SUPPORTING
TEXAS EDUCATION
AND VETERANS

TEXAS LOTTERY COMMISSION

2022 ANNUAL REPORT AND
2023 — 2024 COMPREHENSIVE BUSINESS PLAN

Table of Contents

TEXAS LOTTERY COMMISSION

2022 ANNUAL REPORT AND 2023 – 2024 COMPREHENSIVE BUSINESS PLAN

SECTION 1: 2022 ANNUAL REPORT

MESSAGE FROM THE CHAIRMAN

As Chairman of the Texas Lottery Commission, I am proud of the significant support the Texas Lottery provides for Texas education and veterans. The $1.998 billion revenue transfer for this past Fiscal Year (FY) broke the previous record revenue contribution set in FY 2021. The Texas Lottery now consistently contributes more than $1.6 billion annually to the Foundation School Fund, including a transfer of $1.972 billion in FY 2022. Texas school districts use monies from the Foundation School Fund to pay for teacher salaries, utilities, furniture, equipment and other operational expenses. Some of these funds are also earmarked to deliver special program services like bilingual education, special education, compensatory education, gifted and talented education, and career and technical education. In 2009, the Legislature authorized scratch ticket games with proceeds dedicated to the Texas Veterans Commission administered Fund for Veterans' Assistance providing benefits to Texas veterans and their families. The Texas Lottery generated a record transfer to the Fund for Veterans' Assistance with $26 million in FY 2022. Through the end of FY 2022, the Texas Lottery has contributed more than $29.6 billion to Texas public education and more than $192 million to Texas veterans since the dedication of such funds by the Texas Legislature.

The agency is committed to accomplishing its mission consistent with the provisions of the State Lottery Act and the policy direction of the Texas Legislature. While continuing its focus on innovation, the agency is committed to ensuring that new products are authorized by Texas law, and do not include video lottery, casino gaming, internet-based lottery sales, fantasy sports or any other activities not authorized by law. The members of the Commission understand their responsibility to provide oversight to ensure the agency is conducting its operations fully within this framework. The Texas Lottery also continues to take a leadership role nationally and globally as an active member of the North American Association of State and Provincial Lotteries, the Multi-State Lottery Association and the World Lottery Association.

This Comprehensive Business Plan and Annual Report illustrates the agency's achievements during FY 2022, but more importantly it details the goals, strategies and key performance factors that will be used to measure current and future success. The Texas Lottery's success story is not just in the numbers, but in the statewide economic impact to our retailers, prize winners, vendors, employees and, most importantly, public education and veterans' assistance programs.

Robert G. Rivera, Chairman

Robert G. Rivera
Chairman

MESSAGE FROM THE EXECUTIVE DIRECTOR

The Texas Lottery Annual Report and Comprehensive Business Plan details the results of the Texas Lottery's most recent full Fiscal Year (FY) in 2022.

2022 was an extraordinary year in many ways, but especially for Texas Lottery® sales. The Texas Lottery achieved $8.297 billion in sales for FY 2022, breaking the sales record for a 12th consecutive year. With strategic planning that led to a robust ticket lineup, including the launch of the first $100 scratch ticket in the United States, the Texas Lottery saw record-breaking scratch ticket sales totaling $6.727 billion and record-breaking draw game sales of $1.57 billion, thanks to an advertised $1.28 billion *Mega Millions®* jackpot in July 2022.

These tremendous sales led to a record total contribution of $1.998 billion to education and veterans' assistance in Texas. This record total was the fourth year the agency generated more than $1.6 billion in revenue and the 19th consecutive year the agency generated more than $1 billion in revenue. As noted by our Chairman, this year's revenue transfer included $1.972 billion to the Foundation School Fund and $26 million to the Fund for Veterans' Assistance, the Lottery's largest contribution to Texas veterans.

Gary Grief
Executive Director

FY 2022 was also a great year for Texas Lottery players and retailers. Players collected $5.662 billion in prizes, the highest dollar amount of prizes paid out in Texas Lottery history and an increase of $170.7 million from the prior FY. For the over 20,000 retailers that sell lottery tickets across the state, commissions amounted to $415.4 million, the highest commission paid to retailers since the Lottery's inception and an average of $20,046 for each of the Texas Lottery's valued retail partners. The agency reached these accomplishments through our ongoing commitment to our Core Values and by maintaining focus on our mission to generate revenue for the State of Texas through the responsible sale and management of entertaining lottery products. In addition, we never lost sight of being fiscally responsible, achieving an administrative expense rate of 3.47% of FY 2022 sales. Any unspent administrative funds achieved through cost saving measures are returned directly to the Foundation School Fund. In fact, over 97.7% of Texas Lottery sales are returned to the state in the form of contributions to the Foundation School Fund, the Fund for Veterans' Assistance and other state programs, and through prizes and retailer commissions, bonuses and incentives. All these accomplishments are possible, in part, through the pride we take in our ability to effectively outsource certain functions to the private sector, appropriately manage large and complex contracts, and encourage the use of Historically Underutilized Businesses (HUBs) in Texas.

The Texas Lottery continues to be fully committed to Responsible Gambling and we encourage the public to "PLAY RESPONSIBLY" when participating in Texas Lottery games. We are members of the National Council on Problem Gambling, the World Lottery Association and North American Association of State and Provincial Lotteries and the agency actively supports each of these organizations' responsible gaming initiatives.

On behalf of our entire staff, I look forward to sharing more information with you about the Texas Lottery on the following pages and providing you with insight into the challenges we face ahead.

Gary Grief, Executive Director

Texas Lottery Commission History

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

The agency underwent Sunset reviews in both 2002 and 2004, but its Sunset bills failed to pass either time and the agency was continued in separate legislation. In 2012, the agency underwent Sunset review once again. The 83rd Legislature enacted Sunset legislation which continues the agency until September 1, 2025. Additionally, the legislation included a provision establishing a 10-member legislative review committee to study the impact of eliminating the state lottery along with studying certain aspects of charitable bingo. The legislative review committee issued its recommendations in a November 2014 report. One of its recommendations was that the Legislature should continue the Texas Lottery and the Texas Lottery Commission. During the latter part of FY 2023, the agency will begin drafting its Self-Evaluation Report in preparation for its next Sunset review.

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

MEET THE COMMISSIONERS

Cindy Fields
El Paso

Robert G. Rivera, *Chairman*
Dallas

Jamey Steen
Houston

Mark A. Franz
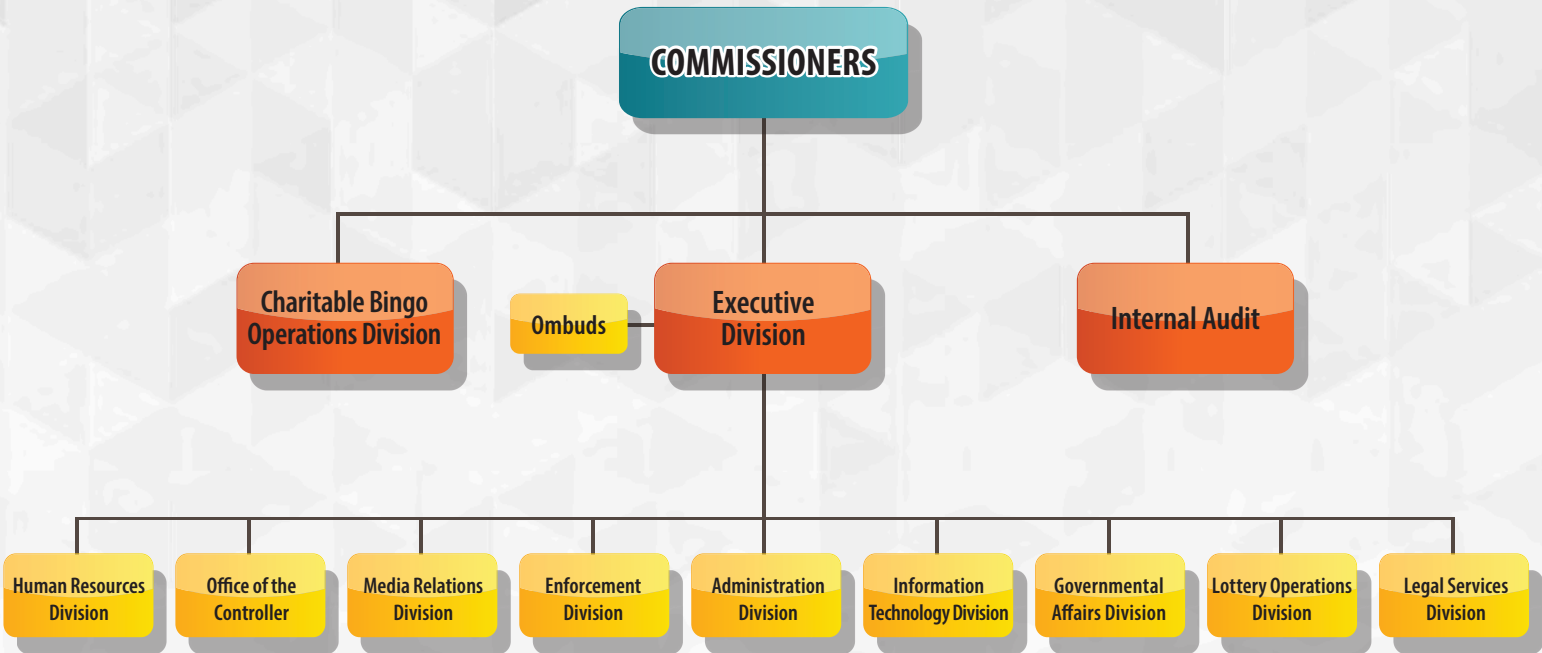*Austin*

Erik C. Saenz
Houston

Management and Organizational Structure

The Texas Lottery is overseen by a five-member Commission that sets policy, adopts rules necessary to administer the State Lottery Act, and performs all other duties required by law. The agency is comprised of 12 distinct operating areas, including 11 divisions (Administration, Information Technology, Charitable Bingo Operations, Enforcement, Executive, Governmental Affairs, Human Resources, Legal Services, Lottery Operations, Media Relations and the Office of the Controller) and an outsourced Internal Audit function. The agency's organizational structure is depicted below.

Texas Lottery Commission Organizational Chart

What sets the Texas Lottery Commission apart from other North American lotteries is the unique public-private structure of the agency. The members of the original Implementation Task Force of the Texas Lottery were the architects of what has become known within the lottery industry as the "Texas Model." The agency maintains administrative, regulatory and management control over all critical functions, while utilizing private enterprises' inherent efficiency and profit motive to optimize the Texas Lottery's revenue potential. This organizational model maintains critical functions and broad oversight within the agency, while outsourcing those functions better performed by private industry. This approach shifts the burden of performance to the private sector while the state enforces performance standards under parameters strictly defined by contract. The agency also enjoys economies

of scale by contracting with vendors to provide—directly or through subcontractors—a wide range of services statewide. This alliance with private enterprise enables the Texas Lottery to realize several key operational benefits:

- Substantially reduced government capital investment necessary to operate the lottery
- Significantly reduced workforce as compared to similarly sized lotteries (e.g., California and Florida)
- Incentivized sales organization
- Enhanced resource allocation capabilities associated with market change
- Greater flexibility in customer responsiveness

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

EXECUTIVE SUMMARY

Commitment to Texans

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

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

It is also intended to address the Sunset Advisory Commission's recommendations and subsequent statutory requirement.

More than 30 years after the first ticket was sold, millions of players continue to enjoy Texas Lottery games every day. In fact, the Texas Lottery is the third largest lottery in North America.* But the Texas Lottery is not just about fun and games. The most important function of the Texas Lottery is to generate revenue for public education, veterans' assistance and other causes and programs of the state of Texas.

The *Games of Texas* remain extremely popular with Texas Lottery players. However, as a mature lottery, the agency must remain vigilant and responsive to industry trends and player interests if it is to continue its level of support for Texas education, Texas veterans and other good causes in the coming years. While proud of the agency's sales and revenue results over the last several years, the agency recognizes these sales and revenue levels will be challenging to sustain.

The agency believes that maintaining appropriate business and marketing tools, e.g., those that effectively promote lottery games, scratch ticket, retailer bonus and incentive budgets, are key to the Texas Lottery's ongoing success. This approach provides the best opportunity for the Texas Lottery to introduce new products, promote existing products and retain and recruit retailers, resulting in increased revenue for our beneficiaries.

Concurrently, the agency is respectful of and sensitive to the viewpoints of those Texans who are not in favor of gaming. Therefore, this document highlights FY 2022 results and lays out initiatives carefully designed to ensure continued optimal revenue generation for the State of Texas in FY 2023 – 2024, while being mindful of all viewpoints.

Source: La Fleur's 2022 World Lottery Almanac (30th edition), "U.S. Lotteries' Fiscal 2021 Sales by Game," p. 245.

VISION

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

MISSION

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

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

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

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

PRODUCT HIGHLIGHTS:
SCRATCH TICKETS AND DRAW GAMES

September 7, 2021: The fiscal year started off with the introduction of the Jackpot family of games. This family included games at the $1, $5, $10 and $20 price points. The $20 game, *$1,000,000 Jackpot*, was the 13th bestselling game for FY 2022.

October 18, 2021: The Texas Lottery introduced the third $50 Loteria-themed scratch ticket game. *500X Loteria Spectacular* was the third bestselling game in FY 2022 with sales of $286.1 million.

October 18, 2021: The 18th version of *Veterans Cash* was introduced to commemorate Veterans Day. In addition to this game, other non-veteran themed scratch ticket games that support Texas veterans launched in FY 2022 resulting in a record revenue transfer of $26 million to the Fund for Veterans' Assistance.

November 1, 2021: Four holiday games were introduced which included *Cozy Cash* ($1), *Winter Words* ($3), *25 Days of Winning* ($5) and *Holiday Lucky Times 100* ($10). *25 Days of Winning* had a 12-week index of 117.

December 6, 2021: The *Jeopardy!®* game was introduced, which featured graphic elements from the popular TV game show.

January 3, 2022: The Power X multiplier family launched and included games at the $1, $3, $5, $10 and $20 price points. The $1 game, *Power 20X*; $3 game, *Power 30X Crossword*; $5 game, *Power 50X*; $10 game, *Power 100X*; and the $20 game, *Power 200X* had 12-week sales indices of 122, 149, 163, 113 and 112, respectively. The entire family saw more than $359.4 million in sales during the fiscal year.

March 7, 2022: The first $1 Loteria-themed scratch ticket game, *EZ Loteria*, was introduced and indexed at 131 after 12 weeks.

March 7, 2022: The $5 *Texas Limited Edition Bucks & Trucks* launched and offered promotional second-chance drawings where players could enter for a chance to win a Chevrolet® Silverado® truck. This was a very popular game with a 12-week index of 103.

April 4, 2022: The $5 game, *30th Anniversary*, was introduced to highlight the Texas Lottery's milestone anniversary.

May 2, 2022: The Frenzy family of games was introduced at the $1, $5, $10 and $20 price points. The tickets were printed on paper that used a holographic pattern with vibrant inks yielding tickets that stood out at retail. The family included the CMT Music Awards® Weekend Promotion which awarded 500 VIP experiential trip prizes to players and their guests to attend the CMT Music Awards® and other events in Austin. The $5, $10 and $20 games all had strong 12-week indices.

May 16, 2022: The Texas Lottery was the first U.S. jurisdiction to introduce a scratch ticket game at the $100 price point. *$20 Million Supreme* immediately went to the top of the weekly sales charts and held that position through the end of the 2022 fiscal year. The game sold over $20 million in its second week.

July 29, 2022: The *Mega Millions®* multijurisdictional game jackpot reached an advertised annuitized $1.28 billion. This was the fourth billion-dollar plus jackpot since the *Powerball®*/*Mega Millions* cross-sell started in 2010. This large *Mega Millions* jackpot combined with steady *Powerball* sales, created a new draw game sales record of over $1.569 billion for the fiscal year.

Achieving our Breaking Mission and Records!

Highest Scratch Ticket Sales
$6.72 billion

Highest Revenue Transfers to the Fund for Veterans' Assistance
$26 million

Highest Revenue Transfers to the State

Highest Total Product Sales
$8.297 billion

Revenue Transfers to the Foundation School Fund
$1.972 billion

$1.998 billion

Powerball® and Mega Millions®

Powerball and *Mega Millions* are the two multijurisdictional, rolling jackpot games played across the nation. Each game has its own add-on multiplier feature that allows players to increase their non-Grand Prizes— *Power Play®* and *Megaplier®*, respectively. *Mega Millions* also offers *Just the Jackpot®*, a feature that allows players to purchase wagers that are eligible for the Grand Prize only. Due to the design of each base game, both *Powerball* and *Mega Millions* have the ability to regularly generate jackpots in the hundreds of millions of dollars and can even climb to over $1 billion, garnering national media attention and player interest while having a dramatic impact on sales. Both *Mega Millions* and *Powerball* game sales performance are highly dependent on jackpot levels. In July of FY 2022, *Mega Millions* jackpot reached an advertised $1.28 billion and *Powerball* had two jackpots over $600 million during the fiscal year. These extremely high jackpots resulted in the two games generating a combined $798.8 million in sales, breaking a combined draw game sales record for these two games. At the end of August 2021, Mondays were added to the current Wednesday/Saturday draw schedule in order to increase sales and create larger and faster growing jackpots for the *Powerball* game. The agency continues to monitor an approved add-on feature, *Double Play,* that some of the *Mega Millions* and *Powerball* jurisdictions have implemented, to gauge the cost/benefit of inclusion in the Texas portfolio. In addition, the *Mega Millions* consortium is evaluating various changes to the game to increase sales revenue that could be implemented in Texas in FY 2024 or FY 2025.

Lotto Texas®

Lotto Texas was the first draw game introduced in Texas in November 1992. It is Texas' original in-state rolling jackpot game with advertised annuitized jackpots starting at $5 million and an add-on feature called *Extra!*. The *Extra!* feature was implemented in FY 2013 and has experienced continued growth since its introduction as more players learn about the benefits of the feature. *Lotto Texas* is a mature game that has experienced sales declines over time, but the game maintains a relatively loyal following. With the large jackpots often generated by the multijurisdictional games, smaller in-state rolling jackpot games like *Lotto Texas* often struggle to compete and remain relevant. Despite the competition from the multijurisdictional games, *Lotto Texas with Extra!®* maintains the fourth-highest draw game sales position with FY 2022 sales totaling $163.8 million. To mirror the Monday/Wednesday/Saturday *Powerball* draw schedule, *Lotto Texas* also added Mondays to the Wednesday/Saturday draw schedule at the end of August 2021. The agency believes the three times per week schedule has been positive for both games and has the potential to continue to raise sales.

Texas Two Step®

Texas Two Step is also an in-state rolling jackpot-style game similar to *Lotto Texas* but on a smaller scale, with jackpots starting at $200,000. *Texas Two Step* has a very loyal player base and experiences consistent sales at lower-level jackpots. Like other jackpot games, as the jackpot climbs, sales increase. *Texas Two Step* produces the most jackpot winners in Texas each year with FY 2022 boasting 34 winning jackpot tickets sold. Four $1 million-plus jackpots in FY 2022 resulted in *Texas Two Step* realizing $65.9 million in sales for the year. Research was conducted in FY 2017 to determine if current, loyal *Texas Two Step* players had any interest in a game modification. The research showed that any changes to the basic play structure (bonus ball matrix) were not favorably received. The agency is also monitoring the add-on feature, *Double Play,* for its potential to grow sales on *Texas Two Step*.

