



Comprehensive

Business Plan

Fiscal Years 2005 – 2007

COMPREHENSIVE BUSINESS PLAN

Fiscal Years 2005 – 2007

By

Texas Lottery Commission

TEXAS LOTTERY COMMISSION

Comprehensive Business Plan

Fiscal Years 2005 – 2007

FOREWORD

This document, the Texas Lottery Commission Comprehensive Business Plan for fiscal years 2005 – 2007, was prepared by the management of the agency, inclusive of all divisions within the agency including, but not limited to, the Lottery Operations Division and the Charitable Bingo Operations Division. This report has been prepared as a result of and in accordance with recommendations contained in the Sunset Advisory Commission Staff Report issued in August 2002 and restated in the Sunset Advisory Commission Staff Report issued in April 2004 (detailed below).

3.2 Require the agency to develop a comprehensive business plan.

The Lottery Commission's major initiatives should be guided by a comprehensive business plan to ensure their cost effectiveness. The business plan should include a specific description of each program, key management information, accurate financial data, and a detailed financial management plan. The Commission should review the business plan at least annually to assess the overall performance and value of each project. Projects that fail to meet financial objectives should be adjusted or terminated. This recommendation will build on recent efforts by the agency and ensure that business planning continues in the future.

Throughout this document, the term "Texas Lottery Commission" (TLC) is used in reference to the entire agency. The terms "Lottery" and "Charitable Bingo" refer to the two very different and distinct functions of the agency and are mainly used where an element of this plan is only relevant to one function or the other. There are significant differences between Lottery and Charitable Bingo operations. Most importantly, the Lottery is charged with generating revenue for the State of Texas while regulating those locations licensed to sell the Games of Texas, whereas Charitable Bingo is charged with licensing and regulating an industry that generates revenues for nonprofit organizations in Texas. This is an important distinction that statutorily limits Charitable Bingo from adopting strategies and action plans that would promote consumer participation in bingo playing.

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TEXAS LOTTERY COMMISSION

Comprehensive Business Plan

Fiscal Years 2005 – 2007

I. EXECUTIVE SUMMARY

One billion dollars. For a decade, the State of Texas has offered to its citizens fun, convenient, secure and legal gaming choices through the Texas Lottery while generating average annual contributions nearing one billion dollars to the Foundation School Fund. In an era where the subject of financing public education is a key issue for the citizens of Texas, one billion dollars can have a profound impact.

22.8 million.¹ This was the attendance at licensed charitable bingo events in 2003, more than 2.5 times the combined attendance of Texas' major league baseball, football, basketball and hockey teams.² While enjoying the excitement and social aspects of the games, Texans contributed \$29.7 million to Texas charities and \$15.1 million to the State's General Revenue Fund.³ In North America, only Ontario and Indiana enjoy the benefits of a larger charitable bingo industry than Texas.⁴

The Texas Lottery Commission (TLC), as a state agency, strives to be a careful steward of the resources it is provided to carry out its mission. While Charitable Bingo Operations is appropriated like most other state agencies, the TLC must produce its own operating resources and deliver the expected annual revenue to the State. Combining the performance expectations of a for-profit business with the fiscal accountability of a government agency presents unique challenges for agency management. Add to the mix the dynamics of a gaming and entertainment industry with aggressive for-profit competition, prevalent illegal substitutes, emerging technological advances and a public constituency that is generally unaware of the true beneficiaries of its operations, and one can begin to appreciate the difficult environment within which the TLC must operate to deliver the expected profits for the Foundation School Fund and the expected services for Texas charities.

These unique challenges underscore the need for the TLC to venture beyond the State's standard strategic planning process and develop a Comprehensive Business Plan with a three-year horizon. This written plan represents the tangible expression of process that involved the TLC's management team and a team of consultants led by Dr. Gary M. Cadenhead, a senior lecturer at the Red McCombs School of Business at The University of Texas at Austin. It is designed to complement, not replicate or replace, other planning documents produced by TLC's management.

¹ TLC Agency Strategic Plan: For Fiscal Years 2005 – 2009 Period, p. 39.

² Accordance to attendance figures published on <http://sports.espn.go.com>, the combined attendance for Texas' eight major professional sports teams was 8.5 million in the 2003 and/or 2003 – 04 seasons.

³ TLC Agency Strategic Plan: For Fiscal Years 2005 – 2009 Period, p. 38.

⁴ *Ibid.*, p. 36.

The development process for the business plan began with an overview of the TLC’s history, organizational structure, mission, vision and core values, followed by a high-level market analysis and financial review. A “fresh look” yielded the perspective that virtually all key operating activities within the TLC can be categorized within five areas:

1. **Compliance** – activities that ensure that agency rules and laws established by the Legislature are followed;
2. **Trust** – activities that safeguard the integrity of the games and ensure proper stewardship of resources;
3. **Contributions and Charitable Proceeds** – activities that maximize the financial benefits to the Foundation School Fund and Texas charities that operate bingo games as fundraisers;
4. **Communications** – activities that share information and promote understanding about the TLC’s purpose, operating activities and use of resources; and
5. **People** – activities that enable the TLC to attract, retain, motivate and develop the quality human capital upon which the State depends.

With the framework established, the TLC’s management developed and articulated four objectives, eight strategies and 23 action plans that will guide its resource allocation decisions and help it achieve a “preferred future” by 2007. The TLC will dedicate resources toward the goals established in the objectives, strategies and action plans developed during the business planning process. The TLC will benchmark its performance by evaluating the success of individual action plans in meeting stated objectives in the next three years.

| Objective #1 – Maintain a strong culture and image of compliance and trust. | |
|--|---|
| <p>Strategy #1 – Implement policies and processes that identify and mitigate risk to the TLC.</p> | <p>Action Plan #1 – Develop business continuity planning for potential business-disrupting events. Action Plan #2 – Implement an internal vendor monitoring program to identify potential financial or reputation risks for business disruption. Action Plan #3 – Assess cost/benefit of voluntarily adopting private-sector corporate governance best practices. Action Plan #4 – Develop an independent process for reviewing and reporting accusations of inappropriate activity.</p> |
| <p>Strategy #2 – Implement a “transparent operations” strategy.</p> | <p>Action Plan #5 – Promote a “where the money goes” public awareness campaign. Action Plan #6 – Develop a Bingo Annual Report that shares operational information and data on Bingo’s impact on state charities.</p> |

Objective #2 – Grow contributions to Texas’ Foundation School Fund.

| | |
|--|--|
| <p>Strategy #3 – Develop and enhance new and existing products and technologies.</p> | <p>Action Plan #7 – Study demographics, identify growth markets and develop new products that appeal to them. Action Plan #8 – Develop an “R&D Pipeline” analysis to align organization around new gaming innovations and technologies. Action Plan #9 – Evaluate utilizing informative marketing techniques and studying multiple message-delivery media formats to more effectively share knowledge about the TLC and its games with playing and non-playing Texans. Action Plan #10 – Develop a business plan for a virtual “Lottery Store” that would sell Lottery-branded gifts and apparel.</p> |
| <p>Strategy #4 – Develop and enhance new and existing channels for marketing and delivering TLC products and growing contributions.</p> | <p>Action Plan #11 – Consider utilizing cross-promotional opportunities with quality brands and large retailers. Action Plan #12 – Utilize the deployment of emerging lottery product technologies to foster expansion strategies in new distribution channels. Action Plan #13 – Enhance retailer licensee recruitment efforts. Action Plan #14 – Enhance and expand communications processes with licensees.</p> |
| <p>Strategy #5 – Implement processes to enhance the efficiency of operations (including new uses of technology).</p> | <p>Action Plan #15 – Study enterprise-process impact of new technology investments, including staffing impact. Action Plan #16 – Develop a Contract Procedures Guide containing contract “best practices,” “lease vs. buy” analyses for capital purchases, etc. Action Plan #17 – Revisit the structure of long-term contracts to assess and identify opportunities to enhance current services, reduce costs and/or better align financial interests of vendors with the TLC. Action Plan #18 – Implement “paperless” (e-records management) initiatives.</p> |

Objective #3 – Plan responses to emerging environment.

| | |
|---|--|
| <p>Strategy #6 - Improve in-house capabilities to identify and assess emerging opportunities and threats to the TLC.</p> | <p>Action Plan #19 – Develop a Resource Center to assess emerging opportunities and threats and accumulate research on gaming trends and technologies that may aid the TLC’s management and State policymakers in evaluating the future of gaming in Texas.</p> |
|---|--|

Objective #4 – Improve the quality, skill and satisfaction of TLC staff.

| | |
|--|---|
| <p>Strategy #7 – Increase the efficiency and effectiveness of the TLC through better intra-organizational communications.</p> | <p>Action Plan #20 – Develop an Intranet for sharing internal knowledge and resources. Action Plan #21 – Implement process for encouraging, reviewing and rewarding employee-developed innovations. Action Plan #22 – Continually reassess the effectiveness of the TLC’s organizational structure, outsourcing support functions where appropriate.</p> |
| <p>Strategy #8 – Enhance professional development initiatives within the TLC.</p> | <p>Action Plan #23 – Develop a mentoring program within the TLC.</p> |

II. OVERVIEW OF THE TEXAS LOTTERY COMMISSION

The Texas Lottery Commission (TLC) has two main functions:

The TLC, under the authority granted the agency by the State Lottery Act, administers the Texas Lottery games in an efficient and secure manner using appropriate marketing tools and innovative technology to generate revenue for the State of Texas while enhancing public confidence in the integrity and fairness of the games.

The **Charitable Bingo Operations Division** is charged under the Bingo Enabling Act with the regulation and administration of all charitable bingo-related activities in the State of Texas, and contributes to the regulatory and tax and revenue collection functions of the agency. The Division licenses all bingo-related activities, collects taxes and prize fees generated from the conduct of charitable bingo, audits bingo licensees, conducts tests on bingo products intended for use in Texas, such as bingo paper, pull-tabs and electronic equipment, and makes quarterly allocations to local units of government for their share of the prize fees collected.⁵

Article III, Section 47, of the Texas Constitution, Chapter 467, Government Code, the State Lottery Act and the Bingo Enabling Act are the operative laws for the TLC. These laws set out the primary duties and powers of the TLC, which are to administer and appropriately market the Texas Lottery and to regulate charitable bingo in Texas.

1. History⁶

In November 1980, Texas voters approved a constitutional amendment authorizing charitable bingo on a local option basis. The amendment required all bingo proceeds be spent in Texas for charitable purposes. The first bingo licenses were issued in the spring of 1982.

In November 1991, Texas voters approved a constitutional amendment authorizing a state lottery. The Texas Lottery began generating revenue for the State of Texas in 1992 as a division within the Comptroller of Public Accounts.

The TLC was formed as an independent agency on September 1, 1993. Regulatory authority for charitable bingo was transferred to the Texas Lottery Commission effective April 1, 1994. The Texas State Legislature decided that profits from the Lottery would be dedicated specifically for education in the State of Texas after September 1997.

