Texas Lottery Commission**

#### **Summary of 2009 Survey of Employee Engagement**

Overall scores continued to rise as the Texas Lottery Commission participated in the Survey of Employee Engagement (formerly called the Survey of Organizational Excellence) in 2009. The employees' response rate was 67 percent. Although down from an exceptionally high rate of 80 percent in 2007, the response rate shows positive employee involvement, in addition to denoting a high degree of confidence that the survey results accurately reflect employee attitudes.

The Texas Lottery Commission has been participating in the survey since 1994. One of the values of participating in multiple iterations of the survey is the opportunity to measure organizational change over time. A high response rate shows positive employee involvement, and means that the results of the survey accurately reflect employee attitudes with a high degree of confidence.

The Survey of Employee Engagement measures employee attitudes toward the workplace through a series of questions about employee attitudes that are grouped into 20 statistical constructs. Agency-wide results show that employees perceived all the issues measured more positively than negatively, and 18 of the 20 constructs showed an improved score over the previous year, with the Fairness construct remaining the same. Scores improved the most in the four survey constructs of Fair Pay, Benefits, Job Satisfaction, and Availability—which measures employees' perceived access to information.

The survey further groups the 20 constructs into five workplace dimensions: Work Group, Accommodations, Organizational Features, Information, and Personal. A comparison of the 2009 results in the five survey dimensions of Work Group, Accommodations, Organizational Features, Information, and Personal, show that the agency outperformed the benchmark scores for all other state agencies taking the survey, as well as for agencies with similar missions and agencies of a similar size.

In particular, agency-wide scores indicate that employees intrinsically like their jobs and their work environment. They feel the agency responds well to external influences that play a role in defining its mission, vision, services, and products. Employees hold positive attitudes toward the degree that quality principles such as customer service and continuous improvement are part of the organizational culture; and generally feel that job demands are reasonable given time and resource limitations.

Management has applied a proactive approach in responding to the results of the survey. In 2009, as in past years, the results of the survey were made available to all employees and posted on the agency's intranet. All levels of staff are invited to discuss and comment on the survey results during an all-agency staff meeting. Employees are also encouraged to participate in employee workgroups and recommend improvements to the agency. Management has consistently shown a willingness to make changes intended to improve operations and the working environment at the agency.

All of the agency's 20 construct ratings were scored higher than 300 points, meaning that they are all perceived more positively than negatively by agency employees. No survey areas were identified as areas of significant concern.

Improvements in scores over previous years can be seen as evidence that action plans put into place in response to results of previous surveys have been effective. Survey score advances may result in part from previous actions by the Commission, including: adopting a new Personnel Handbook; creating an agency Ombuds position; giving employees additional avenues to voice their concerns or complaints; and initiating a new employee performance evaluation system.

The Texas Lottery Commission operates in a rapidly changing environment, and employees are asked daily to meet new challenges and accept new responsibilities. The agency's management recognizes this and supports its employees through its salary and benefits administration, and through training opportunities, promotion opportunities, advanced technology, and its Employee Assistance Program.

# APPENDIX G

## Texas Lottery Commission

### Historically Underutilized Business (HUB) Plan

#### FY 2011 – 2015

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

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

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

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

**OUTCOME MEASURE:** Total percentage of direct and subcontracting expenditures paid to HUB and minority businesses for the procurement categories that apply to the Commission.

**A.1.1. STRATEGY:** Implement and maintain policies and procedures, in accordance with the HUB Rules, to guide the agency in increasing the use of HUB and minority businesses through direct contracting and/or subcontracting.

**OUTPUT MEASURES:**

1. The total amount of direct HUB expenditures
2. The total amount of HUB subcontracting
3. The total number of contracts awarded to HUBs
4. The total number of bids received from HUBs

**A.1.2. EXTERNAL AND INTERNAL ASSESSMENT:** From FY 2008 to 2009, the Texas Lottery Commission's overall HUB utilization decreased slightly. However, during FY 2009, the Commission experienced a slight increase in its minority utilization. During this report period, the Commission expended more than \$35.7 million with HUBs and minority businesses. The agency has an effective outreach program, which focuses on informing HUB and minority businesses about the Commission's procurement processes and opportunities to provide goods and services to the agency. In addition, the Commission's inclusion of the HUB Subcontracting Plan in its large contracts has had a positive impact on HUB subcontracting. The FY 2009 Annual Statewide HUB Report ranked the Texas Lottery Commission 15<sup>th</sup> in the state in terms of overall expenditures. However, the Texas Lottery Commission ranked number four by overall HUB percentage of the 15 largest spending state agencies.

**B. GOAL:** To take positive steps to license minority businesses as sales agents, and to monitor efforts to increase the number of minority retailers.

**B.1. OBJECTIVE:** To ensure that at least 20 percent of the Texas Lottery's licensed sales agents are minority businesses.

**OUTCOME MEASURE:** Percentage of the Texas Lottery's total licensed retailer base that are minority businesses.

**B.1.1. STRATEGY:** Maintain retailer retention policies and procedures within the agency, to ensure that the Commission is working to meet or exceed the twenty percent minority retailer goal, as set out in the State Lottery Act.

**OUTPUT MEASURES:** A minimum of 20 percent of the total number of licensed sales agents/retailers will be minority businesses.

**B.1.2. EXTERNAL AND INTERNAL ASSESSMENT:** The Texas Lottery Commission continues to consistently exceed its statutory goal of a 20-percent minority business retailer base. During FY 2009, minority retailers numbered 6,953, which represented 41.77 percent of the Texas Lottery's total retailer base. FY 2009 was the third consecutive year during which the Texas Lottery Commission maintained a minority retailer level of more than 40 percent.