Cash Five®

Cash Five is the agency's five-digit daily game. *Cash Five* was originally introduced in 1995 and was first modified in 2002. As a mature game, it experienced sales declines as other new game initiatives were implemented based on their revenue potential. In response to declining sales, agency researched several game modification options during FY 2016 to gauge player and retailer interest. The research demonstrated limited potential for a game replacement. Additional research was conducted in FY 2017 on potential *Cash Five* and *Texas Two Step* game replacement options. Results of the research showed *Cash Five* players were in favor of minor game enhancements. On September 23, 2018, at the beginning of FY 2019, a modified version of the *Cash Five* game launched with new, appealing features consisting of a new matrix, guaranteed prize tiers, including a guaranteed top prize of $25,000, and a free *Cash Five* Quick Pick ticket as a prize for matching two numbers. *Cash Five* produced 161 top prize winners in FY 2022 with 22 of those winning tickets from free Quick Pick ticket prizes.
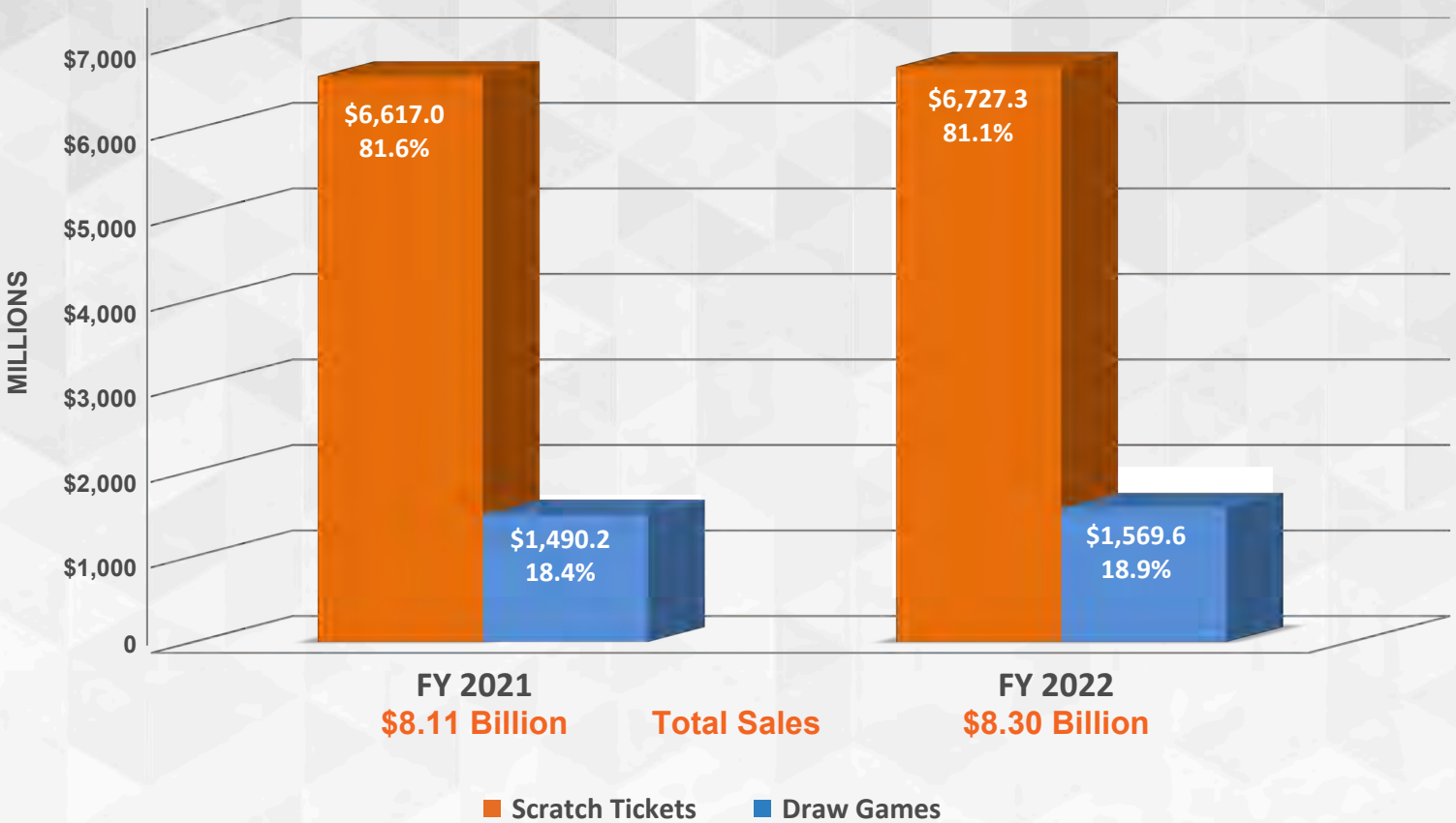
Pick 3™ and Daily 4™

Pick 3 and *Daily 4* are the Texas Lottery's three and four-digit daily games drawn four times a day, six days a week. *Pick 3* has consistently been one of the bestselling draw games and that was true again in FY 2022 as the game was ranked first for in-state draw game sales, realizing more than $298 million (includes *FIREBALL* sales). *Pick 3* illustrates that non-jackpot style games are well-received by players and are a critical component of the portfolio for reaching sales and revenue goals. *Daily 4* has experienced sales growth every year since its introduction in 2007. Following the introduction of the *Daily 4* game, *Pick 3* sales performance has moderated but it still remains extremely popular with players. It is believed that *Pick 3* players are migrating to *Daily 4*, a trend being experienced in other lottery jurisdictions around the country. In April 2019, the add-on feature, *FIREBALL*, was launched on both games, replacing the *Sum It Up!* feature. *FIREBALL* gives players the ability to create additional winning combinations and based on sales levels, players continue to adopt this add-on feature. *Daily 4* plus *FIREBALL* sales were up an impressive $5 million from FY 2021. The two draw games combined generated over $445 million in sales, accounting for more than 28% of total draw sales for FY 2022.

All or Nothing™

All or Nothing, with its unique hourglass payout design that offers two ways to win the $250,000 top prize, is an innovative draw game and different from other draw games in the Texas portfolio. *All or Nothing*, introduced in September 2012, features very good overall odds (1 in 4.5 including break-even prizes) and 10 ways to win a prize. *All or Nothing* is a unique game where players can win the top prize by matching all of their numbers or none of their numbers to the 12 numbers drawn. In May of 2018, *All or Nothing* was included in the draw game promotion called *Lone Star Lineup®*, which features multiple Texas Lottery draw games sold together. *All or Nothing* experienced a sales increase in FY 2022 of 3.5%, most likely a continued result of the *Texas Triple Chance™* game being discontinued and players moving their dollars. Additional game awareness from inclusion in the *Lone Star Lineup* promotion may have also contributed to the sales increase.

Texas Lottery FY 2022
Sales Comparison
through 8/31/2022 (in Millions)

MILLIONS

$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
0

$6,617.0
81.6%

$6,727.3
81.1%

$1,490.2
18.4%

$1,569.6
18.9%

FY 2021
$8.11 Billion

FY 2022
$8.30 Billion

Total Sales

■ Scratch Tickets   ■ Draw Games

Sales Comparison

For FY 2022, the Texas Lottery recorded $6.727 billion in scratch ticket sales, an increase of more than $110.3 million and the highest scratch ticket sales in Texas Lottery history. Draw game sales concluded the fiscal year with $1.569 billion in total sales, an increase of $79.4 million.

Total product sales for FY 2022 set an all-time sales record of over $8.30 billion, exceeding the sales record set the previous year in FY 2021 by $190 million. This is the 12th consecutive year that the Texas Lottery has reached record sales resulting in a record total contribution of $1.998 billion for Texas education and veterans.

Texas Lottery FY 2022
Sales by Game
through 8/31/2022 (in Millions)

Scratch Tickets
$6,727.3
81.1%

Draw Games
$1,569.6
18.9%

Fiscal Year Sales: $8.30 Billion

Totals may not sum due to rounding.

Sales by Game

In FY 2022, scratch tickets represented approximately 81.1% of total sales and draw games represented approximately 18.9% of total sales. The record-breaking scratch ticket sales achieved over the past two fiscal years has increased the percentage of total sales that scratch tickets represent. The split realized between the two product categories has historically been 80% scratch tickets and 20% draw games but the new norm seems to be closer to the 81%/19% realized this fiscal year.

Texas Lottery FY 2022
Draw Sales by Game
through 8/31/2022 (in Millions)

Powerball $405.8 25.9%

All or Nothing $45.5 3.0%

Lotto Texas $163.8 10.4%

Daily 4 $146.8 9.4%

Pick 3 $298.8 19.0%

Mega Millions $392.9 25.0%

Texas Two Step $65.9 4.2%

Cash Five $50.1 3.2%

Fiscal Year Draw Sales: $1.6 Billion

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

Draw Sales by Game

For FY 2022, *Powerball* with its add-on feature *Power Play*, was the bestselling draw game followed by *Mega Millions* and *Pick 3*. *Lotto Texas*, the agency's oldest draw game was the fourth highest-selling draw game. Both *Mega Millions* and *Powerball* experienced strong sales increases due to large jackpots. *Daily 4* and its add-on feature *FIREBALL* realized $5 million in sales growth. *Lotto Texas with Extra!*, despite having a weak jackpot year, remained relatively flat from FY 2021 to FY 2022. However, *Extra!* set a record with $39.6 million in sales. Most of the draw games in the portfolio experienced a sales increase in FY 2022, contributing positively to a very successful year.

Texas Lottery FY 2022
Scratch Ticket Sales by Price Point
through 8/31/2022 (in Millions)

$50 price $1,183.7 17.6%

$100 price $211.2 3.1%

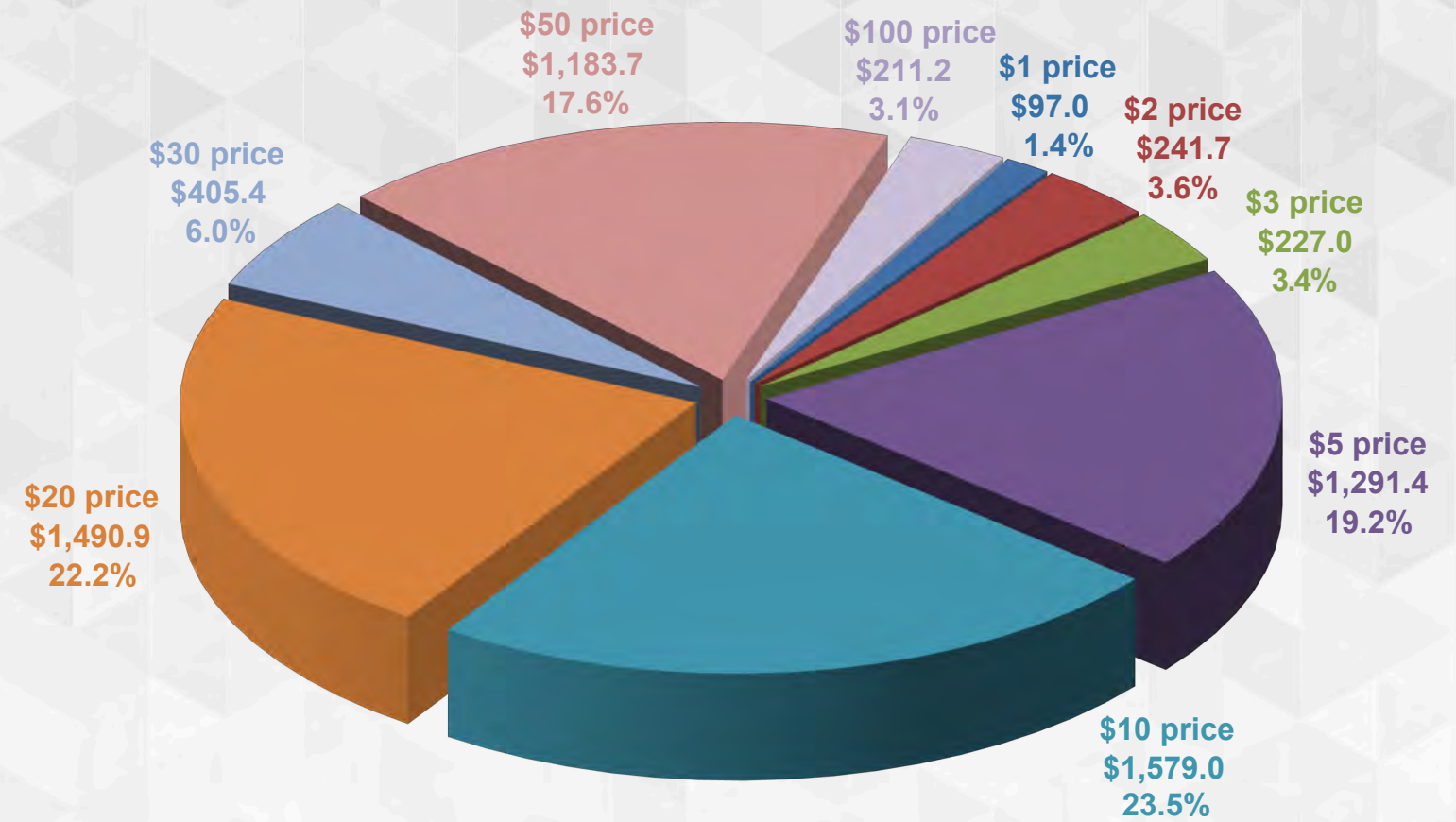**$1 price** $97.0 1.4%

$2 price $241.7 3.6%

$30 price $405.4 6.0%

$3 price $227.0 3.4%

$5 price $1,291.4 19.2%

$20 price $1,490.9 22.2%

$10 price $1,579.0 23.5%

Fiscal Year Scratch Ticket Sales: $6.73 Billion

Totals may not sum due to rounding.

Scratch Ticket Sales by Price Point

The Texas Lottery realized a record $6.73 billion in scratch ticket sales during FY 2022. The $10 price point was once again the bestselling price point totaling over $1.57 billion in sales and representing approximately 23.5% of total scratch ticket sales. The $20 and $5 price points were the second and third bestselling price points, respectively, with the $50 price point being the fourth bestselling price point. The $50 price point saw a sales increase in FY 2022 compared to FY 2021, gaining more than $64 million or 5.8% year-over-year growth. The $20 price point also enjoyed strong year-over-year growth realizing a gain of more than $142 million and 10.6% growth. The most noteworthy item related to scratch ticket sales was the introduction of the $100 price point. *$20 Million Supreme* launched towards the end of the fiscal year on May 16, 2022 and realized over $211 million in sales between that date and August 31. The $100 price point contributed 3.1% of total scratch ticket sales with only one ticket in market. The Loteria family of games and *$20 Million Supreme* were both critical to the successful sales realized in FY 2022.

BENEFITING TEXAS

Since 1992, the Texas Lottery has generated more than $35.6 billion in revenue for good causes in the state of Texas, including education, veterans' services and other important state programs. Through strict adherence to our vision, mission and core values, the Texas Lottery is dedicated to ensuring that these benefits continue.

The Texas Lottery Supports Texas Education. Since 1997*, the Texas Lottery has contributed more than $29.6 billion to the Foundation School Fund, which supports public education in Texas. In FY 2022, the Texas Lottery transferred $1.972 billion to the Foundation School Fund, it's second-highest contribution to date.

The Texas Lottery Supports Texas Veterans. In 2009, legislation was passed directing the Texas Lottery to offer a scratch ticket game benefiting the Texas Veterans Commission Fund for Veterans' Assistance (FVA). Since that time, the Texas Lottery has contributed more than $192 million for veterans' programs. The FVA makes grants available to eligible charitable organizations, local government agencies and veterans service organizations that provide direct services to Texas veterans and their families. The majority of the revenue contributed to the fund is derived from the sales of the Texas Lottery veterans' games. The first game was introduced in FY 2010 and since that time, additional games have been launched with the proceeds supporting the fund. In FY 2022, $26 million was transferred to the Texas Veterans Commission, a record contribution.

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

The chart to the right provides a breakdown of an average dollar spent on lottery games and illustrates "Where the Money Goes" based on FY 2022 financial results.

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

A WINNING STORY FOR TEXAS

TEXAS LOTTERY
MORE THAN $1.9 BILLION IN 2022 FOR TEXAS EDUCATION

13 YEARS BENEFITING TEXAS VETERANS
TEXAS LOTTERY

WHERE THE MONEY GOES:

67.5%
Prizes Paid

23.8%
Texas Education
(Foundation School Fund)

5.3%**
Retailer Compensation

3.1%
Lottery Administration

0.3%
Fund for Veterans' Assistance and
Other State Programs
(including unclaimed prizes)

Percentage totals are rounded.

Information reflects audited FY '22 figures.

TEXAS LOTTERY

SUPPORTING TEXAS EDUCATION AND VETERANS

** 5.3% Retailer Compensation category includes commissions, incentives and retailer bonus program payments.

PLAYERS

The Texas Lottery strives to consistently deliver on its core value of Innovation in offering new and entertaining lottery products to its players. We offer our players a wide selection of diverse products. Whether it is a new draw game, game enhancement or the latest scratch ticket game, the *Games of Texas* offer fun and excitement for every player. We strive to provide exemplary service to the people of Texas and we seek feedback that we use in the development of our products. Players embraced the games offered by the Texas Lottery with record sales levels in FY 2022. They experienced the excitement of playing and the joy of winning with over $5.6 billion in prizes paid, the highest amount of prizes paid in Texas Lottery history. The Texas Lottery paid an average of more than $15.5 million a day in prizes to players during FY 2022.

RETAILERS

The Texas Lottery had 20,720 licensed retailers statewide offering lottery products at the end of FY 2022. The dedicated lottery retailer community is the critical bridge between the lottery and its players. Lottery retailers work tirelessly to manage inventory, merchandise and sell lottery games, pay prizes and educate the public on how to play the *Games of Texas*.

The Texas Lottery reached record sales levels in FY 2022 through the hard work of its licensed retailers. Lottery retailers benefited from their efforts by earning record-breaking commissions of $415.4 million.

Retailers also earned an additional $26.25 million in bonuses and sales performance-based incentive payments for achieving year-over-year sales goals.

For many years, the Texas Lottery's retailer bonus program has been an important retailer recruiting and retention tool for the agency and sales organization. Decisions by the 85th Legislature and governor on the FY 2018 – 2019 budget resulted in significant reductions to key agency budgets and the retailer bonus program budget was eliminated for FY 2019. However, the 86th Legislature restored funding for retailer bonuses at a reduced appropriation of $2.02 million per fiscal year during the FY 2020-2021 biennium. The Texas Lottery developed and introduced a new bonus program structure to account for the reduced appropriation. The agency entered a Retailer Bonus Promotion Contract with SCA Promotions, Inc. through Alliant Insurance Services, Inc. Via this contractual relationship, SCA makes bonus payments to retailers selling jackpot winning tickets for *Mega Millions* and *Powerball*, up to $1 million for any drawing. While this business model has allowed the agency and the sales organization to continue the bonus program, it is now limited to only the two multijurisdictional games.

In its Legislative Appropriations Request for the FY 2022 – 2023 biennium, the Commission requested an exceptional item to restore the annual budget for the retailer bonus program to previously authorized appropriations to allow for this key program to be fully implemented. This key program impacts retailer recruitment, retention and development opportunities. Decisions of the 87th Legislature did not restore the annual retailer bonus program budget to previous appropriation levels and bonus payments continue only for *Mega Millions* and *Powerball*. The Texas Lottery also continues to provide opportunities for retailers to earn free scratch tickets, incentive payments and cash drawing prizes in the Retailer Cash Incentive Programs.