⁵ TLC Agency Strategic Plan: For Fiscal Years 2005 – 2009, p. 6.

⁶ *Ibid.*, pp. 2, 50.

2. Management and Organizational Structure

The three-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by law. The Governor appoints Commission members, with the advice and consent of the Senate, to staggered six-year terms. One member must have experience in the bingo industry.⁷

The Executive Director, the Charitable Bingo Operations Director, and the Internal Audit Director report to the three-member Commission.

- The **Executive Director** is the focal point for decision-making and strategic planning for the administration of the agency. The Executive Director is also the primary source of information to the Texas Legislature, Governor's Office, and other state governmental entities for agency- and Lottery-related issues.
- The **Charitable Bingo Operations Director** is responsible for the day-to-day operations relating to the regulation of charitable bingo, ensuring that the staff carries out applicable state law and TLC policies. The Charitable Bingo Operations Director is also the primary source of information to the Texas Legislature, Governor's Office, and other state governmental entities for charitable bingo-related issues.
- The **Internal Audit Director** serves as the in-house independent appraisal function, assisting management and the three-member Commission in the effective discharge of their responsibilities. To this end, the Internal Audit Director is responsible for providing analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed to improve the effectiveness of risk management, control, and governance processes.

The agency is divided into 12 divisions: Executive, Charitable Bingo Operations, Internal Audit, Lottery Operations, Security, Information Technology, Financial Administration, Marketing, Legal, Human Resources, Media Relations and Governmental Affairs. Except for the Charitable Bingo Operations and Internal Audit directors, who report directly to the Commissioners, each division director reports to the Deputy Executive Director, who reports to the Executive Director.

FTE Analysis by Division

As of May 2004, the TLC had 325 full-time equivalent (FTE) positions allocated to 12 divisions:

| TLC Division | FTEs | % |
|-----------------------------|--------------|--------------|
| Executive | 4.0 | 1.2 |
| Charitable Bingo Operations | 47.5 | 14.6 |
| Internal Audit | 4.0 | 1.2 |
| Lottery Operations | 107.5 | 33.1 |
| Security | 45.0 | 13.8 |
| Information Technology | 33.0 | 10.2 |
| Financial Administration | 27.0 | 8.3 |
| Marketing | 24.0 | 7.4 |
| Legal | 12.0 | 3.7 |
| Human Resources | 10.0 | 3.1 |
| Media Relations | 7.0 | 2.2 |
| Governmental Affairs | 4.0 | 1.2 |
| Totals | 325.0 | 100.0 |

⁷ Ibid., p. 12–13.

3. Vision, Mission and Core Values

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

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

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

Core Values

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

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

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

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

III. MARKET ANALYSIS

1. General Environment

State lotteries have progressed from nonexistent to pervasive in just 40 years since New Hampshire became the first state to enact a state-run lottery in 1964. Texas became the 35th state to legalize lottery operations in 1992.⁸ Today, nearly 40 states conduct lotteries. Charitable bingo and/or other charitable gaming activities are legal in 46 states and the District of Columbia.⁹

Charitable bingo and Lottery products compete in a mature yet dynamic market for the discretionary entertainment dollars of primarily Texans over 18 years of age. In order to maximize its contributions to the Foundation School Fund, the Lottery must understand its market environment, population and competition and tailor its business strategies appropriately. Charitable Bingo supports the efforts of charitable organizations to raise funds for their charitable purposes and ensure the integrity of the industry. Additionally, taxes collected from the conduct of charitable bingo are remitted to the State's General Revenue Fund. The TLC strives to provide the citizens of Texas with the best entertainment experience available through its products. Periodically, changes are recommended to keep the games innovative and exciting for Texas players.

New and potential technologies, game innovations and legislative changes present a dynamic environment for the TLC and its industry in fiscal years 2005 – 07. The Lottery responded to legislative authorization to engage in multi-jurisdictional gaming by agreeing to join the *Mega Millions* game, which was launched in Texas in late 2003. *Mega Millions* is representative of opportunities that the TLC may be tasked to manage for the benefit of the people of Texas. The Charitable Bingo Operations Division expects that a new legislative change doubling the number of temporary bingo games that may be conducted by bingo operators will have a positive impact on bingo attendance and yield incremental value to the charities for which they operate.¹⁰ Additional trends occurring in the gaming industry include Internet gaming, video lottery terminals, Keno and linked bingo games.

⁸ <http://www.library.ca.gov/CRB/97/03/Chapt3.html>

⁹ <http://www.irs.gov/pub/irs-tege/eotopicd96.pdf>

¹⁰ TLC Agency Strategic Plan: For Fiscal Years 2005 – 2009, p. 56.

2. Markets and Demographics¹¹

The Lottery and charitable bingo market population includes primarily Texans at least 18 years of age. Previous market studies for Lottery games show a diverse playing public that is generally representative of the State's population.¹² Ethnic, gender, education and household income demographics fail to identify dominant characteristics that would influence the TLC's marketing strategy.

Charitable bingo players tend to be Caucasian, married, female and over 65 years of age with a high school education and annual incomes of less than \$25,000. This dominant demographic highlights the cultural and social aspects of the games that align with older Texans. Attendance at licensed bingo games was approximately 22.8 million in 2003.¹³

The following table presents highlights from the TLC's most recent demographic studies:

| Demographic | Lottery | Charitable Bingo |
|------------------|---|--|
| Household Income | Texans most likely to play have annual incomes greater than \$50,000; those least likely to play have incomes less than \$20,000. | Texans most likely to play have incomes of \$10,000 to \$24,999; those with incomes greater than \$60,000 play more frequently (3 times per week). |
| Education | Adults with some college education and college degrees represent 67% of player population; Texans with less than a high school education are the least likely to play (8%). | Adults with a high school education (40%) are the most common, followed by those with some college experience (23%). College graduates are least likely to play. |
| Age | More than 45% of player base falls within 36 to 55 years old; seniors (65+) and young adults (18-25) are the least likely to participate, with 11% each. | Seniors (65+) are the most common; those under age 35 are least likely to play. |
| Gender | Slightly skewed towards females. | 83% are female. |
| Ethnicity | Relatively proportionate to State's population. | 16% are African American, compared to less than 10% for Lottery. |

¹¹ TLC Agency Strategic Plan: For Fiscal Years 2005 – 2009, p. 56–61.

¹² Texas Lottery Marketing Plan Fiscal Year 2003: Five Year Plan 2003 – 2007, p. 3–5.

¹³ TLC Agency Strategic Plan: For Fiscal Years 2005 – 2009, p. 58.

3. Products

The TLC offers two categories of game styles to its players: (1) Instant products (Scratch Offs) consist of games that allow players to purchase tickets with a variety of themes, play-styles and price points. Instant games offer players the immediate gratification of winning a prize; (2) “On-line” products are those games in which tickets are generated from a terminal connected to a central system, and a drawing is held to determine a set of winning numbers. There are currently five on-line games offered.

Instant Games – Instant games are played by scratching off a latex covering on each ticket to see if a prize has been won. A variety of themes, play styles and prize structures are available in a constantly revolving lineup of approximately 100 games. Players enjoy multiple chances and multiple ways to win on each ticket. The fiscal year 2005 sales goal for instant games is \$2.6 billion.

Lotto Texas[®] – A twice-weekly on-line game that features a 5-of-44 plus 1-of-44 bonus-ball-style matrix in which players select five numbers between 1 and 44 plus the bonus ball number for a chance to win a multi-million dollar jackpot prize. When no ticket matches all six numbers drawn, the jackpot increases for the following draw. There are eight prize categories, and the odds of winning any prize are 1 in 57. The highest prize tiers are pari-mutuel, meaning that the prize pool is divided equally among all the winners in the respective prize level. The fiscal year 2005 sales goal for *Lotto Texas* is \$440 million.

Texas Two Step[®] – A twice-weekly on-line 4-of-35 plus 1-of-35 bonus ball game. Players select four numbers plus a bonus ball number for a chance to win a jackpot prize. Jackpots start at \$200,000 and there are seven different ways to win. The fiscal year 2005 sales goal for *Texas Two Step* is \$40 million.

Pick 3[™] – A twice-daily on-line game (12 drawings a week) with a top prize of \$500 on a \$1 wager. The fiscal year 2005 sales goal for *Pick 3* is \$290 million.

Cash Five[™] – A daily on-line game with a 5-of-37 lotto-style matrix. All prizes are pari-mutuel (except for matching 2 of 5, which pays a guaranteed \$2). If no ticket matches all five numbers drawn, the prize pool for the top 5-of-5 prize is allocated or rolls down to the 4-of-5 prize (i.e., does not carry forward). The fiscal year 2005 sales goal for *Cash Five* is \$100 million.

Mega Millions[™] – A twice-weekly multistate on-line game that features a 5-of-52 plus 1-of-52 bonus-ball-style matrix in which players select five numbers between 1 and 52 plus the bonus ball number for a chance to win a multi-million-dollar jackpot prize. The jackpot prize starts at \$10 million. When no ticket matches all six numbers drawn, the jackpot increases for the following draw. Eleven states participate and share operating costs, creating greater opportunities for giant jackpots. The fiscal year 2005 sales goal for *Mega Millions* is \$225 million. The Megaplier[™] feature of the *Mega Millions* game allows players the opportunity to wager an extra \$1 per playboard for a chance to increase their non-grand/jackpot prize winnings by 2, 3 or 4 times depending upon the Megaplier number drawn. The fiscal year 2005 sales goal for Megaplier is \$55 million.

The Marketing Division works with the Lottery Operator (GTECH) and instant ticket vendors to continuously analyze the product mix and game rules for its on-line and instant games. In particular, instant games are turned over quickly to optimize retailer inventory management. Approximately 100 instant games are introduced each year with an average sell-through of 12 weeks.

4. Competition

As a state agency operated for the benefit of the people of Texas, the TLC does not face direct competition for on-line or instant games within its jurisdictional boundaries. However, there are few limits to the competition for consumer entertainment dollars. Lottery and charitable bingo products are not required purchases for consumers. When they choose to play, the primary motivation is entertainment; however, there are numerous entertainment substitutes available, including a growing number of gaming alternatives.

Legal Gaming Alternatives – Horse racing and casinos are the primary legal alternatives for Texans over the age of 18. Racing is a mature industry that has felt aggressive competition from casinos and race-tracks equipped with video lottery terminals (VLTs) in neighboring states such as Oklahoma, New Mexico and Louisiana.¹⁴

Illegal Gaming Alternatives – The greatest direct competition to the TLC’s Lottery games may come from the proliferation of illegal gambling devices as defined by Chapter 47, Texas Penal Code.

Non-jurisdictional Gaming Alternatives – The Internet poses similar challenges to the Lottery’s business model. Web sites and e-commerce applications enable consumers to play games over the Internet that are operated and administered by primarily non-U.S. companies. Additionally, certain neighboring jurisdictions permit high-stakes bingo games that may draw customers away from charitable games operated in Texas. The TLC’s greatest competitive advantage over competing or alternative gaming venues is trust—there are many unscrupulous operators in the gaming world, particularly in the area of Internet gaming.

IV. FINANCIAL OVERVIEW

Communicating historical financial information so that interested parties are provided with a meaningful overview of the business is a significant challenge for any organization the size of the TLC. An organization with a unique blend of State oversight coupled with an entrepreneurial mission provides unique financial reporting challenges. For the purpose of business planning, it is important for the TLC to manage the cost centers that drive performance while complying with statutory reporting requirements and managing its business with division-level accountability.

1. Management View – Lottery Operations

As a State entity, the Lottery is accountable for all expenditures in order to ensure taxpayers that the contributions to the Foundation School Fund are maximized. A management view of the agency’s budgetary framework allows the agency to monitor and supervise divisional budgetary responsibilities. The Lottery currently operates in fiscal year 2004 with an annual budget of approximately \$167 million as determined by the Legislature. From an operating budget perspective, these funds have been allocated to the divisions as shown in the following table.

¹⁴ http://txrc6.txrc.state.tx.us/new_agency/publications/stratplan/sp2003.htm

| Division | Budget (000s) | % of Total |
|--|-------------------|--------------|
| Lottery Operations | \$ 107,556 | 64.4 |
| Marketing/Advertising | 40,998 | 24.5 |
| Security | 5,746 | 3.4 |
| Information Technology | 5,342 | 3.2 |
| Financial Administration | 1,326 | 0.8 |
| Legal | 1,248 | 0.7 |
| Executive Administration | 2,732 | 1.6 |
| Media Relations | 557 | 0.3 |
| Human Resources | 539 | 0.3 |
| Governmental Affairs | 274 | 0.2 |
| Internal Audit | 245 | 0.2 |
| Mandatory Appropriations Reductions | 586 | 0.4 |
| Total Appropriations | \$ 167,149 | 100.0 |

2. Transparent View – Lottery Operations

The basic management view fails to communicate on the surface the important fact that more than three-quarters of Lottery appropriations are committed to third parties via outsourced contractual arrangements or fixed retailer bonuses. The \$107.5 million Lottery Operations budget includes \$74.4 million to the Lottery Operator, GTECH, \$15.7 million for instant ticket production fees and \$5.9 million for bonuses paid to retailers that sell certain winning tickets. Although the Lottery Operations Division has some limited impact on these costs, the majority are contractually fixed based on market rates or based on the outcome of lottery drawings. Thus, what appears to State policymakers as a \$107.5 million operating budget is in fact an \$11.6 million operating budget with oversight of nearly \$100 million in contractual obligations and fixed retailer bonuses.

Following is a simplified transparent view of the TLC's annual Lottery budget:

| | Budget (000s) | % of Total |
|-------------------------------------|-------------------|--------------|
| Contractual obligations: | | |
| Lottery Operator commissions | \$ 74,369 | 44.5 |
| Mass media advertising services | 32,864 | 19.7 |
| 1% winner's bonus - retailers | 5,900 | 3.5 |
| Instant ticket production costs | 15,700 | 9.4 |
| Total contractual obligations | 128,833 | 77.1 |
| Division budgets: | | |
| Lottery Operations | 11,587 | 6.9 |
| Marketing/Advertising | 8,134 | 4.9 |
| Security | 5,746 | 3.4 |
| Information Technology | 5,342 | 3.2 |
| Financial Administration | 1,326 | 0.8 |
| Legal | 1,248 | 0.7 |
| Executive Administration | 2,732 | 1.6 |
| Media Relations | 557 | 0.3 |
| Human Resources | 539 | 0.3 |
| Governmental Affairs | 274 | 0.2 |
| Internal Audit | 245 | 0.2 |
| Mandatory Appropriations Reductions | 586 | 0.4 |
| Total Appropriations | \$ 167,149 | 100.0 |

3. Charitable Bingo

The Charitable Bingo Division operates within an annual budget of \$12.4 million:

| Expenditures | 2004 Budget (000s) | % of Total |
|-----------------------------|--------------------|--------------|
| Prize Fee Allocations | \$ 9,854 | 79.2 |
| Salaries and Wages: | | |
| Enforcement | 1,126 | 9.0 |
| Licensing | 696 | 5.6 |
| Accounting | 180 | 1.5 |
| Education | 122 | 1.0 |
| Rentals and Leases | 178 | 1.4 |
| Consultant and Professional | 86 | 0.7 |
| Travel | 73 | 0.6 |
| Printing and Reproduction | 66 | 0.5 |
| Other | 65 | 0.5 |
| Total Appropriations | \$ 12,446 | 100.0 |

In 2003, the State's General Fund received \$3.1 million in charitable bingo license fees and \$21.7 million in prize fees, taxes, penalties and interest related to charitable bingo activities. After prize fee allocations but before Charitable Bingo Operations Division appropriations, \$15.1 million was deposited in the General Revenue Fund.

Because it regulates the industry (in contrast to the Lottery, which operates the games), the scope of the Charitable Bingo budget does not truly communicate the scale of charitable bingo activities and their contributions to society in the State of Texas. In 2003, the reported gross receipts from charitable bingo activities were \$576 million, prizes paid to bingo players were \$418 million, and charitable distributions amounted to just under \$30 million.

V. BUSINESS PLAN FRAMEWORK

A common platform and perspective of the organization is necessary for management teams to work together effectively towards the development of a business plan. Without establishing a common framework, department leaders may inaccurately perceive how their group must contribute toward achieving the goals of the larger organization. Within the TLC, there are five key areas within which most activities can be categorized:

1. Compliance – The TLC is a creature of statute; accordingly, adhering to state laws and policies is the organization's first order of business. The TLC has worked to instill a strong culture of compliance driven by its commissioners at a policy level and by its executives at an operations level. The Legal, Governmental Affairs, Charitable Bingo Operations, Lottery Operations, Marketing, Financial Administration, Security and Internal Audit Divisions all play a key role in this function.
2. Trust – Without the public's trust and confidence, the TLC would effectively go out of business. Security, Charitable Bingo Operations and Lottery Operations play critical roles in sustaining trust in the games Texans play. However, the integrity of all divisions and every TLC employee is essential to maintaining this trust.
3. Contributions and Charitable Proceeds – Once compliance is assured and trust is maintained, the TLC pursues revenues for the purpose of contributing to the Foundation School Fund and supporting charitable bingo activities for the benefit of nonprofit organizations that participate. Lottery and Charitable Bingo Operations, Marketing, Media Relations and Financial Administration play significant roles in these endeavors.
4. Communications – Effectively sharing information directly impacts the efficiency and performance of the organization. This function includes both external communications (Marketing, Media Relations, Governmental Affairs, etc.) and internal communications (planning, goal-setting, inter-departmental resource allocation, etc.). The TLC is committed to ensuring that the mission and purpose of the organization are clearly communicated and understood by the public.
5. People – Successful organizations must recruit, retain and develop quality people. The TLC strives to create a positive working environment for its employees, as evidenced by the results of the 2003 – 04 Survey of Organizational Excellence, which showed that the TLC had measured improvements in 17 of 20 constructs, including Goal Orientation, Fairness, Supervisor Effectiveness and Change Orientation. The TLC is positioned to be a model organization within Texas state government in terms of fostering a culture of compliance, integrity and operational excellence.

VI. OBJECTIVES

The TLC's management has articulated four key objectives for the agency during the three-year (fiscal years 2005 – 07) scope of the business plan development process. These objectives will provide the TLC's management with a common basis to define priorities within the agency.

Objective #1 – Maintain a strong culture and image of compliance and trust.

The TLC's management understands the irreversible damage that would be done if the public's trust in the fairness of its games were ever undermined. To ensure continued public trust, the TLC has developed a strong culture that reinforces the importance of rigorously following processes, complying with applicable laws, and avoiding wherever possible the appearance of misconduct. Knowing how easily trust can be lost, the TLC's management has set an objective to maintain its strong culture and image of compliance with policies and laws that instill trust in the fairness and integrity of its games.

Objective #2 – Grow contributions to Texas' Foundation School Fund.

The TLC's management recognizes the important role that Lottery proceeds have in contributing to the Foundation School Fund and as a part of the State's overall budgetary strategy. Accordingly, the TLC will set as a key priority the objective of growing its contributions to the Foundation School Fund. Achieving this objective encompasses a multitude of strategies and actions designed to grow revenues and reduce costs through greater operational efficiencies.

Objective #3 – Plan responses to the emerging gaming environment.

With the gaming industry rapidly changing due to technological and public policy advances, the TLC must continuously monitor its environment and develop internal capabilities to plan for future contingencies, inclusive of both opportunities to grow its contributions to the Foundation School Fund and support the level of charitable bingo activity that yields resources for nonprofits, and threats that could undermine the mission of the agency.

Objective #4 – Improve the quality, skill and satisfaction of TLC staff.

The employees of the TLC are responsible for carrying out the mission of the agency. The TLC's management recognizes that its employees are its most valuable asset and that investments in their professional development are key to the organization's ongoing success. Accordingly, the TLC will seek to improve the quality, skill and satisfaction of its "human capital" during the course of its three-year business plan.

VII. STRATEGIES AND ACTION PLANS

Building on the four objectives articulated for the business plan, the TLC’s management has defined eight strategies for achieving these objectives, and described 23 action plans that will be implemented during the three-year period from fiscal years 2005 – 07. In this section, the eight strategies are briefly described and then followed by the action plans linked to them.

| Objective #1 – Maintain a strong culture and image of compliance and trust. | |
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| <p>Strategy #1 – Implement policies and processes that identify and mitigate risk to the TLC.</p> | <p>Action Plan #1 – Develop business continuity planning for potential business-disrupting events. Action Plan #2 – Implement an internal vendor monitoring program to identify potential financial or reputation risks for business disruption. Action Plan #3 – Assess cost/benefit of voluntarily adopting private-sector corporate governance best practices. Action Plan #4 – Develop an independent process for reviewing and reporting accusations of inappropriate activity.</p> |
| <p>Strategy #2 – Implement a “transparent operations” strategy.</p> | <p>Action Plan #5 – Promote a “where the money goes” public awareness campaign. Action Plan #6 – Develop a Bingo Annual Report that shares operational information and data on Bingo’s impact on state charities.</p> |

Strategy #1 – Implement policies and processes that identify and mitigate risk to the TLC.

The TLC is an organization built on trust—in the fairness and integrity of its games, in its compliance with laws, and in its stewardship of resources. The TLC will continue to allocate resources towards the implementation of policies and processes that identify and mitigate risk to the agency and ensure continuation of the public trust.