TEXAS LOTTERY — SUPPORTING TEXAS EDUCATION AND VETERANS

TOP 10 Retailers CY 2021

TOTAL SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$74,240,882.50
2	173466	LUCK ZONE	ROUND ROCK	$11,997,101.00
3	148558	RUDY'S STOP & SHOP	ROSENBERG	$10,815,515.50
4	132651	POTRANCO FOOD MART	CONVERSE	$7,063,231.00
5	126336	MOBIL MART	MCALLEN	$6,515,676.50
6	185705	TOWN AND COUNTRY CS	BROWNSVILLE	$6,133,386.00
7	120337	EXXON FOOD STORE	BROWNSVILLE	$6,106,810.00
8	189091	LUCKY SPOT	CORPUS CHRISTI	$5,870,150.50
9	173887	PITTMAN'S QUICK MART	CORPUS CHRISTI	$5,523,744.00
10	182571	ALTX MANAGEMENT	WACO	$5,194,309.00

TOTAL CASHES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$13,726,513.00
2	148558	RUDY'S STOP & SHOP	ROSENBERG	$7,005,216.00
3	173466	LUCK ZONE	ROUND ROCK	$4,915,296.00
4	132651	POTRANCO FOOD MART	SAN ANTONIO	$4,816,819.00
5	126336	MOBIL MART	BROWNSVILLE	$3,753,807.00
6	120337	EXXON FOOD STORE	SAN ANTONIO	$3,742,837.00
7	189091	LUCKY SPOT	CORPUS CHRISTI	$3,408,254.00
8	173887	PITTMAN'S QUICK MART	SAN ANTONIO	$3,200,708.00
9	153974	NICKS MART	SAN ANTONIO	$3,036,102.00
10	185705	TOWN AND COUNTRY CS	MCALLEN	

SCRATCH TICKET SALES

Rank	Retailer #	Name	City	CY 2021
1	148558	RUDY'S STOP & SHOP	ROSENBERG	$8,700,814.00
2	132651	POTRANCO FOOD MART	SAN ANTONIO	$6,062,472.00
3	173466	LUCK ZONE	ROUND ROCK	$5,570,455.00
4	189091	LUCKY SPOT	SAN ANTONIO	$5,449,388.00
5	126336	MOBIL MART	CONVERSE	$5,427,473.00
6	120337	EXXON FOOD STORE	BROWNSVILLE	$5,127,290.00
7	173887	PITTMAN'S QUICK MART	CORPUS CHRISTI	$4,780,192.00
8	153974	NICKS MART	SAN ANTONIO	$4,730,820.00
9	185705	TOWN AND COUNTRY CS	MCALLEN	$4,549,425.00
10	182245	SNAX MAX #4	BUDA	$3,960,278.00

LONE STAR LINEUP SALES

Rank	Retailer #	Name	City	CY 2021
1	148558	RUDY'S STOP & SHOP	ROSENBERG	$13,389.00
2	149825	7-ELEVEN CONV. STORE #30455	BEDFORD	$10,681.00
3	134794	STANLEY'S ICE STATION #11	SAN ANTONIO	$10,038.00
4	599694	ALBERTSONS 3999	EL PASO	$9,578.00
5	183702	SUPER K FOOD STORE	HOUSTON	$7,664.00
6	153981	BOWEN BEER & WINE	ARLINGTON	$7,513.50
7	181671	JAMES FOOD MART	LOLITA	$7,474.00
8	489070	HEB FOOD STORE #265	CEDAR PARK	$7,092.00
9	598639	WAL-MART FUEL CENTER #3056	SPRING BRANCH	$6,870.00
10	229318	TOOT'N TOTUM 21	AMARILLO	$5,974.00

PICK 3 SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$3,135,416.50
2	157283	QUICK MART 1	THE COLONY	$453,012.50
3	132651	POTRANCO FOOD MART	SAN ANTONIO	$417,511.00
4	148558	RUDY'S STOP & SHOP	ROSENBERG	$404,985.00
5	180062	EZ TRIP FOOD STORES #17	DALLAS	$394,805.50
6	126336	MOBIL MART	CONVERSE	$366,862.00
7	156847	PAPA MARKET	DALLAS	$346,053.00
8	182571	ALTX MANAGEMENT	WACO	$345,149.50
9	106246	HAMPTON TEXACO	DALLAS	$345,001.50
10	157272	ONE STOP	MISSOURI CITY	$341,228.50

DAILY 4 SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$2,549,831.00
2	135934	QUICKWAY CORNER STORE	IRVING	$954,893.00
3	174053	M & R PACKAGE STORE	AMARILLO	$375,365.00
4	176177	MK EXPRESS #3	PEARLAND	$354,844.50
5	187986	CORNER MART	MCALLEN	$344,082.50
6	106246	HAMPTON TEXACO	DALLAS	$340,890.50
7	596008	TIMEWISE FOOD STORE #286	CYPRESS	$313,688.00
8	185318	RAMSEY GROCERY	FORT WORTH	$310,944.00
9	182571	ALTX MANAGEMENT	WACO	$303,798.50
10	138526	PARADISE QUICK STOP #3	GRAPEVINE	$287,982.00

Retailers CY 2021

MEGA MILLIONS SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$21,193,793.00
2	173466	LUCK ZONE	ROUND ROCK	$5,680,813.00
3	182571	ALTX MANAGEMENT	WACO	$1,805,485.00
4	188862	JAJA ACCESSORIES	ROUND ROCK	$746,808.00
5	148558	RUDY'S STOP & SHOP	ROSENBERG	$550,398.00
6	185705	TOWN AND COUNTRY CS	MCALLEN	$499,158.00
7	505739	HEB FOOD STORE #108	SAN ANTONIO	$269,757.00
8	120337	EXXON FOOD STORE	BROWNSVILLE	$233,266.00
9	173887	PITTMAN'S QUICK MART	CORPUS CHRISTI	$207,254.00
10	487505	HEB FOOD STORE #415	SCHERTZ	$202,963.00

POWERBALL SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$24,474,593.00
2	182571	ALTX MANAGEMENT	WACO	$2,721,062.00
3	188862	JAJA ACCESSORIES	ROUND ROCK	$1,018,799.00
4	148558	RUDY'S STOP & SHOP	ROSENBERG	$578,795.00
5	185705	TOWN AND COUNTRY CS	MCALLEN	$531,990.00
6	187369	LOTTERY.COM	SPICEWOOD	$505,105.00
7	505739	HEB FOOD STORE #108	SAN ANTONIO	$225,473.00
8	145416	MIDTOWN FOOD STORE	HOUSTON	$257,769.00
9	120337	EXXON FOOD STORE	BROWNSVILLE	$234,069.00
10	487505	HEB FOOD STORE #415	SCHERTZ	$220,399.00

LOTTO TEXAS SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$8,494,668.00
2	173466	LUCK ZONE	ROUND ROCK	$273,899.00
3	144996	C-STORE #15	DALLAS	$266,758.00
4	182571	ALTX MANAGEMENT	WACO	$234,600.00
5	188862	JAJA ACCESSORIES	ROUND ROCK	$231,741.00
6	185705	TOWN AND COUNTRY CS	MCALLEN	$229,511.00
7	148558	RUDY'S STOP & SHOP	ROSENBERG	$224,674.00
8	145416	MIDTOWN FOOD STORE	HOUSTON	$118,565.00
9	173887	PITTMAN'S QUICK MART	CORPUS CHRISTI	$113,188.00
10	120337	EXXON FOOD STORE	BROWNSVILLE	$110,027.00

TEXAS TWO STEP SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$3,210,104.00
2	188862	JAJA ACCESSORIES	ROUND ROCK	$105,143.00
3	185705	TOWN AND COUNTRY CS	MCALLEN	$89,209.00
4	173466	LUCK ZONE	ROUND ROCK	$81,741.00
5	148558	RUDY'S STOP & SHOP	ROSENBERG	$79,845.00
6	182571	ALTX MANAGEMENT	WACO	$71,857.00
7	173887	PITTMAN'S QUICK MART	CORPUS CHRISTI	$58,523.00
8	120337	EXXON FOOD STORE	BROWNSVILLE	$52,844.00
9	126336	MOBIL MART	CONVERSE	$51,202.00
10	138770	VIET HOA INTERNATIONAL FOODS	HOUSTON	$48,809.00

ALL OR NOTHING SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$8,256,020.00
2	182571	ALTX MANAGEMENT	WACO	$761,402.00
3	143736	NURSERY FOOD MART	IRVING	$100,504.00
4	119941	RAY'S CORNER STORE	FORT WORTH	$100,198.00
5	135934	QUICKWAY CORNER STORE	IRVING	$82,740.00
6	140033	QUICK TRACK	BEDFORD	$68,918.00
7	225659	CIRCLE K #2741061	SAN ANTONIO	$66,454.00
8	595983	TIMEWISE FOOD STORE #273	SUGAR LAND	$63,108.00
9	148558	RUDY'S STOP & SHOP	ROSENBERG	$49,366.00
10	599991	STRIPES STORE 40736H	OLMITO	$45,866.00

CASH FIVE SALES

Rank	Retailer #	Name	City	CY 2021
1	186208	WINNERS CORNER TX LLC	AUSTIN	$2,100,754.00
2	421626	TOM THUMB #3658	ARLINGTON	$194,088.00
3	188862	JAJA ACCESSORIES	ROUND ROCK	$140,351.00
4	148558	RUDY'S STOP & SHOP	ROSENBERG	$83,344.00
5	173466	LUCK ZONE	ROUND ROCK	$74,638.00
6	103139	ADOBE GROCERIES	EL PASO	$65,913.00
7	126336	MOBIL MART	CONVERSE	$60,353.00
8	156671	CREEK BEVERAGE	PLANO	$51,599.00
9	182571	ALTX MANAGEMENT	WACO	$50,955.00
10	185705	TOWN AND COUNTRY CS	MCALLEN	$50,773.00

SOCIAL RESPONSIBILITY

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

Several regulatory and educational activities serve the social responsibility standards of the agency and its customers. Specific areas of emphasis include vendor and licensee compliance, consumer protection, hotline support, retailer surveys and inspections, investigation of complaints or questionable activities related to lottery games, close supervision and monitoring of lottery drawings and ticket validations, and implementation of the agency's Responsible Gambling initiatives.

Enhanced consumer protection strategies include the deployment of more than 17,895 devices, which provide lottery players with the ability to check the winning status of draw game and scratch tickets prior to validation by a retailer. These devices include countertop Check-a-Ticket terminals as well as two models of self-service lottery vending machines, Gemini® and GameTouch™ 20. To facilitate player access and convenience, the agency coordinates with the lottery operator to evaluate high-volume sales locations that merit placement of multiple self-check devices. Additionally, customer displays and distinct audible tones at sales terminals provide player verification of the prize winning status of tickets validated by retailers. The agency is focused on creating an environment where consumers can play the games and independently verify the winning or non-winning status of their tickets as well as the value of prizes won.

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

The Player Protection section of the Texas Lottery website includes pages featuring "Security Spotlight," "The Sound of Winners!," "Lottery Scams" and "Myth Busters." These pages provide consumer protection tips for safeguarding tickets, avoiding lottery-related scams and reporting suspicious activity as well as recommendations to assist retailers in safeguarding tickets, paying prizes and avoiding lottery violations.

The Texas Lottery continues to expand existing programs and initiatives to protect and enhance the security of lottery games, systems, drawings and operational facilities. The goal is to provide additional protection for lottery consumers, follow up on complaints and ensure retailers comply with rules related to various aspects of lottery sales including prize validation and payments.

The Texas Lottery incorporates a significant number of consumer protection-related initiatives:
- Dual validation receipts (one Player Copy and one Retailer Copy)
- "Sign Your Ticket" public awareness campaign
- One-step validation Secure Shield™ barcode on scratch tickets
- Player-activated terminals and mobile app for self-checking winning status of tickets
- Self-check terminal locator on agency website and app
- Enterprise Series MultiMedia (ESMM) monitor display of validation messages to player
- Terminal inquiry/validation tones
- "Player Protection" section of agency website
- Consumer protection signage for retailers related to lottery violations
- Retailer Violations Penalty Chart and Common Violations on agency website
- Development and implementation of monitoring tools and reports related to validation and claim activity
- Membership in and active support of the Responsible Gambling initiatives of the National Council on Problem Gambling (NCPG), the World Lottery Association (WLA) and the North American Association of State and Provincial Lotteries (NASPL).
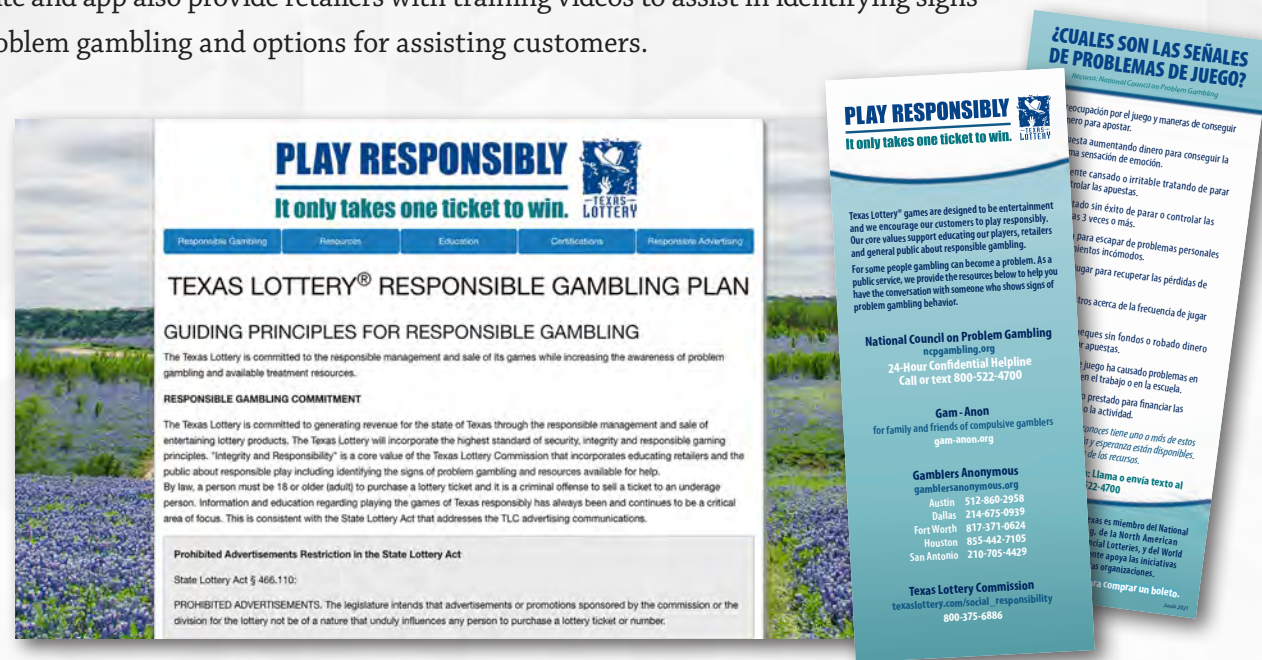
In response to a Commission member's recommendation in August 2017, a series of initiatives to enhance consumer protection and retailer education were implemented. Specific focus was placed on player access to Texas Lottery contact information for reporting potential retailer violations and increasing retailer awareness of common violations to avoid. Ongoing initiatives include contact information on scratch and draw game tickets, the addition of contact information to the retailer license and ESMM newsfeed scroll for reporting possible retailer violations, an updated Retailer Violations and Penalty Chart with practical examples, and clerk-facing signage and retailer newsletter reminders that explain common violations.

Encouraging responsible participation in lottery games is a top agency priority. The agency helps bring awareness to this issue through its ongoing PLAY RESPONSIBLY public information initiative focused on reminding consumers that the Texas Lottery Commission encourages conscientious participation in its games. Launched in August 2003, the initiative has expanded and continues today with the PLAY RESPONSIBLY message positioned in public communications, including how-to-play brochures in English and Spanish, retailer and player publications, point-of-sale materials, scratch and draw game tickets, playslips, social media messages, advertising spots and media releases.

The initiative features the agency's Responsible Gambling website pages where consumers can find helpful information related to the signs of problem gambling, links to outside resources for help with problem gambling, the agency's Responsible Gambling Plan and the Texas Lottery Advertising Sensitivity Guidelines. The agency website and app also provide retailers with training videos to assist in identifying signs of problem gambling and options for assisting customers.

In early 2019, the agency responded to NCPG, NASPL and WLA recommendations for more actionable messaging. The passive PLAY RESPONSIBLY logo was updated to "PLAY RESPONSIBLY. It only takes one ticket to win," as a reminder to players that frequency and amount of play do not determine chances of a win. The new logo is incorporated into training videos, website pages, social media and applicable printed materials.

As a member of NCPG, WLA and NASPL, the Texas Lottery actively supports the Responsible Gambling initiatives of these organizations. Since 2004, the Texas Lottery has participated in the annual Problem Gambling Awareness Month (PGAM) campaign, a grassroots public awareness and outreach effort of the NCPG conducted every March. The goal of this campaign is to educate the general public and health care professionals about problem gambling and raise awareness about the help that is available both locally and nationally. During the campaign, the agency implements extensive education and awareness communications to retailers, agency and vendor employees, and players via social media, website and app banners, electronic displays at retail, posters at vendor field offices and lottery claim centers, agency publications, and weekly retailer terminal messages, employee emails and player texts and emails. Brief retailer surveys are conducted prior to and after PGAM to evaluate learning as a result of campaign communications.

In partnership with NCPG and McGill University's International Centre for Youth Gambling Problems and High-Risk Behaviors, the Texas Lottery also participates in the annual holiday "Gift Responsibly" campaign reminding consumers that lottery is not intended for anyone under 18 years old. The agency's awareness efforts incorporate general-public messages via social media, website and app banners, in-store electronic displays, and numerous retailer and employee communications throughout November and December. Beginning with the FY 2019 campaign, "Gift Responsibly. Lottery tickets aren't child's play," the agency expanded its message to include some risks of underage play to increase education on the subject.

In 2014, the agency expanded its focus on Responsible Gambling by leveraging training resources (video training and print education materials) developed by NCPG and NASPL to provide dedicated training to its entire customer support team. The agency produced a new employee training video in 2017 that was a finalist in the 2017 NASPL awards competition and continues to be used for employee training. A new NASPL training video was incorporated in 2019, and served as the key element of classroom training for agency and vendor employees who may have contact with players as well as other interested employees. Participants include lottery sales representatives and staff of the advertising agency, Retailer Services, Enforcement, Claims Centers, Promotions and Governmental Affairs. Since the implementation of social distancing measures in 2020 due to COVID-19, in-person employee training was transitioned to a more in-depth annual responsible gambling training program required of all agency employees as well as lottery operator and advertising agency staff. The NASPL video was added as a resource on the agency's website Retailers page and to training for all new retailers. The training focuses on increased awareness of the signs of problem gambling and how to have a conversation, along with critical helpline and counseling resources for information and treatment of problem gambling. In 2022, the agency partnered with the Texas Tech University Center for Collegiate Recovery Communities and the Oklahoma Association on Problem Gambling and Gaming (OAPGG) to offer training for counselors in Lubbock, Texas. A portion of the presentation by Dr. Wiley Harwell, Executive Director of OAPGG was incorporated in the annual required employee training.

In response to recommendations from the WLA Independent Assessment Panel, in 2018 the agency introduced responsible gambling training for retailers at their sales locations. The annual training continues to be administered by lottery sales representatives each summer during scheduled sales calls. Training content is updated based on results of prior trainings.

In addition, the Texas Lottery produces and maintains distribution of a PLAY RESPONSIBLY pamphlet available in English and Spanish at Texas Lottery retail locations, the agency's 16 statewide claim centers and on the agency website and app. The pamphlet contains information about signs of problem gambling and resources for obtaining assistance.

After receiving WLA Level 2 Responsible Gaming certification in 2015, the agency embarked on an aggressive plan to expand its Responsible Gambling program and address action items identified in the Level 2 gap analysis. While WLA Level 2 certification was valid until 2018, these efforts resulted in achievement of WLA Level 3 certification in 2016, valid until November 2019. The subsequent submission resulted in WLA Level 3 recertification until September 2023. In 2017, the agency entered the process for achieving additional recognition of its Responsible Gambling program by NASPL and NCPG. Joint verification of the agency's program was achieved at the Planning Level in 2018, valid until September 2020. Also, in 2018, NASPL and NCPG announced a Parallel Verification Process allowing lotteries with WLA RG certification to apply for the appropriate NASPL-NCPG Verification. The Texas Lottery entered the new joint certification process and, having been assessed by the WLA and therefore deemed compliant with the NASPL/NCPG Responsible Gaming Verification Standards, was certified at the upgraded Implementation Level until September 2023.

In 2016, the agency launched a mobile app providing a convenient platform to expand the public's access to Texas Lottery game information and enhance the provision of player support services. The app features "Check My Ticket" functionality providing an added layer of consumer protection as players have the ability to conveniently verify the winning status of tickets and value of prizes on their mobile device. Neither this platform nor agency social media initiatives offer ticket sales. All purchases of lottery games must occur at licensed lottery locations, including special events, or from a designated Texas Lottery claim center. The Texas Lottery does not propose enabling the sale of tickets over mobile devices or the internet. The agency will continue to focus on developing enhancements to the mobile app to provide increased information access and convenience to lottery customers while protecting the integrity of games and processes.