Action Plan #1 – Develop business continuity planning for potential business-disrupting events.

Developing and maintaining best-in-class business continuity planning is an essential risk management initiative for the TLC in fiscal years 2005 – 07.

The Lottery Operations and Information Technology Divisions have been jointly assigned to oversee the development of a business continuity plan. There are two phases to the plan: (1) business resumption and (2) business contingency-continuity planning.

The agency currently has a business resumption plan in place. The two lead divisions are responsible for updating the plan and ensuring that it reflects the current business environment. A committee has been formed between the divisions and work is underway to update the plan. This plan will be fully updated and changes implemented during the second quarter of FY 2005.

Phase two involves the development of business contingency and scenario planning for significant changes in the external business environment. The joint division committee, in coordination with the

Internal Audit Division, is tasked with developing a program to contemplate these events and facilitate meetings of key agency personnel to develop strategies to ensure agency continuity during such events. The committee is tasked with implementing an agency Risk Analysis and Business Impact Analysis by seeking outside resources, including the State Office of Risk Management and/or external vendors specializing in this area, to assist the agency in this endeavor. This plan will be developed and fully implemented during FY 2005.

The plan will include recovery readiness training programs and any testing required to ensure system and staff readiness. This training and testing will occur at regular intervals for impacted staff as determined by the plan development committee and through the approval of executive management. The plan will be revisited and updated on a biannual basis.

To ensure readiness throughout the agency, all divisions will review the agency's Business Resumption Plan to identify needed modifications to the existing plan. Division project leaders will be designated to coordinate the collection, compilation, and evaluation of all suggestions; revise and distribute the plan to appropriate staff; and provide for the education and training of division personnel responsible for responding if/when a business-disrupting event occurs.

Action Plan #2 – Implement an internal vendor monitoring program to identify potential financial or reputation risks for business disruption.

The TLC is committed to generating revenue through the responsible management and sale of entertaining lottery products. That commitment requires the TLC to incorporate the highest standards of security and integrity and also requires that this responsibility be carried on by its vendors, lottery retailers and charitable bingo licensees.

The TLC will monitor its vendors to ensure their performance is consistent with the State Lottery and Bingo Enabling Acts (as appropriate), agency administrative rules, contractual obligations and other applicable state law. Code of conduct contract requirements will be strictly enforced to ensure vendors do not engage in conduct that reflects negatively on the TLC or the lottery or bingo industries in general. A "zero tolerance" policy will be adopted and contract sanctions imposed for breaches of the contract, including the assessment of monetary sanctions, liquidated damages, and/or contract termination.

In addition, the TLC will establish internal procedures for reviewing compliance statements provided by vendors, and will conduct independent reviews to identify potential financial or reputation risks. The TLC will review financial statements, regulatory filings and monitor vendor performance in other jurisdictions.

The TLC will form a committee with representatives of the Security, Legal, Marketing and Financial Administration Divisions to determine the scope and process for implementing this program. All divisions represented on the committee will play an ongoing role in the vendor monitoring program.

Action Plan #3 – Assess cost/benefit of voluntarily adopting private-sector corporate governance best practices.

The TLC's Internal Audit Division has been tasked with conducting a review of corporate governance guidelines written for private-sector companies subject to SEC regulation. Internal Audit will identify and select for implementation those provisions that would add value to the TLC's control environment and can be implemented at a reasonable cost. The overarching goal will be to reinforce existing accounta-

bility and controls over operations and financial statement preparation, and develop a greater sense of “transparency” among external users of TLC data.

The best practices that may benefit the TLC to implement include:

- Increased responsibilities of and oversight by audit committees (the TLC’s Commissioners would likely serve in the capacity of an audit committee, as their current roles and responsibilities mirror those of private-sector boards of directors);
- Enhanced corporate governance responsibilities, including the certification of financial reports by the Executive Director and the Financial Administration Director;
- Enhanced financial disclosures, including a report on the effectiveness of internal controls by the Executive Director and the Financial Administration Director.

The most time- and labor-intensive elements of corporate governance improvements in the private sector relate to the evaluation of internal controls. Common steps involved in this process would include the following:

- Establish a model for management to use to document and report on the efficiency and effectiveness of critical internal controls over the recording of financial information and the preparation of financial statements.
- Establish a methodology for the attestation by Internal Audit (or external auditors) of management’s internal control assertions.

The Internal Audit-led process for determining whether implementation of certain corporate governance improvements would be both feasible and beneficial to the TLC may include the following:

- Phase 1 (Q1 2005) – Review potential process improvements with the Commissioners, Executive and Deputy Directors, Financial Administration Director, General Counsel and the TLC’s external auditors and reach a consensus on the private-sector practices that are both relevant to the TLC and beneficial to implement in substance, if not in form.
- Phase 2 (Q2 2005) – Utilize a corporate governance improvements implementation plan as the framework for Internal Audit’s 2005 – 07 work plan.
- Phase 3 (2005 – 06) – Document and assess the TLC’s internal control structure, reporting responsibilities and the effectiveness of its enterprise risk management processes.

The TLC’s Internal Audit Division will lead this initiative, working closely with representatives from the Executive, Financial Administration, and Legal Divisions. Many activities Internal Audit routinely undertakes on an annual basis would contribute toward this initiative.

Action Plan #4 – Develop an independent process for reviewing and reporting accusations of inappropriate activity.

Organizations the size of the TLC must contemplate the possibility of inappropriate activity no matter how stringent the preventative controls. Given the importance of public trust to the TLC’s operations, the process by which accusations are handled can be of equal or greater importance than the actual disposition of claims. Accordingly, the TLC will evaluate the development of a process for receiving, investigating and reporting accusations of fraud and misconduct that is transparent and utilizes the Internal Audit function and its direct line of communication to the Commissioners to provide third parties with assurances that the process is independent of the TLC’s management.

An example of a process that the TLC will consider includes the following key components:

1. Ethics education and awareness – The TLC already has robust programs to educate employees on State laws and agency ethics policies; additional steps would include further educating employees on how to report misconduct and the types of scenarios that could occur where filing a report would be appropriate.
2. Clear channels for reporting accusations – Both employees and the general public would have easily accessible channels and guidelines for reporting potential misconduct.
3. Standard processes for investigating accusations and reporting findings – The Internal Audit and Legal divisions would collaborate on developing a process that would allow for rapid dispositions of minor or clearly frivolous accusations and require robust investigations of serious or material charges.
4. Comprehensive catalog of accusations, stage of investigation and final disposition – All accusations would be categorized and documented to provide the assurance that no accusations are beyond the review of the Commissioners and the Legislature.

The Legal and Internal Audit Divisions will be responsible for investigating the cost/benefits of developing and implementing such a process.

Strategy #2 – Implement a “transparent operations” strategy.

Leading organizations strive for transparency to assure stakeholders that resources are managed well and are utilized for appropriate business activities. The TLC already operates in an environment where its activities are closely monitored and its records are open to public inquiry. However, the TLC’s management has identified areas where its operations, activities and results could be made more accessible to the State’s policymakers and the general public. Accordingly, resources will be allocated towards increasing the transparency of the TLC’s operations.

Action Plan #5 – Promote a “where the money goes” public awareness campaign.

Lottery proceeds account for a significant portion of the approximately \$16.9 billion of annual expenditures for Texas’ public schools.¹⁵ Public awareness research conducted by the TLC has consistently shown

¹⁵ Average Fiscal 2004 – 2005 biennial Fiscal Size-Up estimate published by the Texas Legislative Budget Board, http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal_Size-up_2004-2005_1203.pdf, p. III-6.

that only about one in four Texans are aware that Lottery revenue goes to the Foundation School Fund, and that perceptions about the Lottery improve significantly when Texans are informed about “where the money goes.”

For many Texans, perceptions about the Lottery and the uses of its revenue for the State may influence decisions about whether to participate in its games. Accordingly, measurably improving the public’s awareness of certain basic information may have a direct and significant impact on the Lottery’s annual sales and net contributions to the Foundation School Fund.

The Lottery will evaluate ways to increase the public’s awareness regarding the dedication of Lottery proceeds to the Foundation School Fund. It may benefit other state agencies to help the Lottery publicize “where the money goes” and how this benefits the State and its taxpayers. In FY 2005, the Lottery will reach out to other state agencies and explore collaborative press releases and activities designed to share information about “where the money goes.” Working with existing resources in the Media Relations, Governmental Affairs, Marketing and Executive Divisions, the goal of the TLC is to dramatically increase the public awareness of how Lottery proceeds are distributed.

Action Plan #6 – Develop a Bingo Annual Report that shares operational information and data on Bingo’s impact on state charities.

Many organizations produce annual reports directly for key constituents (e.g., shareholders and regulators) and indirectly for the general public. In general, the goal is to inform readers about the strategic initiatives and recent operating results of the organization. Well-prepared annual reports not only serve the public interest in access to quality and timely information, but they also educate and align management with regard to the organization’s strategy and the information that is most useful and relevant to its constituents.

The Charitable Bingo Operations Division will investigate the cost/benefit of preparing an annual report based on reported data and other collected information. The report would most likely include information on gross sales, the dollars contributed to charitable purposes and other relevant data. The report also would likely provide data for the Legislature on the Charitable Bingo Operations Division’s utilization of resources and would serve to educate the public about Charitable Bingo activities.

A Bingo Annual Report would likely include much of the following information:

- A brief history of charitable bingo in Texas;
- Letters from the Commissioners and the Charitable Bingo Operations Division Director;
- Information on the types of games, the number and types of licensees, charitable distributions, allocations, enforcement activities and activities by city and county;
- Brief information and analyses on any nationwide trends in bingo;
- Featured profiles of “successful” bingo operations throughout Texas.

The Bingo Annual Report would be prepared using mostly internal resources but may require nominal incremental costs for production and distribution expenses.

Objective #2 – Grow contributions to Texas’ Foundation School Fund.

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| <p>Strategy #3 – Develop and enhance new and existing products and technologies.</p> | <p>Action Plan #7 – Study demographics, identify growth markets and develop new products that appeal to them. Action Plan #8 – Develop an “R&D Pipeline” analysis to align organization around new gaming innovations and technologies. Action Plan #9 – Evaluate utilizing informative marketing techniques and studying multiple message-delivery media formats to more effectively share knowledge about the TLC and its games with playing and non-playing Texans. Action Plan #10 – Develop a business plan for a virtual “Lottery Store” that would sell Lottery-branded gifts and apparel.</p> |
| <p>Strategy #4 – Develop and enhance new and existing channels for marketing and delivering TLC products and growing contributions.</p> | <p>Action Plan #11 – Consider utilizing cross-promotional opportunities with quality brands and large retailers. Action Plan #12 – Utilize the deployment of emerging lottery product technologies to foster expansion strategies in new distribution channels. Action Plan #13 – Enhance retailer licensee recruitment efforts. Action Plan #14 – Enhance and expand communications processes with licensees.</p> |
| <p>Strategy #5 – Implement processes to enhance the efficiency of operations (including new uses of technology).</p> | <p>Action Plan #15 – Study enterprise-process impact of new technology investments, including staffing impact. Action Plan #16 – Develop a Contract Procedures Guide containing contract “best practices,” “lease vs. buy” analyses for capital purchases, etc. Action Plan #17 – Revisit the structure of long-term contracts to assess and identify opportunities to enhance current services, reduce costs and/or better align financial interests of vendors with the TLC. Action Plan #18 – Implement “paperless” (e-records management) initiatives.</p> |

Strategy #3 – Develop and enhance new and existing products and technologies.