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

TEXAS LOTTERY COMMISSION

2022 ANNUAL REPORT AND
2023 – 2024 COMPREHENSIVE BUSINESS PLAN

SECTION 2: 2023 – 2024 COMPREHENSIVE BUSINESS PLAN

KEY BUSINESS PERFORMANCE FACTORS

The Texas Lottery's 2022 Annual Report and 2023 – 2024 Comprehensive Business Plan was prepared by the agency's management team and approved by the Texas Lottery Commission. The agency originated its formal business planning process in response to the Sunset Advisory Commission's recommendations in 2004. Since that time, the business plan has become a key driver of the Texas Lottery's operational and strategic planning. During the agency's most recent Sunset Review, the Sunset Advisory Commission recommended additional enhancements to the agency's business planning process. The Lottery Commission Sunset bill included a statutory requirement, Section 466.028 of the Texas Government Code, requiring the Texas Lottery to develop a comprehensive business plan:

> Sec. 466.028. COMPREHENSIVE BUSINESS PLAN. (a) The commission shall develop a comprehensive business plan to guide the commission's major initiatives. The plan must at a minimum include: (1) specific goals for the agency; and (2) an evaluation of: (A) the agency's overall performance; (B) the effectiveness of specific programs and initiatives; (C) the ongoing efficiency of agency operations; (D) the amount of lottery revenue that is generated for state purposes other than the payment of prizes; and (E) the factors affecting the amount of lottery revenue received and disbursed, including ticket sales and administrative efficiency. (b) The commission, as frequently as the commission determines appropriate, shall review the comprehensive business plan and at least annually hold a public meeting to discuss the plan or updates to the plan.
>
> Added by Acts 2013, 83rd Leg., R.S., Ch. 993 (H.B. 2197), Sec. 2, eff. September 1, 2013.

The Texas Lottery has successfully produced more than $1 billion in revenue for the State of Texas each year for the last 19 years, including over $1.6 billion in revenue in both FY 2019 and FY 2020. In both FY 2021 and FY 2022, the yield was just under $2.0 billion, with the primary beneficiary being the Foundation School Fund. However, not unlike other lottery jurisdictions around the country with mature product portfolios and limited opportunities for portfolio expansion, the Texas Lottery faces ongoing challenges to maintain and increase future revenue for the state. Numerous factors can affect lottery performance, such as the product mix and design of games offered, number and quality of lottery retailers, legislative budget decisions, and agency administrative efficiency. While the most recent Sunset review determined that the Texas Lottery is generally high-performing when compared to other states, the agency recognizes that there are challenges ahead in continuing to meet high expectations based on past performance.

With a focus on accountability and performance measurement, this report continues the Texas Lottery's business planning practices and incorporates key performance measurement tools. The following section of the report walks through key performance factors and associated goals for FY 2023, all of which will drive significant program decisions and major initiatives for the agency. Management believes that these key performance factors are major determinants of the Texas Lottery's future success.

PERCENTAGE OF RETAILERS SATISFIED WITH THE TEXAS LOTTERY

Background

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

Retailer satisfaction begins with the agency's regulatory responsibilities, which encompass a thorough licensing review of every potential retailer to ensure only qualified businesses receive licenses. The agency must efficiently implement these review processes to enable businesses to complete and/or continue licensure to offer lottery products to their customers at the earliest opportunity and/or without interruption. The agency also focuses on retailer education to ensure that licensees fully understand the responsibilities, opportunities and business impact of being a lottery retailer. A variety of training initiatives and materials introduced throughout the year focus on licensee rules and requirements, financial and accounting procedures, lottery products and enhancements, responsible gambling principles and equipment operation.

Beginning with licensure and continuing throughout a retailer's association with the agency, the Texas Lottery dedicates extensive resources to support licensed retailers in their day-to-day relationship with consumers and the agency. Each new licensee receives comprehensive training prior to the start of ticket sales as well as ongoing refresher training as new product initiatives and equipment are introduced and as needed to address specific retailer issues. A web-based training resource, the Lottery Learning Link (LLL), provides retailers with easy access to courses comprised of video tutorials, hands-on exercises, reviews and assessments. LLL does not replace trainer-guided, comprehensive training for new retailers. The tool provides retailers a convenient method for educating new employees and quick reference to specific topics for troubleshooting.

The agency provides ongoing support for its retailers via two toll-free helplines. The first is a technical support hotline, specified under contract with the lottery operator, providing retailers with support for equipment operational issues 24 hours a day, seven days a week. The lottery operator hotline staff also supports retailers with time-sensitive needs, such as reporting ticket theft or damage and ordering scratch tickets.

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

The agency's staff also responds to inquiries from potential licensees and provides current licensees with information and instruction on the portfolio of games offered for sale, retailer incentive programs and lottery rules and processes.

Significant time and resources are consistently invested in technological support for the agency's licensees. Providing enhanced customer service to potential and existing licensed retailers, the online Lottery Services Portal (LSP) offers the convenient ability to apply for or renew a lottery license, manage lottery license information, view retailer incentive status and payments, and access numerous ticket inventory and lottery financial reports.

Player ticket self-check (Check-a-Ticket) technology was introduced at licensed retail locations in 2008 and remains an important in-store resource for players and retailers. In 2016 the Texas Lottery launched a mobile app which features "Check Your Ticket" functionality. Players having the ability to verify the winning status of tickets reduces retailer labor and transaction time in processing ticket inquiries and validations by minimizing player questions on the prize amount of potential winning tickets. Additionally, Texas Lottery and lottery operator personnel continue to reach out to retailers in small-group settings called Retailer Links meetings each year, reaching retailers in 83 cities and towns across the state since the inception of the program in 2006, including multiple visits to metropolitan areas. Links meetings provide owners and managers the most current information on Texas Lottery policies and game initiatives while offering an open forum for soliciting feedback and addressing retailer concerns. The meeting content was expanded in 2018 to include a segment on responsible gambling to increase retailers' awareness of the signs of problem gambling behavior and resources available for information and help. Participants view these meetings as a positive means of furthering communication with the Texas Lottery, the lottery operator and other lottery retailers. Due to the COVID-19 pandemic, social distancing measures in 2020 resulted in postponement of Links meetings in 2020 until August 2022. As in-person meetings continue with a limited schedule, the agency is exploring new formats and delivery options for retailer engagement in the future.

Current state-of-the-art lottery sales terminals provide retailers with easy access to game information and efficient transaction times, thus reducing retailer labor costs. Retailers have the option to display lottery player information via one of three available playstation styles, each designed to provide brand-identifiable, compact merchandising. By designating space in their retail environment for a playstation, retailers can provide players easy access to playslips and game information away from the sales counter, thus reducing transaction time at the register. Retailers are encouraged to display the lottery's Enterprise Series MultiMedia (ESMM) monitor, offered in three screen sizes, near the point of purchase to increase player awareness of lottery games and features. Over 82% of retailers that are able to validate prize winning tickets feature an ESMM, which also displays player transaction information and important non-lottery messaging including AMBER, Silver, Blue, Endangered Missing Persons, Camo and CLEAR alerts. Electronically updated, dual-jackpot signs in two sizes offer retailers the convenience of providing their customers the most current *Powerball*® and *Mega Millions*® jackpot levels with no additional retailer time or labor investment.

Regardless of the issue being addressed, the agency's focus remains squarely on our core value of "Customer Responsiveness" in providing exemplary service. To ensure it is delivering on this commitment, the agency regularly surveys its retailer base to determine the level of satisfaction with the services being provided. The agency has a target of 96% satisfaction levels (measured as scores of "good" or "excellent"). Prior to March 2020, retailer satisfaction surveys were conducted in-person by claim center personnel and the agency consistently exceeded the 96% satisfaction target. Survey administration was suspended starting in March 2020 due to COVID-19. In May 2021, the Texas Lottery instituted a new process to survey retailers via email using an internet-based survey tool. For the 2021 survey, 82% of respondents rated the services provided by the Texas Lottery as Good or Excellent. This percentage increased to 86% in 2022. While the results from the 2022 survey demonstrated a high level of satisfaction with Texas Lottery and IGT services, the satisfaction level fell below the target of 96%. The performance was below the target likely due in part to the implementation of the online survey methodology in comparison to in-person surveying used previously resulting in a largely different segment of retailer staff being surveyed online compared to the in-person surveys. The Texas Lottery currently plans to continue using email and an internet-based survey tool for future satisfaction surveys.

Challenges and Opportunities

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

Key Initiatives and Goals

The Texas Lottery recognizes that the success of its retailer licensees is inextricably tied to the agency's achievement of its mission to generate revenue for the state through the responsible management and sale of entertaining lottery products. Timely, effective support and exceptional service are necessary to ensure retail success and the agency staff is committed to delivering against these standards. The agency is focused on ongoing efforts to continue to expand available reporting and training tools through continued enhancement of the LSP, availability of web- and cloud-based training modules, and utilization of tablets to deliver retailer education modules during sales force store visits. Through our "Customer Responsiveness" commitment, the staff is intent on continuing to reach a high level of retailer satisfaction.

PERCENTAGE OF LICENSEES WITH NO RECENT VIOLATIONS

Background

The Texas Lottery is committed to maintaining the public trust by protecting and ensuring the security of lottery games. This performance metric reports the ratio (by percentage) of currently licensed, active lottery retailer locations that have not incurred a violation within the current fiscal year to the total number of licensed, active lottery retailer locations at the end of the reporting period. A violation is defined as any violation of the State Lottery Act or Lottery Administrative Rules by a lottery retailer that results in the suspension or revocation of the retailer's license. This metric is an indicator of licensed retailer adherence to state laws and administrative guidelines. This metric reflects 1) how effectively the Texas Lottery is in communicating with retailers regarding statutes and rules, and 2) how effective the agency's activities are in deterring these violations.

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

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

The agency has embarked on numerous consumer protection initiatives to provide additional protection for lottery consumers and to ensure retailers comply with rules related to prize validations.

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

The agency's other consumer protection-related initiatives are summarized in the Social Responsibility section of the Annual Report.

The agency has established a progressive disciplinary process for retailer violations of the State Lottery Act and Lottery Administrative Rules. Every effort is made to ensure timely and consistent application of progressive disciplinary remedies up to and including the revocation of sales licenses. The agency recognizes the need to protect consumers while simultaneously not inconveniencing or disrupting the daily business activities of honest retailers. As the vast majority of retailers serve their customers in an ethical and forthright manner, it is critical for the agency to balance consumer protection with retailer motivation to sell lottery tickets. The agency's mission to generate revenue for the State of Texas is supported by making every effort to ensure fun, positive lottery player experiences while implementing secure technologies and processes that enhance confidence for both players and retailers in conducting lottery transactions. The agency has set a target of 98% for the percentage of licensees with no recent violations and has consistently seen compliance exceed this goal.

Challenges and Opportunities

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

Key Initiatives and Goals

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

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

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

PERCENTAGE OF BAD DEBT TO LOTTERY SALES

Background

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

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

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

The metric specifically calculates the ratio (by percentage) of the Certified Bad Debt (CBD) to total sales at the end of each fiscal year. CBD includes accounts that have been delinquent or in bankruptcy for at least 12 months at the end of the fiscal year and accounts that have an outstanding debt of $10,000 or more that have been delinquent for up to 180 days and all appropriate collection actions have been exhausted.

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

	FY 2020	FY 2021	FY 2022
Total Sales	$6,704,027,783	$8,107,203,394	$8,296,892,076
Bad Debt Expense	$397,945	$306,192	$173,447
Bad Debt Expense as a % of Sales	0.0059%	0.0038%	0.0021%

Source: Texas Lottery Performance Measures

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

Challenges and Opportunities

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

Key Initiatives and Goals

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

The Texas Lottery continues to work to identify initiatives to improve support provided to retailers in their financial relationship with the Texas Lottery. Through the maintenance of an effective sales collection program, the agency is committed to a target goal for Certified Bad Debt to Gross Lottery Sales ratio not to exceed .02%.

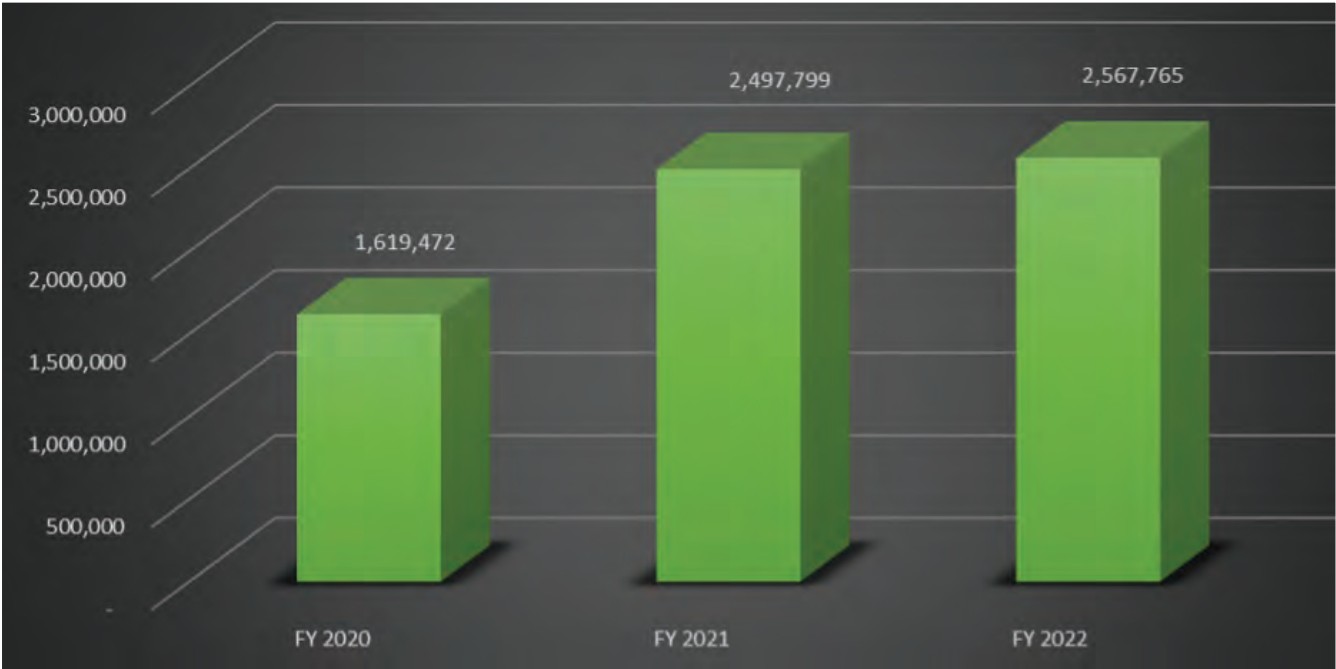# DOLLARS COLLECTED VIA THE DEBT SET-OFF PROGRAM

Background

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

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

In the most recent three-year period, the program averaged $2.23 million in annual collections with total monies collected of $6.69 million.

Dollars Collected via the Debt Set-Off Program

Source: Texas Lottery Performance Measures

Challenges and Opportunities

The Texas Lottery has consistently collected substantial debts on behalf of the state. While these results and their benefits to the State of Texas are significant, it is important to note that the funds collected are a function of variables that the agency does not influence or control. The metric is influenced by the volume of people claiming prizes at lottery claim centers that owe monies to the state and the amounts that those individuals owe to the state. Another variable that may influence the metric is the data provided from other state agencies that is used to identify people claiming prizes that owe monies to the state. It is believed that economic events and the overall health of the economy may also have a significant impact on this metric.

Key Initiatives and Goals

As noted, the Texas Lottery does not directly influence this performance factor. Funds collected are dependent on the number of prize winners owing monies to the state who claim prizes at the claim centers. The agency's focus on its sales and revenue goals has an indirect impact that may influence collection performance. The agency has evaluated historical collections and sales growth in recent years in establishing a target of $1.85 million for collections in FY 2023. The agency is anticipating that the FY 2023 target will fall in line with the average collected during the past three fiscal years.

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

RETAILER DISTRIBUTION CHANNEL DEVELOPMENT

Background

Lottery retailers at traditional "brick and mortar" locations as well as at special events are the only delivery channel through which the agency sells tickets to generate revenue for the state. Sustained and strategic retailer development efforts support the potential for increased revenue to the state and offer the tremendous benefit to the public of varied access points. To achieve the agency's mission of generating revenue, it is critical that lottery products are available at a wide variety of locations where a broad diversity of consumers are provided the opportunity to conveniently purchase lottery tickets. Additionally, retailers benefit from the sale of lottery products by offering customers more comprehensive purchase options, thus mitigating a player's need to patronize other businesses for lottery transactions, both purchases and prize payments.

The Texas Lottery is committed to its core value of "Customer Responsiveness" by working to provide a convenient licensing environment and efficient administrative processes for licensees interacting with the agency. The introduction of the 21-day settlement class was considered an imperative step toward growing the lottery retailer base to include non-traditional, national

retailers whose business processes did not generally support management of lottery accounting functions differently across the many jurisdictions in which they operate.

Historically, expansion of on-premise beer and wine service at grocery and convenience stores presented unique licensure and administrative oversight challenges to the agency in its two primary trade styles representing 94% of current Texas Lottery sales. Through the agency's Strategic Plan, the Texas Lottery recommended the enactment of legislation to allow for continued licensure of these traditional lottery trade styles that offer limited on-premise beer and wine consumption. In 2017, the Texas Legislature enacted HB 1555 which clarified that traditional lottery retailers, particularly grocery and certain convenience stores, that offer on-premise beer and wine consumption are eligible to be licensed as a lottery retailer if less than 30% of the location's gross receipts are derived from the sale or service of alcoholic beverages.

Through its relationship with the lottery operator, national industry organizations and the retail community, the agency works to understand the unique challenges faced by existing and potential lottery retailers. The agency identifies and implements solutions within its regulatory framework that ensure the security and integrity of the lottery while addressing the needs of retail businesses. In 2017, the Texas Lottery Commission adopted rules that facilitate the sale of lottery tickets from third-party point-of-sale systems, thus allowing the potential to sell lottery tickets in-lane at brick-and-mortar retail cash registers and self-checkout counters. The third-party point-of-sale systems only perform lottery-related tasks currently performed on dedicated lottery terminals.

To increase lottery sales at currently licensed and potential multilane retail locations, Texas worked closely with the North American Association of State and Provincial Lotteries (NASPL) and other U.S. lotteries to establish a Standard Lottery Application Programming Interface (API) for in-lane sales and provide an optimal consumer and retailer solution. In 2019, the Texas Lottery was the first U.S. lottery to introduce draw game tickets printed at checkout lanes on plain, cash register receipt paper. The Receipt Ticket was initially tested by H-E-B® Food Stores at their business centers with expansion to their central checkout lanes at select stores in 2020. The business center test and the gradual checkout lane expansion provided the opportunity for the retailer, Texas Lottery and lottery operator to comprehensively evaluate processes and reporting prior to expanded roll-out in all licensed H-E-B stores in 2021. H-E-B continues to expand points of sale for Receipt Ticket at existing and new stores.

Through the lottery operator, the agency is also developing other opportunities for in-lane draw game ticket sales with private companies that facilitate gift card transactions at retail cash registers. In November 2019, the Texas Lottery became the first U.S. lottery to introduce in-lane sales of the two multijurisdictional games, *Powerball*® and *Mega Millions*®. Merchandised like a gift card, QUICKTICKET™ provides players the convenience of a scratch ticket type product by concealing pre-printed Quick Pick numbers under a removable scratch surface. The introduction of QUICKTICKET in Dollar General® stores expanded the Texas Lottery retailer base by approximately 1,500 locations—the growth of more retailers in one year than in the agency's previous 20 years combined.

Since the initial roll out at Dollar General, approximately 250 additional stores have been licensed. Kroger® launched QUICKTICKET in October 2021 and Albertsons® launched QUICKTICKET in June 2022. Additional opportunities for expansion of QUICKTICKET and Receipt Ticket sales into traditional and non-traditional retail environments are being explored.

In addition to selling draw game tickets in-lane, various pilot programs have placed scratch ticket dispensers in-lane at grocery store retailers, including Albertsons and H-E-B, to test product sales levels. The agency continues to work with the lottery operator to look for opportunities to introduce and expand in-lane scratch ticket sales with interested retail chains.

Challenges and Opportunities

The lottery retailer base represents a dynamic business environment in which frequent business sales and acquisitions are a part of the normal operating environment. The economic climate of the state can also have a significant impact on the size of the retailer base. The agency works to support existing retailers while recruiting new retailers to ensure a stable, but growing, product distribution channel.

The lottery retailer base contains a variety of trade styles. However, the traditional lottery trade styles of convenience and grocery stores are dominant, with 78% of licensed locations and 94% of Texas Lottery sales. As the marketplace has become more competitive among these businesses, they are expanding into non-traditional business lines to remain competitive including food and beverage service, e.g., on-premise beer and wine sales. As these businesses pursue the Texas Alcoholic Beverage Commission licenses required for these services as noted above, additional administrative burdens may be placed on the Texas Lottery to ensure compliance with licensure requirements.

Efforts to recruit businesses in non-traditional lottery trade styles present other challenges. Businesses that do not currently offer lottery are often focused on higher-profit-margin products that more easily correlate to bottom-line revenue. Scratch ticket products can present operational concerns associated with inventory control/shrinkage and the potentially labor-intensive nature of the product.

Additionally, the Texas Lottery, lottery operator and members of NASPL have consistently identified the following barriers to recruiting national corporations representing new trade styles: 1) lack of standardized licensing and accounting processes across jurisdictions, 2) unavailability of new technologies providing retailer back-office accounting and 3) absence of real-time connectivity to sales and lottery inventory information.

Recruitment efforts continue to be challenged by some businesses' perception that selling lottery products may not align with their business models.

Lottery Ticket Courier Companies

The lottery industry and the sale of lottery tickets are not immune to the advancement of technology. Traditional lottery tickets are a paper-based product and have been a focus for technology companies to modernize for many years, with significant advancements occurring in other states and around the world,

although not in the state of Texas. However, a lottery business activity widely known as "lottery couriers" has emerged in the state. The Commission has no position regarding these services and understands the policy to prohibit or regulate these services is a policy decision to be determined by the Legislature.

According to the Legislative Budget Board in its analysis of legislation filed in the Senate in the 88th regular legislative session regarding lottery couriers (Senate Bill 1820), in the first seven months of fiscal year 2023, lottery sales associated with courier services contributed to $101.0 million in lottery ticket sales. The LBB noted that extrapolating these sales figures to a full fiscal year produces an estimated lottery ticket sales by retailers associated with couriers of approximately $173.1 million for fiscal year 2023.

Over the past six years, a number of lottery ticket courier companies have started operations in Texas (and other states) with a different business model than typical lottery licensees. Couriers are unlicensed service providers that take orders from customers, either through an internet website on a laptop or desktop computer, or by using an application on a mobile device, and, upon the receipt of funds from the customer, send a representative to purchase lottery tickets in-person from a licensed brick-and-mortar lottery retailer. After purchased at the brick-and-mortar location, the courier transmits a scanned image of the ticket to the customer and retains the physical ticket until it is determined to be a winning or non-winning ticket. Winning tickets with prizes of $600 or more must be claimed at a Texas Lottery claim center, and the courier will arrange to deliver those tickets to the customer to be claimed. The agency has noted the development of courier services in Texas in both its Strategic Plan and Business Plan for the last several years.

Courier service is a private business activity that occurs outside the regulated ticket purchase process. Couriers have no business or regulatory relationship with the Texas Lottery and the relationships a courier maintains to obtain tickets are with individual retailers in Texas with whom it has its own private working arrangement. The Texas Lottery is aware of the identity of certain couriers operating in Texas but there may be others the agency is not aware of. Some couriers, prior to starting operations, have asked the agency whether a license or other form of permission was required for them to perform their contemplated services in Texas. Based on the description of the services those couriers provided to the agency, which is consistent with the general business model described above, the agency determined that the State Lottery Act does not require a courier to obtain a license or other authorization from the agency. This conclusion is based on the fact that the form of the courier transaction does not involve a regulated sale of lottery tickets.

Legislation to require the Texas Lottery to prohibit couriers from operating in Texas, S.B. 1820, was filed during the 88th regular legislative session. In its analysis of S.B. 1820, the Senate Research Center stated that "Third-party couriers are not comprehended in current law." While the Senate approved S.B. 1820, the House of Representatives did not consider the legislation. The final outcome approved by the Texas Legislature was a budget Rider added to Article IX of the Appropriations Bill (House Bill 1) with the intent of directing the agency to prohibit the activity of couriers. The Governor signed the Appropriations Bill on June 18, 2023, and issued a proclamation related to House Bill 1. Included in

the proclamation is a statement related to the Rider provision which says, "I must note that Section 17.36 of Article IX is unconstitutional. Section 17.36 purports to tell the Lottery Commission that it must issue a new rule on a particular subject. This attempt to make general law in the General Appropriations Act violates Article III, Section 35 of the Texas Constitution." These facts leave the agency in a very difficult position.

Some couriers work with established, non-affiliated Texas Lottery retailers to purchase tickets, while others have created an affiliated legal entity to obtain a retailer license, such that the courier and the retailer are separate business organizations under common ownership. A retailer that is affiliated with a courier must comply with all Texas Lottery sales agent licensing requirements, including being open and accessible to the public and not engaging in business exclusively as a lottery ticket sales agent. Also, some couriers may accept customer orders exclusively via an application on a mobile phone while others accept orders via a laptop or desktop computer internet connection without using a phone. Some couriers may take orders both ways. Regardless of the potential differences, all couriers charge a fee for their service to purchase and manage their customers' tickets. While couriers began by offering to purchase only draw game tickets, the agency understands that more recently some couriers have added scratch ticket games.

Although the Texas Lottery has no authority over couriers, couriers independently publicize the lottery via their websites and advertising and have demonstrated the ability to generate significant incremental sales. Licensed retailers associated with couriers have emerged as some of the top-selling sales agents in Texas. The agency is aware of the following licensed retailers that work with couriers, and their recent lottery sales are provided below. As a caveat, courier transactions are not segregated from other lottery purchases so the agency cannot identify the amount of sales from courier transactions as compared to walk-in purchases only:

RETAILER NAME	RETAILER CITY	FY 2022 SALES	COURIER
Winners Corner TX LLC	Austin	$89,181,873.50	Jackpocket
Jaja Accessories	Round Rock	$6,265,393.00	theLotter
Luck Zone	Round Rock	$5,668,781.00	theLotter
ALTX Management	Waco	$4,116,910.50	Lottery.com
Players Cafe	Cedar Park	$2,293,157.00	Lotto.com
Players Cafe	Austin	*	Lotto.com
Hooked on MT	Colleyville	*	Mido Lotto
Lucky Choice Limited Liability	San Antonio	*	Jackpot.com

These retailers began selling in FY 2023

Key Initiatives and Goals

The key strategy for licensing new Texas Lottery retailers requires continued focus on the needs and concerns of both traditional and non-traditional trade styles by providing innovation and enhanced services.

The agency will continue to examine policies and procedures that can enhance the convenience of conducting lottery business transactions and mitigate identified barriers to lottery licensure.

The agency and the lottery operator, who is primarily responsible for retailer recruitment efforts, implement a strategy of encouraging non-lottery retailers to pilot lottery sales at a small number of their locations. This has created the opportunity for some chains in non-traditional trade styles to see the benefits and convenience of offering lottery to their customers without having to make a full chain commitment. Some pilot sales programs have led to expansion to new chain locations with national corporations including Walmart™ and CVS Pharmacy™. These pilot efforts continue, and discussions are ongoing with other businesses previously hesitant to embrace the lottery category.

Exercising the agency's core value of "Customer Responsiveness," the processes for timely facilitation of information from retailer inquiries about becoming a lottery retailer are reviewed and revised on an ongoing basis.

Implementation of a streamlined communication model has enhanced the timely distribution of potential-retailer inquiries received by claim centers and Retailer Services to the lottery operator recruitment staff.

Regardless of the challenges or trade-style category, the Texas Lottery is invested in growing the licensed retailer base through sustained and strategic recruitment efforts in coordination with the lottery operator allowing for better product accessibility by a broad diversity of consumers and the potential for increased revenue to the state. From FY 2011 to FY 2015, the retailer base grew by an average of 115 retailers annually. Retailer development efforts in FY 2016 and FY 2017 resulted in a net gain of 240 and 205 retailers respectively, due, in part, to acquisitions and new store openings by licensed chain retailers. Retailer growth in FY 2018 of 106 locations was in sync with historical trends. The FY 2019 surge of 299 additional locations can primarily be attributed to the introduction of lottery sales in Walmart Supercenters. Record-breaking retailer growth in FY 2020 can be attributed to the addition of approximately 1,500 Dollar General stores. A net gain of 407 retailers in FY 2021 and 256 in FY 2022 continued the trend of an expanding retailer base. It is anticipated that increases in the retailer base will continue to exceed 200 locations per year due to the continued expansion of existing chains as well as recruitment of independent retailers and new chains. The agency is committed to working with the lottery operator and NASPL locally and nationally to identify and implement strategies to continue growth in the retailer base.

RETAILER CASH INCENTIVE PROGRAM

Background

The goal of the Texas Lottery's Retailer Cash Incentive Program is to optimize the value of funding allocated by the Texas Legislature for the program to generate incremental revenue for the state. The agency works to ensure that the program incentivizes licensed lottery retailers based on sales performance while mitigating financial risks associated with the program.

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

In determining the optimal structure for this program, the Texas Lottery engaged in a study of other U.S. lottery retailer incentive programs and evaluated standards across the retail industry for sales performance-based programs. Following this study, the agency developed a same-store sales growth program that incentivizes retailers based exclusively on quantifiable sales performance.

The program is designed to allow for modifications and supplemental features while maintaining the integrity of the basic structure. Changes over the years have been implemented to maintain retailer engagement and to optimize the revenue benefit to the state. Currently, the program allows for the agency to implement a primary incentive program, traditionally 13 weeks in duration, while simultaneously introducing a secondary program of shorter duration, typically six weeks, focused on specific product sales performance. The first two secondary programs were implemented in FY 2015, and both focused on increasing sales of the *Pick 3*™ daily draw game. The next secondary program was introduced in FY 2018 after enhancements to retailer reporting were implemented. The most recent secondary programs introduce a drawing for cash prizes as a supplement to the traditional pack settlement promotion focused on specific scratch ticket games. Special features of individual primary programs have provided a focus on new draw games to support awareness and incremental sales, e.g., bonus drawing entries for designated sales levels of *Lone Star Lineup*® or *FIREBALL* on *Pick 3* and *Daily* 4.
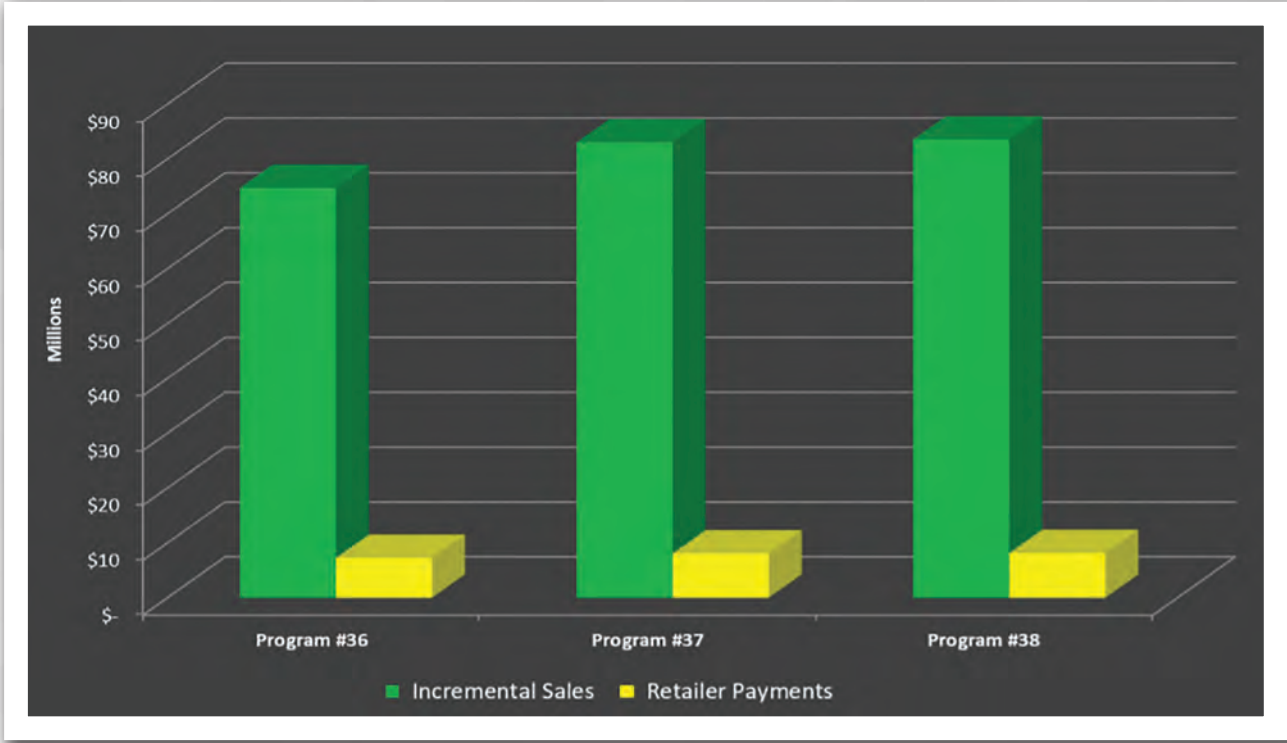
From inception of the program in September 2009, through the end of FY 2022, the agency has completed 37 primary retailer cash incentive programs plus 13 secondary programs. Qualifying retailers have generated more than $3.07 billion in additional sales, yielding more than $480.65 million in incremental revenue for the state. Based on their sales performance, these retailers received more than $237.52 million in incentive payments.

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

The chart below depicts the three primary cash incentive programs conducted during FY 2022. It illustrates the retailer payments made and the related incremental sales impact of each program. Fluctuations in incremental sales when compared to prior years for individual programs may be attributed to revisions in the minimum sales goal to align closer to state average weekly sales. Sales goal minimums will continue to be evaluated for future programs and results monitored for any effect on revenue to the state.

FY 2022 Retailer Cash Incentive Programs Incremental Sales and Retailer Payments

Challenges and Opportunities

The Texas Lottery is a leader in the U.S. lottery industry in utilizing a sales performance-based program for retailer incentives based on true same-store sales performance. As an industry leader in this area, the agency continually evaluates its incentive programs to ensure their design is appealing to retailers, resulting in increased sales and revenue performance.

As new features and products are explored for inclusion in the incentive programs, the ability to provide retailers access to timely, comprehensive reporting on their progress toward incentive goals is critical to their participation and confidence in the integrity of the program. The agency has implemented reporting via the retailer terminals and Lottery Services Portal and will continue to collaborate with the lottery operator to develop and implement reporting tools and enhanced communication support for retailers related to the program. While retailer participation is important, the agency will continue to ensure that each program incorporates challenging retailer goals and focused product emphasis that will optimize revenue to the state.

Key Initiatives and Goals

The Texas Lottery has created a performance-based retailer cash incentive program with an emphasis on financial risk mitigation consistent with its core value of "Fiscal Accountability." With this risk-averting structure in place, the ongoing goal of the agency is to optimize the program's revenue-generating benefits to ensure positive revenue from Texas Legislature appropriated funding. The agency will continue to accomplish these balanced objectives by conducting program analysis, establishing effective sales projections and maintaining close communication with, and understanding of, its retailer base, both directly and through the lottery operator's sales force. The agency is committed to achieving this goal by identifying opportunities to modify program parameters based on the results of past programs and new business environment variables which may impact future performance.

LOTTERY GAME PROMOTION EXPENDITURES AND EFFICIENCY

Background

The goal of the Texas Lottery's game promotion efforts is to efficiently and appropriately engage in communication and education with the public about the numerous products offered by the agency each year. The agency makes considerable efforts to effectively allocate its lottery games promotion dollars to reach the public and enhance awareness of Texas Lottery® games and remains committed to the goal of enhancing the efficiency of lottery games promotion. The agency is also mindful of statutory provisions that guide the type of promotional messaging the agency may use.

Section 466.110 of the Texas Government Code states that advertisements or promotions sponsored by the Texas Lottery must not be of a nature that unduly influences any person to purchase a lottery ticket or number. This general restriction can be broadly interpreted and significantly limits both the types of promotional messages and the media placement strategies employed in the agency's messaging.

Challenges and Opportunities

During each of the past three legislative sessions (2017, 2019 and 2021), the budget to promote the Texas Lottery was significantly reduced. As noted in the table below, during this period the annual budget has been reduced from $32 million to $10 million annually.

BIENNIUM	FISCAL YEAR APPROPRIATION	FISCAL YEAR REDUCTION	BIENNIUM REDUCTION
2016 – 2017	$32.0 Million	N/A	N/A
2018 – 2019	$24.6 Million	$7.4 Million	$14.7 Million or 23%
2020 – 2021	$17.8 Million	$6.9 Million	$13.7 Million or 28%
2022 – 2023	$10 Million	$7.9 Million	$15.9 Million or 44%

With continued substantial budget reductions, the agency has significantly modified the media strategy, eliminating television and radio and dramatically reducing digital media. With the budget reduction, the agency has to be even more selective in choosing the product initiatives that will receive promotional support. The Texas Lottery continues to develop and implement innovative scratch ticket games to drive sales and revenue generation; however, a significant amount of these product initiatives will not receive any promotional support. Thus, the agency's ability to inform the public about new products, both draw and scratch tickets, is severely limited and this can have a direct impact on Texas Lottery sales and revenue contributions.

Concurrently, there have been dynamic changes occurring in the promotional industry, the state of Texas and the markets in which the agency communicates about its products. The purchasing power and reach of the agency's media budget has declined significantly over the 30 years of the agency's existence due to budget decreases, the effects of inflation and significant changes to the media landscape. Media expenditures continue to rise and the proliferation of new media channels like social media and digital continue to make the lottery games promotion more fragmented. These realities have worked to limit the value of lottery games promotion expenditures.

The table on the next page summarizes and compares the impact of these changes and some of the major challenges impacting the Texas Lottery's game promotion communications over time.