The core Lottery product base produces revenues of over \$3 billion and contributions approaching \$1 billion to the Foundation School Fund on an annual basis. The first priority for achieving TLC’s long-range objective to Grow Contributions to Texas’ Foundation School Fund is to achieve growth through incremental and sustainable improvements in marketing and delivery of its existing products while identifying and evaluating new products and technologies.

Action Plan #7 – Study demographics, identify growth markets and develop new products that appeal to them.

The markets for on-line and instant Lottery games are considered mature given that the games have been available to Texans for many years and, without the addition of new gaming activities, market demand is not expected to grow significantly on its own. It can be a tremendous challenge for organizations in mature markets to grow revenues and contributions (i.e., profits for private organizations) at rates that satisfy stakeholders. With its mission to generate revenues for the State of Texas via its Foundation School Fund, Texas is counting on the TLC to continuously explore its market opportunities, offer responsible Texans games that provide personal entertainment and opportunities to win, and benefit the Foundation School Fund.

In October 2003, the TLC commissioned a segmentation study from Ipsos-Reid that identified six profiles of Texans based on attitudes towards gaming activities and purchases of Lottery products. The research identified that two segments—“enthusiastic supporters” and “paternalistic players”—represented 32 percent of Texans yet accounted for 65 percent of Lottery purchases. These segments were identified in prior studies as having average to lower levels of education and income. Previous marketing campaigns seemingly catered to the interests of these segments because they emphasized “fun,” “excitement,” “awareness” and “instant gratification,” generally through brand awareness campaigns. This strategy can be summarized as principally encouraging existing players to play more often.

Provided that marketing campaigns do not neglect the Lottery’s core base of players, the TLC will only achieve significant growth with its existing on-line and instant games by reaching individuals currently represented by market segments identified in the study that are not as frequent players. Three of these four segments— “comfortable individualists,” “disinterested dabblers,” and “prohibitionists” —represent 50 percent of the population but contribute toward only 32 percent of Lottery purchases. With focused marketing strategies and sound execution, it may be possible for the TLC to improve attitudes about its games and, in the process, increase growth in the segments that play its games most frequently.

Following are a few examples of segment-focused marketing strategies that the TLC will evaluate for its fiscal years 2005 – 07 marketing campaigns:

- Explore marketing strategies focused on one of the common factors between the “comfortable individualists,” “disinterested dabblers,” and “prohibitionists” segments—they are characterized as having higher levels of income and education than the others. Informative marketing campaigns featuring themes such as “how to play,” “where the money goes” and “play responsibly” are more intellectually appealing and satisfying to those with concerns or distrust over how the games are conducted.
- Invest research resources into developing new products for new players across all demographics. One approach that will be evaluated is a marketing campaign that “reintroduces” the Lottery to the public. Some players may have never “gotten the word” because they were not in Texas when games started, or were not of age (younger than 18), or they did not have an interest at the time.
- Develop special offers that appeal to each segment profile (e.g., couponing—buy five *Lotto Texas* tickets, get one free) relative to playing preferences.
- Evaluate the feasibility of capturing player information from Web site traffic with Internet registration for Second Chance Drawings, special offers/e-couponing, and e-polling/research via the Web site, as well as using opt-in demographic player information from these activities in support of marketing strategies for outbound email campaigns and research, provided that privacy controls and restrictions are maintained and not compromised.
- Evaluate the placement of localized statistics in regional media advertising (i.e., a scroll across the bottom of Houston area TV spots could read, “Over 300 top prize winning tickets have sold in the Houston area in the past two years; you could be next!” or “There are over 50 Lottery millionaires in the Dallas area; you could be next!” as an outdoor or radio tagline). Localized messages could also be versioned in outbound email campaigns by captured ZIP code data. Jackpot and high-tier winner notification messaging could also be disseminated on a localized level via programmable signs: “A *Lotto Texas* jackpot ticket was sold in Austin—check your numbers!” or “Over 100 top prize winning *Cash Five* tickets have been sold in the Lubbock area in the past two years.”

Exploring growth through segment-focused marketing and product development strategies will not require additional resources but, rather, the redirecting of existing staff and agency resources within the Marketing Division's advertising budget. This action plan will be implemented early in FY 2005 and will remain relevant throughout the three-year horizon of the business plan. ROI will be measured with each investment in new segment-focused marketing strategies relative to historical revenue performance. Also, the TLC will look for positive trends in future segment profile studies for evidence that new marketing strategies are achieving the intended results.

Action Plan #8 – Develop an “R&D Pipeline” analysis to align organization around new gaming innovations and technologies.

Research and development (R&D) is a critical competency for organizations operating in dynamic industries where new innovations and technologies can significantly impact the results of operations in the near term (i.e., less than five years). Many organizations have implemented an R&D process called a “pipeline” analysis. The process of generating this analysis on a quarterly basis instills organizations with the discipline of generating a steady stream of new products and innovations that may become solid cashflow producers in the future.

The TLC's primary purpose for developing an R&D pipeline analysis is intended to identify emerging technologies and product lines, industry trends, and issues related to vendors (and their industry competition). The TLC will pursue this analysis through broad-based industry research and evaluation of gaming products that it currently has the legal authority to develop and commercialize in order to grow contributions to the Foundation School Fund. Sources of information for the R&D pipeline analysis may include vendors (and their industry competition), trade journals, industry analysts, consumer focus groups, other state and global lotteries and university researchers. A dedicated team within the Marketing Division's research department will prepare the analysis with cross-divisional support and direct contributions from the TLC's division leaders. The analysis will be formally evaluated on a quarterly basis or as needed by topic or project.

One model of an R&D pipeline analysis includes four categories for innovation and new technology:

1. Development phase – products that some lottery jurisdictions have implemented or are in the process of implementing. The TLC's Marketing Division will focus on products that could be brought to market in Texas under existing legislation; products requiring legislation will be referred to the TLC Resource Center, described in Action Plan #19, for fact-gathering and further analysis.
2. Growth phase – products that the TLC has recently implemented but not yet achieved full-scale roll out or long-term sustainability (e.g., SSTs and Web site marketing). The Marketing Division will focus on enhancing the success of the efforts.
3. Concept phase – a futurist's view of possibilities at least five years from reality (e.g., a global lottery or bingo game). Concept phase innovations and technologies identified will be reviewed through the TLC Resource Center for study on the potential long-term impact or opportunity for Texas.
4. Research phase – products developed in the form of prototypes or emerging industry technologies not yet widely implemented in U.S. gaming jurisdictions (e.g., cell phone based lottery products, which are utilized in the U.K.). These products would also receive further review and analysis by the TLC Resource Center.

TLC resources related to this action plan will be focused on the Growth and Development phases of R&D. Concept phase and Research phase R&D efforts are more purely associated with action plan #19. Work on these phases will be conducted as outlined in that action plan. The TLC plans to dedicate resources within its Marketing Division to develop the R&D pipeline analysis model. This plan will be evaluated on a quarterly basis or as needed based on research data.

Action Plan #9 – Evaluate utilizing informative marketing techniques and studying multiple message-delivery media formats to more effectively share knowledge about the TLC and its games with playing and non-playing Texans.

“Informative marketing” is the process of sharing information with potential customers that is credible, useful and not overly persuasive in nature. It is founded on the premise that consumers provided with good information that they trust about a product will be more likely to purchase it. Newsletters, Web sites, direct mail and direct response television are various media commonly used for informative marketing.

A consensus opinion within the TLC’s management is that consumers would be more likely to purchase Lottery products if they only had more accurate and timely information about the TLC and its games. Lottery Operator representatives also share this opinion based on their organization’s significant role in disseminating timely information about Lottery products to retailers and their store employees. The TLC’s management actively monitors public perception surveys that repeatedly show the majority of Texans do not know that TLC’s “profits” are contributed directly to the Foundation School Fund.

The TLC will work with its outside advertising agencies to test informative marketing techniques that would disseminate credible and timely information that may include the following:

1. How and when to play Lottery games;
2. Information on new games and game features;
3. The current probabilities of winning various scratch-off games and on-line draws;
4. “Where the money goes” (to the Foundation School Fund);
5. What it means to “play responsibly” and where to get help if you or a family member may have a problem; and
6. How the TLC uses security, internal controls and independent audits to ensure the integrity of its games.

The primary purpose of this action plan will be to inform and entertain players that may be interested in purchasing lottery products.

Footage prepared for this type of informative marketing campaign will have several synergistic benefits for the TLC. For example, demonstrations of how to play the games could be published on the TLC Web site, distributed to retailers via videotape, and shared with local news organizations when new games are introduced.

Informative direct mail campaigns will also be considered as part of the TLC's marketing mix. For example, "how to play" brochures could be used to educate players on using self-service terminals (SSTs). These mailings could include trial promotional offers to encourage play. Direct mail could also be customized to identify retailer locations with SSTs.

The majority of informative marketing campaigns TLC might consider could be ready for implementation in fiscal year 2005 and measured for effectiveness throughout the three-year scope of the business plan.

Additional informational marketing activities that will be evaluated include (1) the placement of "how to play" brochures for all on-line games as newspaper inserts in mid- and high-tier major periodicals, including a "buy X, get Y" offer or coupon; (2) streaming video "how to play" demos on Web site for online games and SSTs; and (3) Internet advertising and email campaigns to draw players into the Web site for informational marketing opportunities.

Web site "how to play" demos and offers could also be created for "Spotlight Game" instant games to feature on a monthly basis. Web site traffic for informational marketing can be increased by offering Web demos, special offers (e-coupons, etc.), Second Chance Drawings, and Web-based research studies through internet advertising (on Texas-specific Web sites, Texas metropolitan newspapers or Texas-based periodicals), and e-mail campaigns. Response to newspaper inserts could be measured by sales increases in the weeks following insert dates (minus factors for increases related to rolling jackpots) plus redemption rates from coupons or offers. Response for Web site demos could be measured by increased traffic to individual demos, and response to Internet advertising and email campaigns could be measured from click-through and open rates, plus rates relative to offer/coupon redemption.

One of the major advantages of direct marketing campaigns is that they can often be designed to readily measure the ROI of mailings and commercials. In addition to responses specific to the campaigns, the ROI from informative marketing campaigns will be measured in future public perception surveys and the growth of revenues for products featured in informative advertisements.