Lottery Games Promotion Overview
February 2023

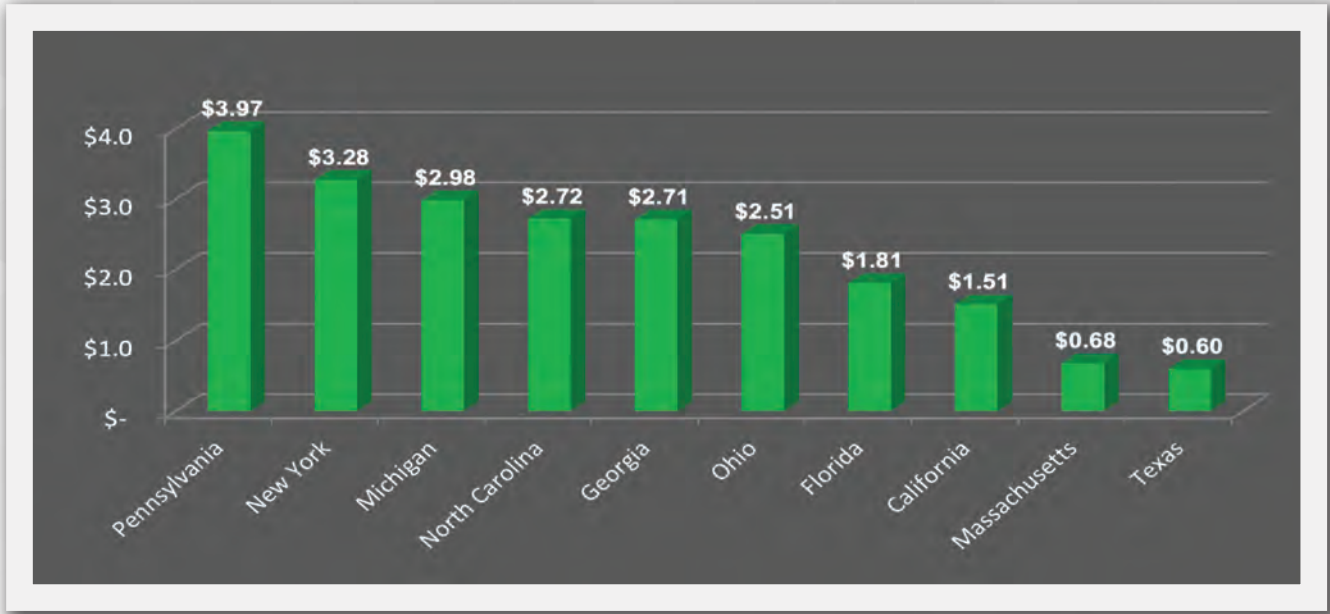|	FISCAL YEAR 1993	FISCAL YEAR 2022
Impact of Inflation	$40 million base appropriated advertising budget $40 million in 1993 dollars equates to $81.2 million in 2022	$10 million base appropriated advertising budget Adjusted for inflation, $10.0 million in 2022 equates to $4.9 million 1993 dollars
	12.6 million Texans 18 or older	22.9 million Texans 18 or older
	$3.17 ad spend per capita $3.17 ad spend per capita in 1993 dollars equates to $6.43 in 2022	$0.43 ad spend per capita Adjusted for inflation, $0.43 in 2022 equates to $0.21 in 1993 dollars
Increase in Products	Two products: *Lotto Texas®* Scratch ticket games (2)	**9 products + 4 unique add-on features:** *Pick 3™ plus FIREBALL, Cash Five®, Daily 4™ plus FIREBALL, All or Nothing™, Lotto Texas with Extra!®, Texas Two Step®, Mega Millions® with Megaplier®, Powerball® with Power Play®,* and scratch ticket games (~ 90 launched annually)
Product Life Cycle	Lottery product was brand new generating immense excitement and interest.	Lottery products are mature, meaning that promotional 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 promotional support.
Free Media Exposure	Extensive free coverage of winners, games and live drawings by all media types due to newness of games.	Media coverage of winners and large jackpots, but the reach of traditional media is significantly downsized. Almost no coverage of live drawings or new game launches. Social media platforms are increasingly structured so that they necessitate paid promotion.
Media Proliferation	Players were easy to reach frequently via network TV and radio advertising.	The promotional industry has encountered dramatic challenges with the proliferation of new media choices for consumers, including exponential cable channel expansion, streaming radio, the role of the internet and social media, all factors that limit promotional exposure. Additionally, tablets, smartphones, and streaming services create even greater opportunities for consumers to time-shift programming, potentially affecting lottery games promotional exposure. This market dilution means it is becoming more difficult to reach large groups of consumers for the same level of media expenditures.
Pay at the Pump	Because pay-at-the-pump technology was new and limited, most people went into the store to pay for gas, allowing for exposure to lottery products.	Pay-at-the-pump technology requires promotional support to work harder to drive players into the store for lottery products.

The agency is focused on and committed to the goal of enhancing the efficiency of lottery games promotion. This includes efforts to internally review and challenge past promotional strategies to identify new opportunities. By focusing, in coordination with its advertising services vendor, on the efficiency of lottery games promotion and developing an annual lottery games promotion execution strategy, the Texas Lottery continues to be one of the top-selling lottery jurisdictions in the nation, while operating with one of the lowest per capita advertising budgets in the industry.

With the reduction to the promote lottery games budget, the FY 2023 plan eliminated all radio promotion and reduced the number of scratch ticket game initiatives that can be promoted. In addition, the level of media support for scratch ticket game initiatives has decreased due to this budget reduction.

Key Initiatives and Goals

According to the La Fleur's 2022 World Lottery Almanac, Texas ranks 44th of 46 reporting U.S. lotteries in advertising budget per capita and had the lowest per capita advertising spending among the top 10 performing U.S. lotteries as measured by total sales.[1] The ranking of Texas is further reduced to 45th of 46 reporting when calculating advertising budget per capita using the reduced advertising authority granted by the 87th Legislature. (See graph below.)

Promote Lottery Games Budget Per Capita

Source: La Fleur's 2022 World Lottery Almanac

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[1] *La Fleur's 2022 World Lottery Almanac (30th Edition), U.S. lotteries' FY 21 ad budgets as % of sales, p. 278.*

The agency also engages in efforts to seek input from third-party unbiased resources to evaluate the efficiency of the agency's efforts to promote lottery games. This includes the 2014 analysis of "The Impact of Advertising on Lottery Sales in the State of Texas" performed by the Texas A&M Mays Business School.

Additionally, the Texas Lottery implemented a media placement verification program in response to a State Auditor's Office review of the agency's advertising contract. This verification program provides assurance that purchased media is running in markets consistent with agreed-upon placement requirements.

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

Tiered-Media Markets

The Texas Lottery continues to evaluate the effectiveness of its media placement strategies. Due to budgetary constraints, several years ago the agency implemented a tiered ranking process to make discrete choices in the weighting of its promotion of lottery games in the different markets in Texas. This means that the agency's promotional presence in some markets is "underweighted," but ultimately results in the most efficient allocation of limited resources to reach the broadest population of consumers. The Texas Lottery continues to work with its advertising vendor to refine its tiered-media market strategy and media weight allocations by market to optimize lottery games promotion efficiency. The agency utilizes a formal annual advertising media plan approval process to achieve this goal.

Experiential Marketing

The Texas Lottery consistently adapts marketing strategies to evolve with the changing media landscape. Alternative cost-effective media strategies such as promotional event marketing offer new opportunities to drive brand awareness, product education and/or consumer trial. Promotional marketing engages the consumers in a fun and entertaining environment.

The Texas Lottery currently engages consumers directly through promotional marketing partnerships across the state. Marketing relationships with top-tier organizations allow the agency to leverage consumer passion points such as sports (NASCAR®, NBA® and NFL®) and music (IHeart Radio and Toyota Music Factory) to reach adult Texans on the go.

Social Media

The Texas Lottery reaches new consumers using non-traditional marketing and communication vehicles. Social media is at the forefront of these efforts and has become an increasingly important component of the Texas Lottery's efforts to reach and communicate with adult Texans. The Texas
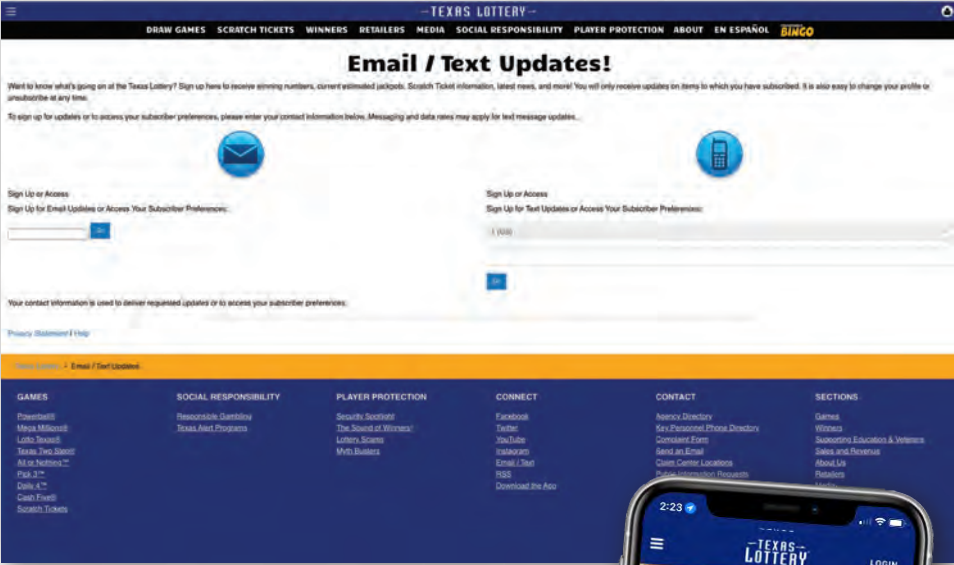
Lottery currently communicates with more than 300,000 followers about its products and events across a variety of social media platforms, including Facebook, Twitter, Instagram, LinkedIn and YouTube. The Texas Lottery's media relations and advertising departments continue an agile approach of producing digital content in-house, which has resulted in an increase of high-quality and cost-friendly content being distributed on social media to support various product initiatives throughout the year. In 2018, the Texas Lottery also began posting lottery drawings to its YouTube channel, expanding the cost-effective ways in which the agency distributes its official lottery drawing programs. All content is monitored, and prompt responses are provided by the agency. The Texas Lottery social media platforms were developed in compliance with the Texas Department of Information Resources social media policy and guidelines. Official social media guidelines can be found on the Texas Lottery website.

Consumer Electronic Communications and Applications

The Texas Lottery understands that the introduction of new technology for use with lottery games is a sensitive topic with many members of the public and is very mindful that the Texas Legislature provides the policy framework to administer the lottery. Therefore, the Texas Lottery understands that any questions regarding the sale of lottery tickets via the internet are policy decisions to be determined by the Texas Legislature. Licensed Texas Lottery retailers are the only source for purchase of Texas Lottery tickets, and those tickets must be purchased in-person at a licensed retailer location using one of the approved methods of play.

That said, the Texas Lottery does engage its players directly through an opt-in email or text messaging program that provides winning numbers, current estimated jackpot alerts, scratch ticket information and general news and alerts. The Texas Lottery mobile application increases the public's access to Texas Lottery game information and player support services. From January 1, 2022 – February 27, 2023, there were over 4.7 million total downloads from the App Store and Google Play combined and approximately 2.5 million active app users.

Draw game players can easily view current jackpot amounts and winning numbers on their mobile devices. Scratch ticket game players can use a locator to find retail locations that are carrying their favorite scratch ticket game. Players can scan both draw and scratch tickets and use Check-My-Ticket functionality. This feature provides an added layer of consumer protection as players can conveniently verify the winning or non-winning status of tickets on their mobile devices. The Texas Lottery App provides a convenient and fun platform for lottery players to access important lottery information.

The Texas Lottery games promotion expenditure goal is to achieve optimal efficiency in promotional spending to reach adult Texans and communicate effectively with them about the Texas Lottery and its many products. The agency continues to implement and evaluate new opportunities to enhance the efficiency of its promotion of lottery games. The agency has also established strict advertising sensitivity guidelines to ensure that its promotion of lottery games is not of a nature that unduly influences any person to purchase lottery products and that the nature of its promotion of lottery games is representative of the integrity of the lottery brand. To this end, the agency works to communicate with its customers in a transparent fashion regarding product attributes while ensuring that it does not over-promise regarding participation in lottery games. The agency continues to enhance its website and app and provide information at retail to help consumers make informed decisions regarding participation in its products.

In June 2021, the agency website address shifted to **texaslottery.com**, replacing the **txlottery.org** domain. This transition was made in connection with the launch of the agency's redesigned lottery website earlier in the fiscal year. The new **texaslottery.com** features a fresh, modern design that incorporates the latest web technology, making site navigation across both web and mobile platforms more intuitive for its users. The change did not inconvenience frequent visitors to the former domain, as bookmarked and cached links automatically redirected to pages linked to the new domain name, "**texaslottery.com**."

PRODUCT MIX AND GAME PORTFOLIO MANAGEMENT

Background

The goal of the Texas Lottery's Product Mix and Game Portfolio Management program is to offer lottery players the best entertainment experience available through the responsible management and sale of its products to generate revenue for the State of Texas.

The Texas Lottery is situated in a mature market in which it competes primarily for the discretionary entertainment dollars of adult Texans age 18 and older. It is within this general environment that the Texas Lottery must tailor its products to appeal to its customers. The Texas Lottery has consistently ranked among the top-selling lotteries in the United States, ranking third and exceeded only by Florida and California.[2]

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[2] *La Fleur's 2022 World Lottery Almanac (30th Edition), "U.S. Lotteries' Fiscal 2021 Sales by Game" p. 245.*

The *Games of Texas* are the body of products that the Texas Lottery makes available to the playing public. The Texas Lottery offers two product categories: scratch ticket games and draw games. The agency currently offers eight draw games, including four unique add-on features offered on five of its draw games, and approximately 90 scratch ticket games annually. This constitutes the current game portfolio. New games and game enhancements are continually being developed and reviewed to determine if they would be beneficial additions to the Texas portfolio with the goal being to keep games innovative and exciting for players.

SCRATCH TICKET GAMES

Scratch ticket games are preprinted tickets with symbols hidden under a removable covering. The player scratches off the covering and determines instantly whether or not the ticket is a winner. Scratch tickets include a variety of themes, playstyles and prize structures to offer an attractive game mix to players. Scratch ticket games are offered across a range of price points from $1 to $100 and offer prizes ranging from $1 to $20 million.

While draw games have a set number of drawings scheduled each week, scratch ticket games offer the possibility of winning experiences with cash and non-cash prizes. Most scratch ticket purchases are impulse buys. Therefore, it is important to create games that are attractive to players, provide frequent opportunities to win, and offer a variety of prizes per game.

DRAW GAMES

Most draw games require the player to select from a pool of numbers. For example, when the pool consists of 35 numbers and a player selects five numbers from the pool, the game is described as having a 5-of-35 matrix. To claim the top prize, the player's ticket must correctly match all five numbers drawn. Other prizes may be paid for matching fewer than all of the numbers selected. Players may select their own numbers or have them selected by the sales terminal by choosing the Quick Pick option. The Texas Lottery conducts independently certified drawings on a set schedule to determine a set of winning numbers for these types of games.

The Texas Lottery's current draw game offerings include two multijurisdictional games: *Powerball®* with the add-on feature *Power Play®*, and *Mega Millions®* with the add-on feature *Megaplier®*. The *Just the Jackpot®* feature offers *Mega Millions* players a way to purchase wagers that are eligible for the Grand Prize only. The other games in the Texas Lottery's draw game portfolio are unique to Texas and are operated by the Texas Lottery. These include *Lotto Texas®* with the add-on feature *Extra!*, *Pick 3™* with the add-on feature *FIREBALL*, *Daily 4™* with the add-on feature *FIREBALL*, *Cash Five®*, *Texas Two Step®* and *All or Nothing™*. *Lotto Texas*, *Texas Two Step*, *Powerball* and *Mega Millions* are rolling jackpot-style games.

The remaining draw games are daily drawing games. These games feature fixed or pari-mutuel top prizes (non-rolling) and they are drawn at least once per day. The Texas Lottery conducts drawings for its games six days per week (Monday through Saturday). Some daily games are drawn up to four times daily.

The Texas Lottery applies a strategic, long-term view to the development of products and management of its scratch ticket and draw game portfolios. The agency plans its game portfolio at least one fiscal year at a time ensuring a range of well-planned product offerings for Texas Lottery players. A summary of scratch ticket and draw game challenges, opportunities, key initiatives and goals is outlined on the following pages.

Challenges and Opportunities

SCRATCH TICKET GAMES

The Texas Lottery's efforts to keep scratch tickets fresh and interesting for the consumer must focus on tweaking existing game designs, optimizing prize structures, incorporating new proprietary printing enhancements and innovative production options to the tickets, and utilizing well-recognized brands and licensed properties. The Texas Lottery also focuses on developing new product positioning, promotions and marketing strategies. These efforts are critical to reach new players, maintain current player interest and ensure existing sales and revenue levels for this product category.

The agency believes that maintaining appropriate business and marketing tools, such as greater flexibility in the lottery games promotion and scratch ticket printing budgets, is the key to the Texas Lottery's ongoing success. This approach provides the best opportunity for the Texas Lottery to introduce new products and promote existing products, resulting in increased revenue for our beneficiaries. The Texas Lottery will continue to explore new scratch ticket game opportunities and unique product enhancements that hold the most potential for generating incremental revenue for the state while working within the agency's budget limitations. An exceptional item passed by the 88th Legislative Session increased the agency's budget for scratch ticket manufacturing and services for FY 2025. The passing of this legislation was critical to maintain the typical scratch portfolio players expect and that yields the best transfers to our beneficiaries.

DRAW GAMES

One of the most significant differences between the scratch ticket and draw game playing experiences is the time that elapses between buying the ticket and finding out if the ticket is a winner. In addition, the development and introduction process for draw game concepts requires significantly more planning and lead time than scratch ticket games. New draw games and game changes typically require research, administrative rulemaking and extensive system software development. These requirements present challenges limiting the agency's ability to frequently introduce new games or make rapid changes to existing games.

Draw games differ from scratch tickets, as scratch ticket games serve as their own communication vehicle or marketing due to visible placement at the point of purchase at retail. While the introduction of QUICKTICKET™ for *Powerball* and *Mega Millions* has provided a new marketing face for these two draw games at Dollar General and more recently, Kroger, Albertsons and Randalls locations, the overwhelming majority of draw game tickets are printed via a sales terminal upon a player request and are far more difficult to market. Draw games require significant messaging and time to educate retailers and players about new game introductions and ongoing game awareness. The regular and extensive reductions to the agency's lottery games promotion budget have made new draw game introductions extremely challenging as the level of funding required to effectively communicate information to Texans is insufficient.

Historically, draw games have relied primarily on jackpot levels to drive sales and generate revenue. Lotteries have attempted to increase draw game sales by exploring the introduction of higher price points, as this has been extremely successful for the scratch ticket portion of the portfolio. However, lotteries have struggled in these efforts, as players have become accustomed to playing for large jackpots worth hundreds of millions of dollars, and on some occasions, nearly $2 billion, for a $1 or $2 wager.

During the 88th Regular Legislative Session two bills related to lottery draw games were filed. House Bill (HB) 1395 would have authorized the Commission to conduct drawings on Sundays. Additionally, HB 903 would have authorized the Commission to operate a quick draw game at bars and restaurants. However, these bills were not approved by the Legislature .

Key Initiatives and Goals

SCRATCH TICKET GAMES

To be responsive to the changing tastes and preferences of consumers, the Texas Lottery must actively explore new scratch ticket game opportunities and unique product enhancements that hold the most promise for generating incremental revenue for the state. The agency has pursued the following scratch ticket game innovations in recent years and they will continue to be critical components of future success.

Spotlight Scratch Ticket Games

Utilizing industry best practices, a Spotlight game is a game that typically has a larger than normal print run with an increased prize payout. The larger quantity and increased payout allow for the creation of many "call-out" features on the front of the ticket that are appealing to players. The Texas Lottery successfully launched its first Spotlight game in FY 2009 at the $20 price point.

The agency introduced the first $10 Spotlight game in FY 2012 and was alternating the introduction of $20 and $10 Spotlight games each fiscal year. Although in recent years, the focus has been on rotational games (typical print run games that are introduced regularly throughout the year) with Spotlight games being introduced strategically and/or as inventory is needed. The smaller print production runs for rotational games have been yielding better sales results and their product life cycle is far shorter than a Spotlight game, allowing for more frequent game introductions. Spotlight games do have an important place in the scratch portfolio by creating a consistent weekly sales base for the $10 and $20 price points. The newest $20 Spotlight game, *Cash Spectacular*, was introduced in November 2021 and a $10 Spotlight game, *Ca$h Blowout*, was printed in FY 2021 and is slated for introduction in March 2023.

In FY 2018, the $30 price point was re-introduced after being out of market since 2007 and the game was produced as a Spotlight game. *$750 Million Winner's Circle* was introduced with over $750 million in total prizes and 12 top prizes of $3 million. This $30 Spotlight game was ranked as the fourth bestselling game in both FY 2018 and FY 2019 and has remained in the top 15 scratch ticket games in FY 2020, 2021 and 2022. The agency will continue to evaluate the benefits of Spotlight games vs. rotational games throughout FY 2023 – 2024 and will produce games accordingly to drive revenue results.