Action Plan #10 – Develop a business plan for a virtual "Lottery Store" that would sell Lottery-branded gifts and apparel.

The TLC brand represents fun, excitement and opportunity and could potentially be a platform for a successful apparel line and gift-store merchandise that could (1) generate incremental contributions for the Foundation School Fund and (2) create walking advertisements for the TLC and its games with the Texans who wear or display them.

Start-up costs for the Lottery Store venture would include the following, among others:

- I.T. and promotional merchandise vendor contracts for software license and merchandise production/fulfillment to establish secure e-commerce site for purchasing and distributing Lottery-branded merchandise.
- Initial purchase of inventory for sale.

The TLC will develop a business plan in early FY 2005 for a virtual store to assess the potential risks and rewards of this initiative. Provided the business plan supports it, the TLC will provide the resulting business plan to the Legislature during the 79th Legislative Session.

Strategy #4 – Develop and enhance new and existing channels for marketing and delivering TLC products and growing contributions.

TLC products are sold primarily through retail convenience stores, but management has explored growing the quantity and diversity of sales channels and achieved encouraging results from outlets such as grocery stores and through new methods of distribution such as self-service terminals. In order to achieve the first long-range planning objective to Grow Contributions to Texas' Foundation School Fund, the TLC will continue to investigate and develop innovative methods for making its games accessible to players of legal age that enjoy the fun and excitement of playing the *Games of Texas*.

Action Plan #11 – Consider utilizing cross-promotional opportunities with quality brands and large retailers.

The TLC brand, which represents fun, excitement and opportunity, could potentially match well with other trusted brands in cross-promotional events. Some examples might include airlines, consumer product manufacturers, grocery store chains or car dealers. There are numerous ways in which win-win campaigns could generate retailer sales, Lottery product sales and joint brand awareness.

In selecting potential partners to approach about cross-promotional opportunities, the TLC will perform the following assessment process:

1. What trusted brands serve target markets for Lottery growth initiatives?
2. What opportunities do brands create to drive foot traffic to retail stores or name collections for direct marketing initiatives?
3. Would Lottery ticket giveaways increase traffic to the brand and fit within the cost structure of the brand's marketing campaigns?
4. Perform due diligence on the cross-promotional partner's business model, financial and operational stability. Risks must be assessed before taking on partners to avoid a situation where the partner's performance adversely affects the image and operations of the TLC.

Examples of potential cross-promotional marketing campaigns include the following:

- New retail store opening – local radio station broadcasts live from new local convenience store; offers hourly Lottery ticket giveaways (tickets purchased by local retailer) and free Texas Lottery merchandise.
- Car dealer test drive – local dealer could offer a \$10 dollar Lottery scratch-off game for taking a test drive of the newest model vehicle.
- Airline arrivals – Texas-based airlines could announce current jackpots and where to buy tickets as planes prepare for landing at Texas destinations.

- Customer acquisition and retention tool for businesses looking for marketing incentives for prospective customers. An example would be a phone company that direct mails Lottery coupons as an incentive for customer sign up. The coupons could be co-branded with Lottery and company information, and would provide the prospective customer with credit for an on-line or instant game purchase.
- Frequent Player Program with a loyalty card that builds points with every on-line game purchase. For example, every Lottery purchase would build points or air miles with an airline, a Lottery-specific rewards program, points specific to a retailer (convenience store or grocery store). Instant game rewards could also be developed with a unique code on each ticket that would be entered into the player's account via the Web site or SST for building rewards. The frequent player account could also be accessed via the SST. Rewards for these programs could include anything from air miles, points that build toward special offers (free play), TLC promotional merchandise or in-store credits for merchandise at a convenience store or grocery store chain.

The Marketing Division will evaluate and determine the best strategies and offers for cross-promotional campaigns, develop package deals to offer retailers, corporate accounts and Texas based companies, and work closely with the Legal Division prior to initiating agreements with potential partners. The TLC will launch approved campaigns in late FY 2005 or early FY 2006. The ROI will be evaluated on a case-by-case basis.

Action Plan #12 – Utilize the deployment of emerging lottery product technologies to foster expansion strategies in new distribution channels.

Advancements in industry-related technology can expand the viable sales and placement of Lottery products. One recent example is the self-service terminal (SST), which represents a unique ticket delivery device that opens up the opportunity to expand existing sales and distribution channels (locations) and explore new sales and distribution channels that are non-traditional TLC locations.

Retailer licensee recruitment staff have been assigned to evaluate, identify and recruit new types of retailer licensees that will deploy SSTs in their locations, as well as expand the Lottery's presence in existing product distribution channels. An ongoing review is being conducted on the deployment of similar devices in other jurisdictions and industries to determine optimum locations for success. Additionally, an assessment will be conducted of existing licensee rules and sales requirements related to the deployment of new technologies.

The TLC will evaluate the use of pilot programs for the deployment and testing of new technologies. Successful deployment of new technologies may require lottery vendors to dedicate resources in support of new licensee recruitment and research and development support. Accordingly, the TLC will coordinate efforts with vendors to ensure that these initiatives will provide an appropriate ROI to the State.

The TLC is committed to keeping abreast of other emerging lottery product support technologies that may be used in the expansion of product delivery channels. As these technologies become available, the TLC will evaluate their potential value utilizing strategies similar to those outlined above.

Action Plan #13 – Enhance retailer licensee recruitment efforts.

The more than 16,000 Texas retailer licensees that sell Lottery products represent by far the most significant channel through which the TLC generates contributions for the Foundation School Fund. Most retailer licensees operate consistently successful businesses and can be relied upon to support the sale of new and existing Lottery products in the future. The retailer licensee base is also a dynamic business environment where business sales and acquisitions are a part of the normal operating environment. The economic climate of the State can also have a significant impact on the licensee base. The Lottery works to support existing licensees and to recruit new licensees to ensure a stable or growing product distribution channel (licensee base).

The Lottery will develop a formal recruitment plan beginning in FY 2005 and will update the plan on an annual basis. Marketing Division recruitment staff will oversee the development and implementation of the recruitment plan with support and input from Lottery Operations Division—Retailer Services staff and Lottery Operator sales/recruitment personnel.

The formal recruitment plan will include detailed research of other jurisdictions efforts to expand and maintain a healthy retailer base. New types of licensee locations, not yet explored in Texas, will be identified in this process, followed by a specific recruitment strategy. The TLC will also evaluate the viability of new types of licensee relationships (i.e., online only sales locations, SST-only sales locations, standalone locations, etc.) to determine if they represent an opportunity to expand product placement to new distribution channels.

For this plan, the Marketing Division will develop a variety of recruitment kits versioned by retailer industry types and channels of distribution (i.e., convenience store, drug store, grocery store, airport, hotel, etc.). These kits may include business start up materials (forms, benefits, “how to” guide), lists of available systems & criteria (GVT Extra, ISYS, SSTs, ITVMs, programmable signs, etc.), lists of available POS, and lists of sales builder tools and programs. This information will also be available via the TLC Web site in a section designed for retailer recruitment.

Recruitment efforts will be concentrated in the first six months following the development of the annual plan to bring in new licensees. With respect to potential new costs resulting from this plan, the TLC may invest in certain technologies to tailor the lottery product to meet the needs of new types of licensees (See Action Plan #12). These technologies and their costs will be evaluated on a case-by-case basis.

The success of the new recruitment initiatives will be measured in fiscal year 2006 as a part of the new annual recruitment plan development process. Potential measures of the recruitment plan may include, but are not limited to, evaluating overall (growth in the lottery retailer base year to year) and through new licensee success measures developed during the recruitment plan phase. These measures may also include sales comparisons of licensee locations across industries and assessment of groups of retailers within certain licensee categories (i.e., one chain of drug stores versus another).

Action Plan #14 – Enhance and expand communications processes with licensees.

Effective communications with licensees are critical to the success of the TLC in achieving its mission. Both the Lottery Operations and Charitable Bingo divisions invest considerable resources towards helping licensees understand the laws and policies through which they can conduct legal gaming activities. Given the importance of maintaining a healthy licensee base, the TLC is committed to continuous improvement in the area of licensee communications.

The Lottery recently launched an organized effort to enhance communications with retailer licensees with the implementation of a Retailer Communications Committee (made up of Lottery Operations, Marketing, Security, Legal Division staff and support from Lottery Operator staff). Current committee projects include the following:

- Development and launch of more extensive licensee training;
- Development of additional retailer licensee rule-support documents
- Evaluation of licensee outreach programs;
- Enhancement of existing communications tools to reach licensees on important topics (the retailer publication *RoundUp*, etc.); and
- Development of new communication tools such as FAQs, instructional training videos and/or educational videos available via the Web site or through the distribution of CDs or other media to licensees and their staff.

One key initiative in support of this effort in fiscal years 2005 – 07 is the development of a new internal Retailer Management System (RMS) that will support a Web-based Retailer Service Center (RSC) currently under development. The RSC will provide licensees with reports at their convenience, alerts, FAQs, licensee rules and regulations. The RSC will be continually enhanced in support of licensees to include new features such as selling tips and success stories from other retailers, etc. New features will be added in coordination with input from licensees to ensure the best value to the licensee community.

Similarly, Charitable Bingo Operations will evaluate the benefits of developing a Bingo Licensee Service Center with many of the features of the RSC adapted for bingo licensees. Communications process enhancements to be evaluated under this initiative will include the following:

- Simplify the process to obtain a bingo license within the requirements of the Bingo Enabling Act.
- Develop a step-by-step guide to be placed on the Web site for organizations contemplating charitable bingo to review and consider.
- Simplify and clarify the application process while maintaining appropriate regulatory controls so that the process doesn't seem overwhelming to organizations run by volunteers.
- Identify avenues to help ensure that nonprofits are aware that charitable bingo exists as a legal and effective fundraising activity.

The Retailer Communications Committee is viewed as an ongoing effort to enhance and expand knowledge of licensees involving licensing requirements, sales techniques and initiatives and best practices for inventory security. The committee will be required to prepare quarterly reports of its activities and achievements over the last quarter as well as committee recommendations for future licensee focused activities. Executive management and involved division directors will use this report to decide the future direction and of the committee and whether it continues to fulfill a need.

The current development plans for the enhanced Retailer Management System are for a target implementation date in late FY 2005. It is anticipated that full operational benefits of this system will be realized within one year following the initial system deployment. It is also anticipated that the full benefit of the Web-based Retailer Service Center to licensees will be realized approximately one year following implementation. The benefit of both programs will be evaluated, at a minimum, following the first year of implementation to determine the need for future development efforts.

The Web-based Bingo Licensee Service Center development may begin following the implementation of the Retailer Service Center after evaluating costs for modification for bingo licensees, determining available agency resources and following the assessment of value to bingo licensees. The TLC will consider whether some elements of the Bingo Licensee Service Center could be implemented concurrent with the Retailer Service Center rollout.