$100 – Premium Price Point Scratch Ticket Game

The $20 and $50 price point games have seen significant sales growth in recent years. From FY 2015 to FY 2022, sales at the $20 price point have increased 132.7% while sales at the $50 price point have increased 562.2%. At the end of FY 2022, the $20 and $50 price points were the second and fourth bestselling price points, respectively. During FY 2022, $50 price point sales were $1.18 billion, a $64.5 million or 5.8% increase over FY 2021. The $20 price point realized a 10.6% increase or an additional $142.8 million in FY 2022 compared to FY 2021. With the demand for games at higher price points continuing to increase, the Texas Lottery launched its first $100 scratch ticket game during FY 2022. A game at this price point required a unique prize structure to differentiate it from games at the $20, $30 and $50 levels. It also required a ticket design that allowed it to be marketed and viewed by players as a premium product. The game, *$20 Million Supreme*, was developed featuring a prize structure which offered a minimum prize of $150 and a top prize of $20 million. The game immediately moved to the top of the sales charts and in its second week generated over $20 million in sales. It remained ranked as the #1 scratch ticket game for 16 weeks in a row through the end of FY 2022. In future fiscal years, the agency is considering second-chance drawing prizes that can be incorporated into $100 game prize structures that will give players the opportunity to win cash prizes.

Growth of Core Scratch Ticket Games

Core (or base) games are games that are always available for sale because of their long-term, ongoing popularity with players. Core games are important within the Texas Lottery's portfolio as anchors at various price points, mitigating the need to identify and regularly produce new, rotational games. The Texas Lottery strives to identify unique products that both resonate with players and offer

the potential to become core offerings. Examples of current core games are *Break the Bank* ($2), *Bingo* ($2 and $5), *Crossword* ($3, $5, $10 and $20), *Loteria* ($3, $5, $10, $20 and $50) and *Bonus Break the Bank* ($5).

The Texas Lottery continues to identify games that it believes can achieve this level of player loyalty. Due to the popularity of the $20 Loteria game and the sales results for the Loteria family overall, the Texas Lottery introduced its first $50 Loteria game, *500X Loteria Spectacular*, in October 2020, and the game quickly moved to the top of the sales charts. This was the first $50 Loteria-themed game in the country and the first core game offered by the Texas Lottery at the $50 price point. As this plan is being drafted, plans are proceeding to introduce the first $100 Loteria-themed scratch ticket game.

During FY 2023, the agency, along with the lottery operator, will review the current core game offerings to determine if their core designation should change, i.e., if the games in the current core portfolio should remain in the product mix or be removed to make space in the limited retail environment for better-performing games.

Game Families

Game families are a group of scratch ticket games with the same game theme introduced across a variety of price points. The Texas Lottery has leveraged successful elements of its Spotlight games to enhance the appeal of families. The prize structures for each of these games are designed so top prizes are higher than most other games at the same price point. The games are typically produced with larger print quantities to create a higher volume of prizes at specific prize tiers. Additionally, the use of the same game theme (or branding) across the family allows the agency to place lottery game promotional support behind the games to promote the various attributes that may be appealing to players. The Texas Lottery typically introduces three families per fiscal year. That continued in FY 2022, starting with the "Jackpot" family in September which included the popular $5 Million Vegas Challenge® second-chance promotion. Each ticket in the family was printed with fluorescent inks and holographic foil applications. A "Power X" family was also launched in FY 2022. The third family was the "Frenzy" family which was introduced in May and was printed with a holographic pattern and vibrant inks which allowed the games to stand out in the retail environment. The "Frenzy" family featured the CMT Music Awards® Weekend second-chance promotion which awarded winners a trip to Austin to attend the CMT Music Awards® and other related events.

Oversized Tickets

While the typical width of scratch tickets is four inches, oversized tickets range in widths from 8 inches to 12 inches. Oversized scratch tickets feature numerous games or much larger play areas creating play value for consumers. All three scratch ticket manufacturing vendors produce their own branded version of an oversized ticket. The Texas Lottery introduced its first oversized ticket, *Super Ticket™ 7's*, at the $10 price point in spring 2015 and it quickly became a top-selling scratch ticket with over $78 million in sales during that fiscal year. The agency continued to develop and launch oversized tickets with successful sales results. In FY 2017, the first oversized licensed property scratch ticket game, *Willy Wonka™ Golden Ticket*, was introduced and ended the year as the 10th

bestselling game. There are a limited number of oversized dispensers deployed at retail restricting the exposure these products receive. So, while these 8-inch by 12-inch games may not be top sales performers, they continue to meet player demand for larger tickets and they fill a niche in the portfolio.

Multicultural Games

The population of Texas has grown more ethnically diverse over time and the state is considered a minority-majority state. Hispanic population growth has been one of the significant contributors to this trend. The Texas Lottery is focused on ensuring that it offers games that are culturally relevant to all Texans in general and, in doing so, has also worked to ensure that it develops games that are culturally relevant to its Hispanic consumer base. The Texas Lottery began offering Loteria, a bingo-style game with historical roots in Mexico, several years ago. The Loteria-themed games have been extremely popular with lottery players and the agency has expanded this category to a variety of price points ($1, $3, $5, $10, $20 and $50). In FY 2022, the first $1 Loteria-themed ticket named *EZ Loteria* launched and realized a 131 12-week index. The $20 *Million Dollar Loteria* game was the bestselling scratch ticket game in FY 2022. The $50 *500X Loteria Spectacular* game ranked #3. And two versions of the $10 *Mega Loteria* were the fourth and seventh bestselling games in FY 2022. The continued success of these games has made Loteria a vital component of the agency's core scratch ticket game offerings with multicultural-themed scratch ticket game sales representing almost 24% of total scratch ticket sales in FY 2022. In FY 2023, the agency plans to introduce a $100 version called *Loteria Supreme*.

Efforts continue to find additional games that will resonate with and appeal to Texas' Hispanic and Latino lottery consumers although the popularity for Loteria-themed games and their incredible sales levels are extremely hard to compete with. Previous games with Spanish language titles have performed below expectations indicating they do not have the broad appeal of the Loteria-branded games.

Products Geared to Appeal to New Players

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

Licensed/Branded Games – Well-recognized brands and licensed properties that have strong consumer affinity can reach consumers who may have lapsed in their lottery participation or who have not considered a lottery product trial in the past. The Texas Lottery has offered games featuring well-recognized brands such as Frogger, Wheel of Fortune,, Willy Wonka™, the Dallas Cowboys and the Houston Texans. In FY 2022, the licensed property games introduced included *Jeopardy!®*, Texas Motor Speedway's *50X Speedway Riches*, Chevy® Silverado®'s *Texas Limited Edition Bucks & Trucks*, and the popular *Cowboys* and *Houston Texans* games. The Texas Lottery regularly reviews licensed/branded scratch ticket games that can be acquired within the agency's budget limitations.

Luck Zone Player Internet Site – Product innovation is not always limited to the attributes and qualities of the product itself. Innovation can occur in extensions of the product, such as offering promotional second-chance drawings for merchandise and experiential prizes. The Texas Lottery continues to identify and develop games that include unique merchandise/experiential prizes that appeal to particular player segments. The Texas Lottery Luck Zone site allows players to create an account to quickly and conveniently enter non-winning scratch tickets into promotional second-chance drawings. The Texas Lottery's mobile app takes this convenience one step further and allows players to enter promotional second-chance drawings directly from their smartphones by simply scanning a barcode. In May 2019 the "Gems 7s" family was the first to allow for the pooling of second-chance entries across all the games in the family and gave players entries based on the price point of the entered ticket—e.g., a $20 ticket gave the player 20 entries in the drawing. These second-chance drawing options allow agency staff to create new and exciting promotions to keep player interest high.

In-Lane Scratch Ticket Sales – The agency is working with scratch ticket manufacturers and the lottery operator to sell-in scratch ticket sales dispensers for retailer's check-out lanes. These dispensers will be integrated with a retailer's point-of-sale system and the lottery operator's gaming system allowing for the secure sale of scratch ticket games. A typical dispenser will have a menu displaying the available tickets a customer can request to purchase from the clerk. These attributes and an emphasis on the dispensers' physical security requirements will limit retailer liability due to theft. As this plan is being drafted, meetings are taking place with retailers that may have an interest in this sales solution.

Custom Promotions

In FY 2022 these custom-designed, exclusive promotions were included in the Texas Lottery game plan:

- The $5 Million Vegas Challenge® featured on the "Jackpot" family offered players chances to win a trip to Las Vegas to attend a private event and have the chance to win cash prizes up to $5 million!
- The CMT Music Awards® Weekend was included with the "Frenzy" family and awarded trips to Austin for winners to attend dinners, private concerts and the CMT Music Awards®.

Unique Production Features for Scratch Ticket Games

While many of the game design changes made by scratch ticket manufacturers have been subtle, innovative production methods are available that can be marketed to consumers. One example that the agency has leveraged successfully is where the removable scratch covering on the ticket is scented (e.g., peppermint or leather) when scratched. This scent can be combined with the theme of the game to make the product unique for the player.

Another production method involves printing play areas on the front and back of tickets. This offers players more play action without increasing the size of the ticket.

All these concepts have been highly successful in driving incremental sales and revenue for the portfolio in recent years and are a significant area of strategic focus for the agency in developing the

scratch ticket portfolio each fiscal year. New variations on these concepts continue to be developed to capitalize on their popularity with players, and agency staff monitor the industry to identify new scratch ticket game product innovations that can be offered in Texas to keep the games fun and fresh for Texas players. These innovations include but are not limited to the following:

Die-Cut Tickets – tickets can be shaped into designs other than the typical square or rectangular shape allowing the ticket to stand out from the others in the dispensers. The die-cut shape typically ties to the theme of the game and/or playstyle.

Break-Open Tickets – similar to pull-tabs, perforated windows within the ticket design expose the scratch play areas. These tickets add motion and sound to the act of playing scratch tickets. In FY 2017, the Texas Lottery introduced the $20 *Super Break the Bank* which featured two large break-open panels which exposed game boards themed like the popular $2 core game, *Break the Bank*. The game performed very well and was ranked as the eighth bestselling game for FY 2017. In that same year, the *$5 Lucky 7 Flip Multiplier* scratch ticket game was launched and featured a series of smaller break-open windows which exposed the scratch/play areas. The break-open concept has also been applied to a $10 holiday scratch ticket, *Season's Greetings*, both in FY 2018 and 2019. The break-open feature was combined with an oversized ticket design to create added value and gift giving opportunities for players during the holiday seasons.

Embossed Tickets – scratch ticket paper stock can be embossed with almost any design, which adds texture and provides a tactile difference for the players. Design elements such as this make the ticket unique and attractive to many players.

Special Inks and Other Printing Options – multiple unique ink and printing options provide various visual and tactile effects to make the games attractive, including fluorescent inks, pearlescent inks, inks that feel like sand or water and inks that shine like metal or glow in the dark. Foil, holographic paper and holographic treatments on certain areas of the ticket front can help games stand out and break through the crowded retail environment.

Clear Plastic Ticket – scratch tickets are printed on a transparent, recyclable plastic stock with all the security layers offered on regular paper tickets. The tickets are perforated and can be distributed normally via scratch ticket dispensers and through self-service equipment. The clear ticket provides a new look and feel and expands design options for scratch ticket games. The Texas Lottery introduced its first clear plastic ticket in FY 2020. The $5 holiday game, *Merry Money*, was introduced on November 4, 2019. The second clear plastic ticket was also a holiday game—*25 Days Of Winning* was a $5 game that launched on November 1, 2021.

While continuing its focus on keeping administrative expenses in check and staying within budget limitations, the agency will continue to evaluate and utilize these and other added-value features that may increase player enthusiasm and, in turn, produce additional game sales and revenue.

DRAW GAMES

Draw games are limited in the variety of design options that result in truly new game concepts. With a full portfolio of draw game offerings, the Texas Lottery is working with the lottery operator to explore design modifications to existing games, new play types and add-on features while monitoring the industry for new draw game concepts and/or promotions that may appeal to Texas players. Areas of current focus are detailed below and on the next page. As noted earlier in this section, new draw games or enhancements to existing games require significant messaging in order to educate retailers and players about the new product offering. The regular reductions to the agency's lottery games promotion budget have made new draw game introductions extremely challenging as the level of funding required to effectively communicate information to Texans is insufficient. Therefore, while new concepts continue to be monitored, the agency is concentrating on the existing portfolio of games with quarterly focused promotions that include retailer communications and player incentives, such as digital coupons that are available to players on the Texas Lottery mobile app.

Price Point Expansion

Scratch ticket games have benefited greatly from the ability to offer players different value propositions across a wide variety of price points. This has proven to be a far more substantial challenge for the lottery industry for draw games, as multimillion-dollar and even billion-dollar jackpots have been offered for years for $1 or $2. However, growth in the price point offerings for draw games remains critical to the long-term success of this portion of the product portfolio. The Texas Lottery has invested significant time and resources working in this area.

Along with other U.S. lottery jurisdictions, the Texas Lottery participated in the expansion of the popular *Powerball*® game from a $1 to a $2 price point in January of 2012. The Texas Lottery followed up on this effort by introducing the *All or Nothing*™ game at a $2 price point. *All or Nothing* became the second $2 game in the Texas Lottery's draw game portfolio and the first $2 daily game. The successful launch of *All or Nothing* was an important milestone. The unique attributes of *All or Nothing* and its price point positioning resulted in the game being recognized in 2013 by the North American Association of State and Provincial Lotteries (NASPL) as the Best New Draw Game introduced in the industry. The Texas Lottery introduced the third $2 draw game, *Texas Triple Chance*™, in September 2015. However, this game underperformed and was closed in July 2018.

At the beginning of FY 2018, staff implemented the *Mega Millions*® game change that included a price point increase to $2 along with a new game matrix, higher starting jackpots, faster jackpot rolls and better chances at winning the second-tier $1 million prize. During FY 2018, the agency completed player research on a possible price point increase for the *Lotto Texas*® game. The research did not provide conclusive results that would support a price increase at this time. Due to the importance of draw game price point growth, the Texas Lottery remains committed to identifying new games that will resonate with Texas players at varying price points. The Texas Lottery is monitoring the performance of a new draw game called *Cash Pop* that offers wager amounts up to $10, and the proposed *Mega Millions* game change that could increase the price point to $5.

Multijurisdictional Game Portfolio Management

The multijurisdictional organizations that oversee *Powerball* and *Mega Millions* continue to evaluate opportunities to modify these games to ensure that their appeal is optimized with players. As a participant in both games, the Texas Lottery remains interested in actively participating in any future discussions involving changes related to the *Powerball* and/or *Mega Millions* games. Both games are significant contributors to draw game sales and the jackpots they are capable of generating can have a dramatic impact on fiscal year sales and revenue performance. As noted previously, the agency is closely monitoring the changes being considered for the *Mega Millions* game.

Both *Mega Millions* and MUSL have approved a new add-on feature called *Double Play* for jurisdictions to launch when it best works for their portfolio. Launching *Double Play* is not required, and the Texas Lottery will monitor its success in jurisdictions that introduce it to determine if *Double Play* will positively contribute to revenue. The agency did implement the addition of Mondays to the current *Powerball* drawing schedule in late August 2021. This drawing schedule change, with drawings occurring three times per week, was one of the factors in *Powerball* experiencing increased sales in FY 2022.

In other jurisdictions under the MUSL umbrella, there are two *Set for Life*-type draw games. MUSL is discussing combining these games into one. The Texas Lottery has committed to joining the game group related to the combination of the games and will potentially implement the combined game if agency staff find it suitable for Texas.

Add-on and Wager Type Features

Add-on features and additional wager types, such as *Megaplier*®, *Just the Jackpot*®, *Power Play*®, FIREBALL and *Extra!* have been successful in generating incremental sales and revenue, and the Texas Lottery will continue to explore and pursue additional add-on concepts that may offer incremental sales and revenue potential for the draw game portfolio. MUSL has a Game Development Committee focused on the design and development of new multijurisdictional lottery products, including the development of new add-on feature for the *Powerball* game. As noted previously, the Texas Lottery will be considering the *Double Play* add-on feature for *Mega Millions* and *Powerball*. The agency will also consider the addition of *Double Play* to the *Texas Two Step* game to capitalize on any game introduction marketing efforts.

While national initiatives are being considered and developed, the Texas Lottery continues to work closely with the lottery operator to monitor and evaluate new options. The most recent add-on feature introduction in Texas was the *FIREBALL* launch on *Pick 3* and *Daily 4* on April 28, 2019. *FIREBALL* provides players more opportunities to create winning combinations and increase their chances of winning a prize. The feature replaced *Sum It Up!*® and was launched with the catchphrase, "Play with Fire." *FIREBALL* generated over $37 million in sales in its first full fiscal year of sales compared to the $10.9 million sold for *Sum It Up!* during the entire previous fiscal year. In FY 2022, *FIREBALL* generated more than $49 million in sales. *Extra!* is another add-on

success story for the agency. Sales for *Extra!* have increased every year since it was first introduced in 2013, with sales for FY 2022 totaling $49.9 million. The Texas Lottery, in conjunction with the lottery operator, will continue to seek out and research other potential add-on features to determine if they resonate with Texas players.

As noted, while there are features that are interesting and have the potential to increase sales and revenue, it is extremely difficult to generate awareness and interest for new games or add-on features with the current lottery games promotion budget. While some jurisdictions are seeing success with new add-on games, they have advertising and promotions budgets that allow them to utilize mass media communication channels to inform their players about their new products. The Texas Lottery must regularly evaluate if it is better to dedicate time and resources to promote and support the current draw game portfolio as those games have name recognition and familiarity due to their time in market vs. trying to bring new products to market with very limited budget resources.

Game Modification Research

The Texas Lottery worked with the lottery operator and conducted research in FY 2017 to gauge player and retailer interest in potential game modifications for both *Cash Five*® and *Texas Two Step*®. The research results demonstrated potential for game enhancements on *Cash Five*, and a game change was implemented in September 2018. The game change generated sales increases in FY 2019, FY 2020 and FY 2021. Research conducted on the *Texas Two Step* game and the *Lotto Texas* game has not resulted in any action at this time. Both *Texas Two Step* and *Lotto Texas* have a core, loyal player following, and game change decisions must factor in the potential alienation of these players. The Texas Lottery added Mondays to the *Lotto Texas* draw schedule in August 2021, so it mirrored the new *Powerball* draw schedule. This does not change the core play of the game, just the number of drawings per week. Beyond this draw schedule change, the agency believes that it will be a better use of agency resources to monitor *Double Play*, *Cash Pop* and the potential *Set for Life* game while continuing to support the existing draw portfolio in attempt to increase player and retailer awareness and increase existing sales levels. If the decision is made to pursue new games or game features, staff will work with the lottery operator to plan the most beneficial introduction schedule based on competing revenue generating opportunities.

Packaged Draw Game Play (*Lone Star Lineup*®)

Lone Star Lineup is the first draw game value package to launch in Texas. *Lone Star Lineup* allows the agency to promote six of its eight draw games and potentially expand draw game product trial. The lottery has little control of the multijurisdictional jackpot games that are mainly driven by large jackpot rolls and will look to promote increased visibility of in-state draw games with vehicles like *Lone Star Lineup*. The current promotional bundle offers players $6 worth of Quick Picks for $5 and includes *Pick 3*, *Daily 4*, *All or Nothing*, *Cash Five*, *Lotto Texas* and *Texas Two Step*. The *Lone Star Lineup* package is a successful promotional offering at selling events such as the State Fair of Texas. For FY 2024, the agency is working with the lottery operator to launch a "Holiday" *Lone Star Lineup* that will be available during

November and December. The holiday package will include *Mega Millions*, *Powerball*, *Lotto Texas* and *Texas Two Step*. The *Lone Star Lineup* software design allows the flexibility to rotate games in and out of the package based on draw game strategic plans for the fiscal year.

Draw Game Promotions

The scratch ticket portfolio has been successful by utilizing licensed properties and brands that are well-known and have strong customer loyalty. Many of these licensed property games involve second-chance promotional drawings to award experiential prizes. In FY 2017 and FY 2018, the Texas Lottery launched a second-chance promotion, *Power Cruise™*, with Alchemy3. Players entered their *Powerball* tickets to collect symbols and earn entries into drawings for a chance to win an exclusive Royal Caribbean® cruise trip. In FY 2021, the Texas Lottery participated in a MUSL promotion, *Powerball First Millionaire of the Year®*. This promotion allowed participating jurisdictions to select semifinalists that were entered into a MUSL drawing for a chance to win a $1 million prize on New Year's Eve. The Texas Lottery utilized a Facebook promotion to choose the 50 Texas semifinalists. Promotions like these allow draw games to leverage well-known brands in the same way that scratch tickets have, and the agency is always interested in new promotional opportunities.

In-Lane Product Sales/QUICKTICKET™ and Receipt Ticket

It is critical that lottery products are conveniently available where a broad diversity of consumers shop. The Texas Lottery has been working with the lottery operator, NASPL and various private companies to implement in-lane sales that will facilitate convenient lottery product purchases while customers are in the checkout lane. During FY 2019, the agency made in-lane sales its top priority with the goal of an FY 2020 implementation. The two new delivery options include QUICKTICKET, a gift card type ticket that contains pre-printed Quick Pick numbers under a scratch surface and Receipt Ticket, a lottery draw game ticket printed on the retailer's plain receipt paper instead of Texas Lottery roll stock. Like a gift card, QUICKTICKET has no value until purchased and activated where the QUICKTICKET was sold. Customers receive a cash register receipt confirming activation. QUICKTICKET and Receipt Ticket offer the United States' most popular lottery draw games, *Powerball* and *Mega Millions*. QUICKTICKET, available at $4 and $10 price points, launched at Dollar General® stores and Receipt Ticket launched at H-E-B. Both programs rolled out in early FY 2020. Just like other lottery tickets, both QUICKTICKET and Receipt Ticket contain a barcode to scan on any Texas Lottery terminal for validation purposes. Since the rollout, work has continued with all relevant parties to expand the footprint for in-lane sales. Kroger launched QUICKTICKET in October 2021 and Albertsons and Randalls launched QUICKTICKET in June 2022. The agency will continue its work with various vendors in FY 2023 and FY 2024 to develop additional in-lane sales opportunities via the QUICKTICKET and Receipt Ticket platforms.

Texas Lottery® App

With a focus on player convenience, the Texas Lottery spent a large amount of time and effort in FY 2016 working toward the introduction of a mobile app in FY 2017. The app allows users to scan and check tickets for winning status, create and save their favorite numbers so that a Texas Lottery retailer can scan the QR code and print a draw game ticket for purchase, view current jackpot amounts and winning numbers, scan tickets to enter promotional second-chance drawings, and locate the nearest lottery retailer. This initiative illustrates the agency's commitment to convenience but also to security and integrity as players can use the app to see if their tickets are winners. On August 1, 2020, the agency launched the first digital coupon exclusive to the app. Players redeem the coupon by creating a QR code on their phone and scanning it at a Texas Lottery retailer terminal and/or a Texas Lottery self-service vending machine. The first digital coupon offered players $6 worth of *Texas Two Step* Quick Pick tickets for $5. Utilizing the app in this manner encourages app downloads and app usage, saves print budget expenditures for the agency, rewards existing players and promotes product trial. It also provides great flexibility and time savings for staff as coupons and promotions can be quickly developed to support a quarterly draw game focus or a new product launch to drive product awareness and sales. Four different digital coupons were offered during FY 2022 to support *Lotto Texas*, *Cash Five*, *Powerball* and *Texas Two Step*. Digital coupons will continue to be used to support the draw game portfolio in FY 2023 and FY 2024. The agency will update the app platform in FY 2023 to incorporate new technologies and offer many new features to improve the user experience, especially the addition of mobile validations that will allow players to claim prizes from $600 – $5,000 without having to go to a Texas Lottery claim center.

The agency places a significant emphasis on player education and clear communication about its products. The agency works to achieve transparency across all operations, emphasizing security and integrity and working to maintain the public's trust and confidence in the operation of all lottery games. These efforts, combined with the agency's approach to strategically planning the game portfolio and product mix, optimizes the agency's sales and revenue generation ability. This rigorous process focused on continually improving Texas Lottery products allows the agency to consistently deliver entertaining lottery products for lottery players.

While the agency has achieved substantial growth in scratch ticket game sales, the draw game portion of the portfolio presents a more significant challenge to sales growth and expansion over time. The initiatives detailed above have and will contribute to the agency's efforts to maintain sales levels for the draw game portfolio. Promoting new player product trials and keeping the category fresh and new for existing players remain critical to achieving the agency's mission.

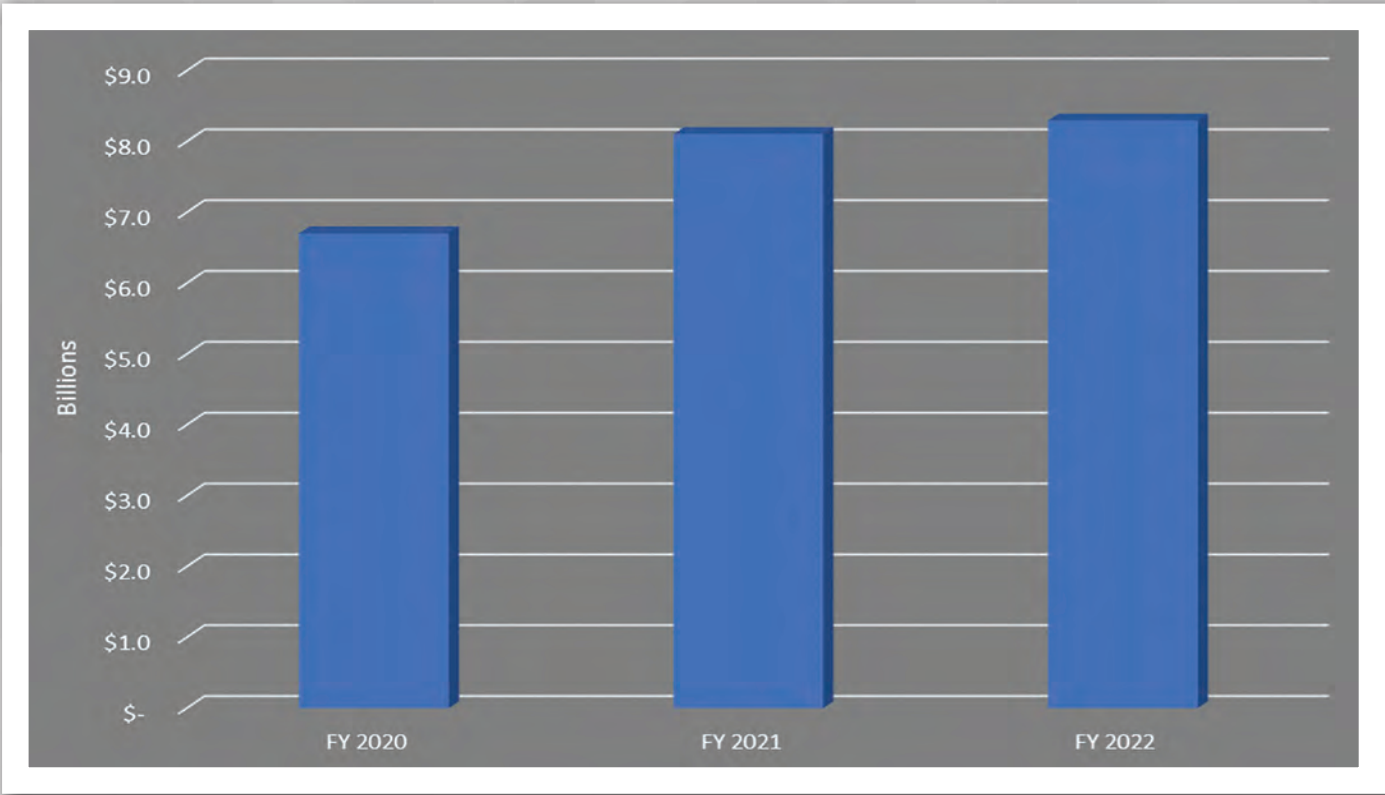# GROSS SALES AND NET REVENUE

Background

The goal of the Texas Lottery's efforts to increase Gross Sales and Net Revenue are directly consistent with its mission to generate revenue for the State of Texas through the responsible management and sale of entertaining lottery products. To achieve this mission, the Texas Lottery incorporates the highest standards of security and integrity, sets and achieves challenging goals, provides quality customer service and utilizes a TEAM approach.

GROSS SALES

An increase in gross sales alone does not ensure net revenue growth. However, in an environment of fiscal accountability, gross sales are tied to net revenue as a critical driver in generating incremental monies for public education, veterans' services and other worthy state causes.

Since FY 2009, the Texas Lottery has experienced significant sales growth. Several different strategic sales initiatives contributed to this achievement, including innovations to the scratch ticket portfolio, an enhanced focus on retail distribution channel expansion, implementation of a performance-based retailer cash incentive program, and continued product innovation, including new in-state and national draw game modifications and introductions. The graph below illustrates the growth in sales over the three most recent full fiscal years.
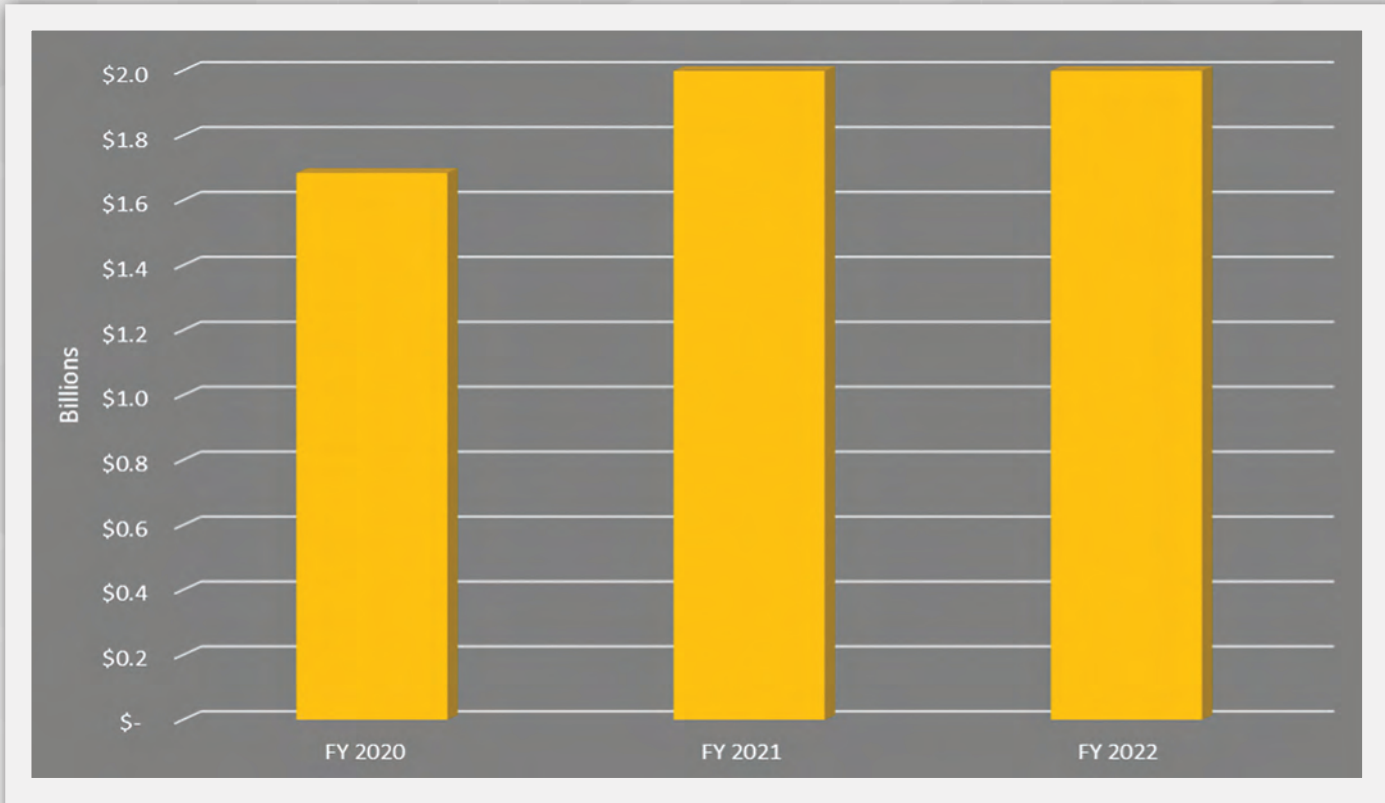
Total Sales

NET REVENUE

The Texas Lottery's primary goal is to generate net revenue for the state. Every agency program, goal and initiative is designed directly or indirectly with net revenue in mind. The agency also has a significant regulatory responsibility to protect the interests of the citizens of Texas. The agency is committed to providing products that are fun and entertaining while ensuring all games are delivered in a safe and secure manner and that the integrity of the games is above reproach. The agency must invest in the systems, equipment and personnel necessary to ensure public trust in the *Games of Texas*. While investing in these important areas of the agency regulatory and operational responsibilities, the agency places a significant emphasis on administrative efficiency.

The agency's continued focus on fiscally responsible operations help convert the benefits of gross sales increases to net revenue contributions. These efforts during FY 2022 resulted in the highest revenue year with total transfers to the state of $1.998 billion, marking the 19th consecutive year the Texas Lottery has generated more than $1 billion in contributions to the State of Texas. In FY 2022, $1.97 billion went to the Foundation School Fund and $26 million was transferred to the Fund for Veterans' Assistance, administered by the Texas Veterans Commission. The graph below illustrates the revenue over the three most recent full fiscal years.

Total Transfers to State

Challenges and Opportunities

GROSS SALES

While proud of the agency's sales results over the last several years, the agency recognizes these sales levels will be challenging to sustain. The Texas Lottery faces competition from other gaming activities, both legal and illegal, in Texas and in surrounding states. The Texas Lottery is also a mature lottery offering a full suite of scratch ticket games with price points ranging from $1 to $100 along with eight different draw games, including a wide selection of daily draw games and in-state and multijurisdictional jackpot games. There are limited traditional lottery game concepts available that Texas does not currently offer, creating a lack of opportunity for truly new product offerings. During FY 2022, the Texas Lottery was

able to set an all-time sales record of over $8.29 billion. Scratch ticket sales for FY 2022 totaled $6.73 billion, a new Texas Lottery scratch ticket sales record, accounting for 81.1% of total sales. In addition, a strong performance from the draw games led to a record $1.57 billion in draw games sales for the Texas Lottery—a $79.4 million increase over FY 2021.

This sales success was two-fold. Reasons for the record sales include but are not limited to the following: new, innovative scratch ticket designs; the introduction of the first $100 scratch ticket game; growth of higher price points in the scratch portfolio; solid performance from core games, most notably the Loteria-themed games; record draw sales; and a large $1.28 billion advertised *Mega Millions* jackpot in July 2022. In recent legislative sessions the agency's biennial budget to promote lottery games has been significantly reduced. The 87th Legislature reduced the agency's annual fiscal year advertising budget from $17.7 to $10 million each year. These significant budget reductions have had a dramatic impact on how the agency promotes the Texas Lottery. The agency believes that maintaining appropriate business and marketing tools, including an effective lottery games promotion budget, scratch ticket budget, and retailer bonus and incentive budgets, are the key to the Texas Lottery's ongoing success. This approach provides the best opportunity for the Texas Lottery to introduce new products, promote existing products and retain and recruit retailers, resulting in increased revenue for our beneficiaries.

Decisions by the 88th Legislature and Governor granted a $17.4 million increase to the agency's scratch ticket print budget in FY 2025. Scratch ticket sales have realized continual year-over-year increases since FY 2011 and scratch ticket games continue to be a growing product category in Texas making up over 80% of total lottery sales. In addition, the agency will realize a significant increase in costs of approximately 40% for scratch ticket printing as result of new contract rates beginning FY 2025.

NET REVENUE

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

Further opportunities to enhance administrative efficiency will be limited. As a mature 30-year-old organization, the Texas Lottery has had the opportunity to extensively evaluate all aspects of its operations to identify and implement internal administrative efficiencies. The agency has had tremendous success in negotiating favorable pricing and services with its vendors. Although the agency has strenuously emphasized fiscal accountability, limited opportunities exist in the near term for significant cost reductions that might yield further administrative efficiencies.

Key Initiatives and Goals

The Texas Lottery establishes key strategic initiatives and goals that emphasize Gross Sales and Net Revenue expansion and continue the agency's commitment to efficient, responsible operations.

GROSS SALES

Texas Lottery gross sales have benefited from the agency's continued focus on key initiatives and goals that have been implemented in recent years, including changes to the lottery operator contract, launching and continuing to enhance the Retailer Cash Incentive Program, and the implementation of several product initiatives that have helped to fill out and supplement the product portfolio. It should be noted that the most significant sales benefits of these initiatives have already been achieved.

There are a number of controllable and uncontrollable variables that impact lottery sales. Examples of variables outside the agency's control include general economic conditions in the state, budget reductions, competition from other forms of gaming, weather conditions and the level of jackpots on certain draw product offerings (jackpot "rolls"). The agency is focused on goals tied to agency performance, with an emphasis on controllable variables that influence the outcome of these goals.

These include the following goals, which are detailed earlier in the Business Plan along with planned Action Items:

- *Retailer Distribution Channel Development* – The number and quality of lottery retail locations.
- *Retailer Cash Incentive Program* – Same-store sales growth.
- *Lottery Game Promotion Expenditures and Efficiency* – Amount and effectiveness of advertising.
- *Product Mix and Game Portfolio Management* – Lottery product mix, game design (product diversity, game odds and payout design) and product differentiation.
- *In-Lane Scratch Ticket Sales* – Dispensers to sell scratch tickets at retailer check-out lanes.

At the time of this writing, the agency anticipates FY 2023 sales will exceed the record-breaking FY 2022 levels. The primary reason the agency anticipates another record-breaking year is the number of rolling jackpots on the multijurisdictional draw games *Powerball*® and *Mega Millions*® and the in-state draw game *Lotto Texas*®. Thus far in FY 2023, *Powerball* reached an advertised $1.9 billion jackpot and an advertised $747 million jackpot. *Mega Millions* reached an advertised $1.35 billion jackpot. In addition, *Lotto Texas* has reached an advertised $95 million jackpot, the largest in more than 12 years. The agency believes these jackpot encourage new, casual and peripheral players to purchase tickets for these draw games and other Texas Lottery products. National media coverage for the *Powerball* and *Mega Millions* jackpots also drive product awareness in Texas. Scratch sales also continue to be strong in FY 2023 and will likely set another scratch ticket sales record. The agency's sales projections for FY 2023 and FY 2024 are detailed in the table below.

Sales Projection Table

	SALES ACTUAL FY 2022 (IN MILLIONS)	SALES PROJECTION FY 2023 (IN MILLIONS)	SALES GOAL FY 2024 (IN MILLIONS)
Scratch Ticket Product	$6,727.30	$6,776.65	$6,460.62
Draw Game Product	$1,569.59	$1,751.13	$1,373.05
Total Sales	$8,296.89	$8,527.78	$7,833.67

NET REVENUE

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

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

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

The agency has a keen focus on its day-to-day administrative expenses, and this focus continues to yield efficiencies over time. However, as noted previously, limited opportunities exist in the near term for significant cost reductions that might yield further administrative efficiencies. The agency will continue its commitment to determining new ways to achieve greater efficiency in its operations for the benefit of the state.

The agency is confident in its ability to continue to generate significant revenue for the Foundation School Fund, the Fund for Veterans' Assistance and other state programs. The agency expects net revenue contributions to the state in FY 2023 to increase as compared to FY 2022. Projected revenue is detailed in the chart below.

Revenue Projection Table

	REVENUE ACTUAL FY 2022 (IN MILLIONS)	REVENUE PROJECTION FY 2023 (IN MILLIONS)	REVENUE GOAL FY 2024 (IN MILLIONS)
Total Revenue	$1,998.42	$2,071.26	$1,872.51

TEXAS LOTTERY COMMISSION