The Service Center components of this action plan represent a commitment by the TLC to provide exceptional customer service to its licensees. As a state agency, the goal of this program is to best serve regulated licensees in sharing information and communicating effectively with the agency's constituency. This program cannot and will not be measured solely in terms of increased sales on the lottery side. It will be based on surveys and other measures of licensee satisfaction with the agency as a whole and specific licensee knowledge of tools and information developed to support them through the Retailer Communication Committee programs and through Web-based service center communications tools.

Strategy #5 – Implement processes to enhance the efficiency of operations (including new uses of technology).

Contributions to the Foundation School Fund increase with every dollar saved as well as with every ticket sold. The TLC is committed to continuing its internal focus on efforts to improve processes throughout the organization, thereby improving the consistency, efficiency and dependability of operations and revealing opportunities to reduce costs and increase contributions.

Action Plan #15 – Study enterprise-process impact of new technology investments, including staffing impact.

Organizations perpetually manage the cycle of (1) making the best use of limited resources, (2) implementing new technologies to drive efficiency and free resources, and (3) reallocate resources to new projects and initiatives. Particularly when new technologies are implemented, organizations often discover that the standard processes and controls that had served them so well in the past are no longer the most efficient or effective methods of doing business. The task of adopting new technologies is incomplete without re-mapping the processes affected and determining whether resource allocations prior to the initiative, including staffing levels, remain appropriate in the new environment.

In 2003, the Information Technology (I.T.) Division established an Automation Steering Committee, consisting of the Executive Management Team and I.T. Managers, to help review and prioritize competing agency I.T. initiatives. Concurrent with implementing new technologies, the TLC will consider leveraging and extending the work of this Committee to include process mapping and resource requirements analyses (e.g., work force planning) for the affected divisions, both during the planning of new technology implementations and in the post-implementation follow-up.

Similar to the workforce planning that occurs agency-wide in conjunction with the Strategic Plan, each I.T. initiative will include an evaluation of related workforce needs. Workforce planning identifies future employee skill set needs in comparison to current employee resources and develops strategies to offset the gaps in those skills through employee development or hiring.

For example, one recent I.T. initiative for which process mapping and resource requirements analyses may be performed is the e-Strategy Project. In 2003, this project was undertaken to redesign the Texas Lottery and Charitable Bingo Web sites. This effort sought to better utilize automation, streamline processes and align technology with the TLC's business. Another objective of the e-Strategy Project was to create an engaging presentation of information and allow retailers and customers the ability to complete a variety of business transactions online. A post-implementation process mapping and resource requirements analysis will help ensure that the new technology is fully utilized, the ROI from the initiative can be reasonably estimated and resources can be redeployed to ensure peak efficiency.

Action Plan #16 – Develop a Contract Procedures Guide containing contract “best practices,” “lease vs. buy” analyses for capital purchases, etc.

Business processes for which contracts are developed and executed—with service providers, capital equipment suppliers and other parties the TLC engages to achieve its mission—represent an important area for which continuous improvement is essential to increasing the efficiency and effectiveness of TLC operations. Enhancing and formalizing contract “best practices” will help the TLC make informed and thoughtful decisions through the use of a structured decision making process, when deciding whether to purchase, lease or otherwise procure capital items.

Developing and leveraging the TLC's best practices will begin by evaluating relevant, publicly-available research materials such as the General Accounting Office's “Executive Guide: Leading Practices in Capital Decision Making.” Other State of Texas agencies may have similar materials the TLC can utilize in refining its own policies and procedures.

Using existing staff resources from the Lottery Operations, Financial Administration, Legal and Executive Divisions, the TLC will establish a committee to perform the following tasks:

1. Research best practices, including those published by the General Accounting Office;
2. Highlight processes and controls that are relevant to TLC operations and cost-effective to implement;
3. Customize key processes into a Contract Procedures Guide;

4. Conduct training on TLC processes with all employees responsible for negotiating contracts and/or terms of service with vendors;
5. Develop quality control tests, including Internal Audit reviews, to ensure that best practices are adopted and continuously improved through internal recommendations and updates to the Contract Procedures Guide.

Action Plan #17 – Revisit the structure of long-term contracts to assess and identify opportunities to enhance current services, reduce costs and/or better align the financial interests of vendors with the TLC.

The TLC has entered into outsourcing contracts with certain vendors to provide strategic operating activities for which it would be less cost-effective for the TLC to develop in-house the technologies and expertise to manage on its own. To achieve the optimal alignment of interests, these contracts must emphasize the goal of maximizing the TLC's annual contributions to the Foundation School Fund.

The inherent risk of outsourcing key operations lies in the loss of alignment on this goal. Outsource service providers have shareholders or partners motivated to maximize net income based on the provisions of their agreements with the TLC. Accordingly, outsourcing arrangements can be most effective if the vendors and customers can closely align their financial interests within the terms of the contracts. Though perfect alignment may be unattainable, the TLC will study its current contractual arrangements to determine if certain provisions could be revised for the mutual benefit of the TLC and its strategic partners.

The TLC will continue to evaluate ways to find greater alignment between the goals of the agency and those of its vendors.

Action Plan #18 – Implement “paperless” (e-records management) initiatives.

A significant trend in information technology solutions shows that public and private sector organizations alike are rapidly adopting e-records management solutions in response to public demands for improved enterprise governance. The technology carries the potential for significant cost-savings and improved operational efficiencies. Additionally, risk management concerns have made e-records management solutions a necessary purchase for many organizations.

The TLC successfully utilizes an e-record file management system for retailer licensee records. This program has resulted in significantly reduced file storage needs, enhanced access to file data by multiple e-records system users and more efficient records retention. The executive management of the TLC has committed to the expansion of e-records strategies as an agency priority based on the success of current initiatives.

The agency will evaluate and prioritize the implementation of e-records programs based on value to the agency. Some of the factors that will be considered include the number of staff sharing the records, the frequency of accessing this data and the cost to store these records in physical form. A committee has been formed and an initial profile conducted with plans to complete the assessment in the coming months. Based on this assessment, the agency will develop an implementation plan.

Due to both its strategic importance for cost-savings and risk management, the TLC will continue to prioritize this initiative, expanding it as time and resources permit to ensure a best-in-class implementation of e-records technologies, policies and processes by the end of FY 2007.

Objective #3 – Plan responses to emerging environment.

Strategy #6 - Improve in-house capabilities to identify and assess emerging opportunities and threats to the TLC.

Action Plan #19 – Develop a Resource Center to assess emerging opportunities and threats and accumulate research on gaming trends and technologies that may aid the TLC’s management and State policymakers in evaluating the future of gaming in Texas.

Strategy #6 – Improve in-house capabilities to identify and assess emerging opportunities and threats to the TLC.

Organizations must continuously monitor industry developments to plan for changes in the environment that could either improve their operations or cause them competitive harm. The TLC operates in a rapidly changing environment due to both technological advances and general gaming industry trends. Accordingly, the TLC’s management will invest resources to enhance the TLC’s ability to identify and assess future opportunities and threats.

Action Plan #19 – Develop a Resource Center to assess emerging opportunities and threats and accumulate research on gaming trends and technologies that may aid TLC’s management and State policymakers in evaluating the future of gaming in Texas.

Many organizations find it challenging to keep a watchful eye on the future while managing day-to-day demands with limited resources. However, it is imperative for successful organizations to allocate resources for forward-looking activities so that managers can engage in proactive and efficient planning rather than reactive and inefficient problem solving. One example of a forward-looking activity is research of industry trends and technologies that may impact the Lottery’s sales and net contributions to the Foundation School Fund or charitable distributions from the conduct of charitable bingo.

It is consistent with the TLC’s mission to be a reliable source of information for the State’s policymakers. The TLC will implement a formal process to develop and maintain timely and effective analysis of gaming trends and technologies to ensure that the TLC delivers the best service possible in this area. It should be noted that the TLC’s management is committed to being a fact resource on lottery- and bingo-related gaming issues and maintains a consistent policy to avoid advocating legislation.

The TLC’s primary purpose for developing a Resource Center is to identify emerging technologies and product lines through broad-based industry research and evaluate gaming products and trends that may impact the Lottery and charitable bingo in Texas. The Resource Center will be located in the TLC’s Marketing Division Research area. Its focus will include evaluation of current industry events and technologies as well as evaluating emerging trends and technologies and forecasting their potential impact on the Lottery and charitable bingo in Texas.

Where merited, the Resource Center team will prepare research to thoroughly assess innovations or technologies of interest to the Texas Leadership. This research may include product summaries, fiscal impact statements, operational cost analyses, infrastructure/technology needs, analyses of required statutory

changes, and any other relevant information useful to policymakers when considering proposed legislation.

Over time, the R&D pipeline reports will be indexed and maintained as a knowledge base for TLC’s management and other interested parties. Sources of information for the Resource Center may include vendors (and their industry competition), trade journals, industry analysts, consumer focus groups and university researchers. Research will be kept fresh with periodic updates on previously prepared reports as needed. New reports will be prepared on an ongoing basis.

With the Resource Center in place by the beginning of FY 2005, the TLC will be capable of providing better and timelier information when requested by policymakers, improve its strategic planning capabilities and be positioned to adopt new technologies and innovations. Additionally, the TLC will be more capable of defensively positioning its products against competing entertainment products that may emerge, thereby safeguarding and potentially increasing its annual contributions to the Foundation School Fund and supporting charitable distributions from the conduct of charitable bingo.

| Objective #4 – Improve the quality, skill and satisfaction of TLC staff. | |
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| <p>Strategy #7 – Increase the efficiency and effectiveness of the TLC through better intra-organizational communications.</p> | <p>Action Plan #20 – Develop an Intranet for sharing internal knowledge and resources.</p> <p>Action Plan #21 – Implement process for encouraging, reviewing and rewarding employee-developed innovations.</p> <p>Action Plan #22 – Continually reassess the effectiveness of the TLC’s organizational structure, outsourcing support functions where appropriate.</p> |
| <p>Strategy #8 – Enhance professional development initiatives within the TLC.</p> | <p>Action Plan #23 – Develop a mentoring program within the TLC.</p> |

Strategy #7 – Increase the efficiency and effectiveness of the TLC through improved intra-organizational communications.

Recognizing that the success of an organization often rests in its ability to successfully share knowledge and information internally to improve decision-making processes and operational results, the TLC has made an ongoing commitment to enhance cross divisional communication and organizational interaction. In an effort to improve the quality, skill and satisfaction of the TLC staff, the TLC will focus resources on knowledge-sharing throughout the agency.

Action Plan #20 – Develop an Intranet for sharing internal knowledge and resources.

An Intranet uses Internet-based technologies within an organization to provide access to agency information and applications, improving communications within an organization by providing consistent and standardized methods for communicating with staff in both headquarters and field offices. Application files, such as video files, containing prerecorded management messages or meetings can be made available benefiting field office locations by enhancing communication and providing a greater sense of connectedness to the home office. An Intranet is also a useful tool for disseminating management information (budget reports, legislative reports, etc.), operational information (sales data, procedures, publications, etc.), training initiatives (EEO training, New Employee Orientation, etc.), and agency publications throughout the organization.

The TLC's Information Technology Division is currently developing and implementing an Intranet application. Hardware and software needs have been addressed and the application development and deployment process is underway. Successful deployment and utilization of this initiative will depend on all TLC divisions embracing responsibility for determining important division level information that will be posted on the Intranet and ensuring that the information remains current. The TLC's management is committed to the success of this program.

Upon implementation, the TLC will develop internal measurements to assess whether the Intranet is effectively utilized to meet the agency's cross-divisional communications goals and the sharing of important resource information in a timely manner. Future Intranet initiatives that will be evaluated include:

- Providing a resource center of digitized streamed training videos to staff for ongoing training that would maximize staff time and provide equal training to staff in the field.
- Enabling executive management, division directors and managers to communicate with small groups or large segments of staff through brief talks and speeches (video).
- Providing an information resource center for staff to access in the course of their daily work. Commonly and widely used information could be accessed from a single source to ensure consistency of information used and disseminated. FAQs could be developed and posted for certain staff to reference in their daily jobs. This approach would be particularly effective for phone bank, correspondence and claim center staff.

Full implementation of the Intranet will be completed in FY 2006. Evaluation of Intranet initiatives and their effectiveness will occur on an ongoing basis.

Action Plan #21 – Implement process for encouraging, reviewing and rewarding employee-developed innovations.

An organization's employees can provide tremendous value as a source of innovations and ideas for process improvements, particularly when the organization has established a process for gathering, evaluating and rewarding employee submissions.

The TLC participated in the Texas Incentive & Productivity Commission's State Employee Incentive Program (SEIP), which provided State employees with financial and recognition awards for suggestions leading to net savings and/or improvements in safety, efficiency and productivity. The Council on Competitive Government recently voted to end this program and allow individual agencies the opportunity to implement their own employee suggestion programs. The TLC's management recognizes that even greater value could be achieved through a uniquely tailored TLC-specific program.

In FY 2005, the TLC will investigate the cost-benefit of developing a TLC-specific program to encourage, review and reward employee-submitted ideas and innovations. The Executive Division will oversee the program, utilizing Human Resources as the lead division and including Marketing, Legal, Lottery Operations and Charitable Bingo Operations Division staff to evaluate an internal program. The following elements will be evaluated as a part of the analysis:

1. **Encouraging participation** – Marketing Division editorial and graphics staff could assist with developing an internal marketing campaign to create employee awareness of the program and the potential rewards of participating. Division leaders would be asked to encourage participation within their teams (and a management incentive program could be developed based on the rate and quality of participation within divisions).
2. **Reviewing submissions** – The Human Resources Division would be primarily responsible for evaluating submissions for completeness (based on published guidelines) and responding to submitters regarding the review of their ideas. Following a specified process, the submissions would be rated by a committee and forwarded to appropriate TLC leaders for further review. All submissions would receive a response within 30 days and a decision/resolution within 90 days.
3. **Rewarding excellence** – Rewards for innovations ultimately implemented by the TLC would include an evaluation of both financial awards (cash and non-cash awards, such as additional vacation days) and recognition (letter from Executive Director or Charitable Bingo Director (as applicable), mention in newsletter, certificate of merit, etc.).

The TLC would monitor both the cost of administering this program and the incremental contributions to the Foundation School Fund generated as a result of employee-submitted innovations.

Action Plan #22 – Continually reassess the effectiveness of TLC’s organizational structure, outsourcing support functions where appropriate.

With 325 FTEs, 12 divisions and annual sales approaching \$3.5 billion, the TLC is a highly leveraged organization in terms of its productivity and use of strategic outsourcing. As such, achieving an optimal organizational structure and balance of in-house vs. outsourced capabilities is a continuous process of refinement.

There are two areas of focus for this action plan:

1. Management and oversight of cross-divisional committees and work programs.

The TLC has made a commitment to cross-divisional participation in the development of agency programs and ongoing research. However, the number of committees currently in place is significant and is anticipated to grow through the formalization of a number of the action plans that make up the business plan. Accordingly, the TLC is committed to an organized oversight function that will (a) monitor the schedules and timelines of committees approved by division directors and (b) report on the timely progression of these projects to executive management and interested division directors.

A current inventory of cross-functional/divisional workgroups will be maintained, and responsible directors will review ongoing cross functional/divisional projects on a quarterly basis to determine if an expertise is needed to be added or taken away. By ensuring that (a) a director is assigned as a liaison for every project, (b) each project has a designated project leader responsible for the success of the team’s project, and (c) team members will continue to be selected from a variety of staff levels and divisions to ensure diversity of ideas and expertise. The TLC expects to continue achieving greater performance from its teams and enhanced employee satisfaction and personal growth through committee participation.

2. High-level, ongoing organizational structure review and outsourcing opportunities review.

Executive management will evaluate two approaches—an event-driven approach and a standard timeline approach—to reviewing optimum organizational structure. Division directors have an ongoing responsibility to review their organizational structure and propose changes that will benefit the agency whenever they arise, including the evaluation of opportunities to outsource functions. These reports and recommendations will continue to be evaluated by executive management as they become available.

Strategy #8 – Enhance professional development initiatives within the TLC.

Leading organizations continuously invest in the professional development of their people to provide quality leadership throughout their organizations and dependable sources of executive talent. The TLC will enhance existing training and development programs administered by its Human Resources Division to ensure that TLC employees have opportunities for professional growth within the TLC that match their career ambitions.

Action Plan #23 – Develop a mentoring program within the TLC.

Mentoring, the process through which a more experienced employee provides ongoing career advice and counseling to another, happens informally in every organization. However, many organizations have found that formalizing mentoring relationships yields more consistent and predictable results, promotes inclusiveness and diversity, and contributes to the professional development and overall job satisfaction of employees. In FY 2005, the TLC will evaluate implementing a formal mentoring program for employees who elect to participate.

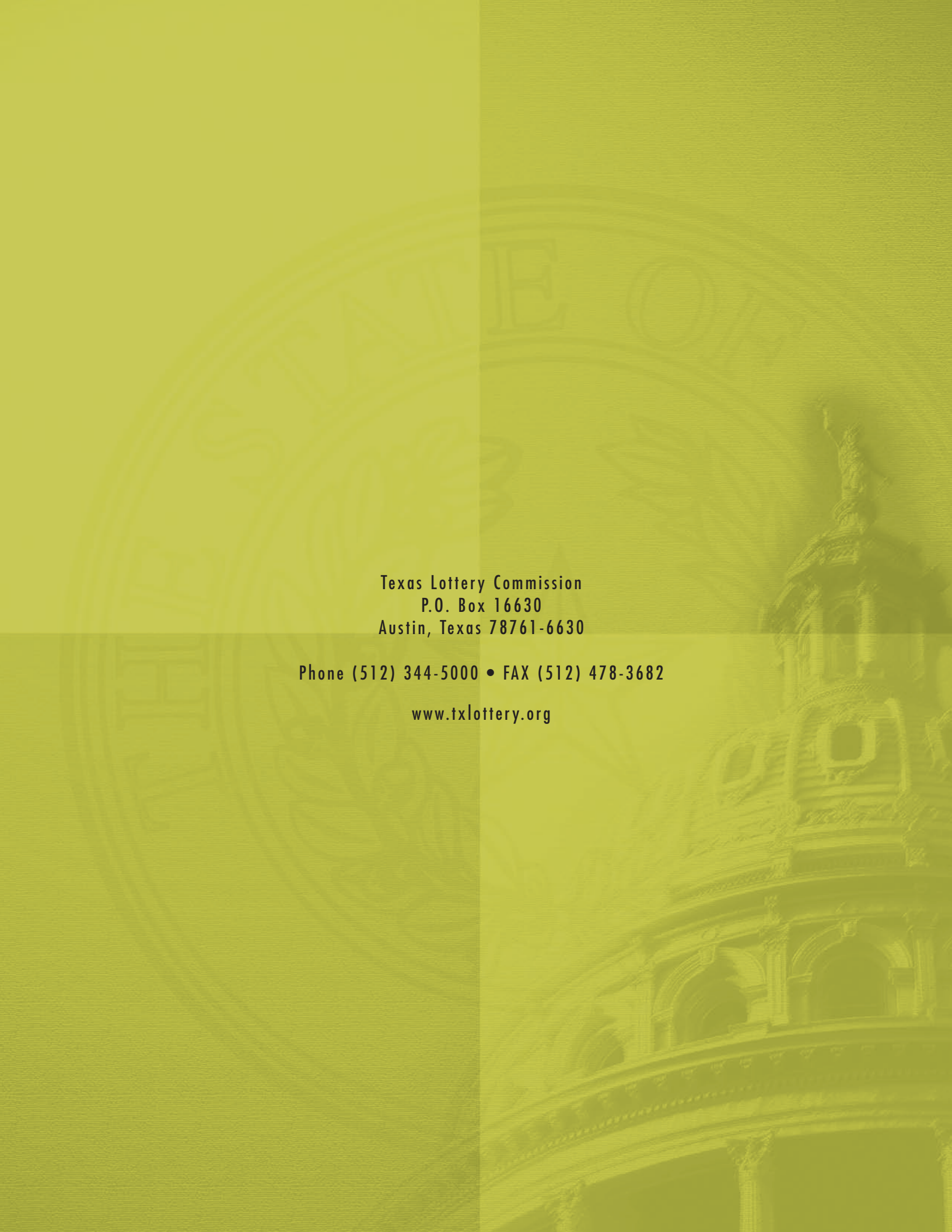
A formalized program would be designed and administered by the TLC's Human Resources Division. A successful program would likely include the following characteristics:

Equal Opportunity – The program will be accessible to those TLC employees that wish to participate; should management decide to limit participation due to resource constraints, restrictions will be applied consistently and equitably.

Strategic Alignment – The investment in a mentoring program is only justifiable if the product—a more experienced, knowledgeable and focused team—yields improved operating results and incremental contributions to the Foundation School Fund.

Adequate Support – Those staff participating in the TLC mentoring program will need training, monitoring and support from H.R. staff to ensure the program is carried through in substance and not just in form.

If a formalized mentoring program is developed and implemented, employee retention, job satisfaction survey results and operations efficiencies are all potential success measures against which the success of the program may be measured.

The image features a green-tinted background. On the left, there is a large, faint circular logo for the Texas Lottery Commission, which includes the words "THE STATE OF TEXAS" and "LOTTERY COMMISSION". On the right, there is a detailed view of the Texas State Capitol dome, showing its ornate architecture and the top of the dome. The text is centered in the middle of the image.

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