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CHARLIE CRIST
Governor



LEO DIBENIGNO
Secretary

FLORIDA LOTTERY

October 7, 2008

Mr. Leo DiBenigno
Florida Lottery Secretary
250 Marriott Drive
Tallahassee, FL 32301

Dear Secretary DiBenigno,

Section 20.055(5)(g), Florida Statutes, requires the Inspector General to monitor the implementation of the agency's response to any report on the Florida Lottery issued by the Auditor General or by the Office of Program Policy Analysis and Government Accountability (OPPAGA). The referenced statute further requires that no later than six months after the findings are published, the Inspector General must provide you with a written response of the status of actions taken. The purpose of this letter is to provide updated information on the agency's response to the OPPAGA findings and fulfill these requirements.

In April 2008, OPPAGA released its report titled *Lottery Profits Continue to Increase; Options Available to Enhance Transfers to Education*. The report outlined seven primary findings. The following details each finding and the current progress of Lottery staff to address each finding:

1. Increasing the retail network to increase sales distribution and revenues by routinely acquiring information on potential retailers in order to improve its recruitment efforts.

- **Retailer Recruitment Seminars:** Since the OPPAGA report was first issued, the Lottery has conducted Retailer Recruitment Seminars in Fort Myers, West Palm Beach and Pensacola. In preparation for these seminars, the Lottery developed recruitment lists from various sources and made 982 prospecting calls to businesses in those areas. This generated a list of 148 qualified prospects, 82 of which attended one of the seminars.



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To date, 17 applications have been received from businesses attending these three seminars. Of those business locations that confirmed their attendance but were unable to attend, efforts are underway to schedule appointments with these prospects to obtain their applications. There are three additional seminars scheduled for the remainder of this Fiscal Year—in Tallahassee, Gainesville and Miami.

- **Retailer Prospect Lists:** In August 2008, the Lottery's on-line gaming system vendor provided the Lottery with a list of 7,542 potential Florida Lottery retailer prospects complete with contact information on each. Lottery staff is currently using this list to conduct retailer solicitation in the three Florida areas scheduled for Retailer Recruitment Seminars this year.
- **Corporate Chains:** Beef O'Brady's has submitted applications for three locations (Apopka, Cooper City and Tallahassee) and will be submitting applications for three more sites to begin a three-to-six month pilot test. A successful pilot could lead to lottery sales in all 126 Florida locations. The Food Lion grocery chain also will pilot lottery sales in two of its stores, beginning in the next couple months. Finally, discussions continue with several other noteworthy chains including: CVS, Starbucks, Walgreens, and Walmart.
- **Recruitment Partnership:** With current budgetary constraints, the Florida Lottery's partnership with the Florida Retail Federation continues to generate important contributions to the retailer expansion program. The Federation has helped the Lottery by publicizing the Retailer Recruitment Seminars as well as provided incentives for attendance. The ability to provide advertising messages to members of the Federation has also extended the Lottery's reach.
- **New Retailer Recruitment Tracking System:** The Lottery has created an Oracle-based prospect management system to manage the prospecting and retailer development of its Business Development Office. It will be utilized by both headquarters and district staff and will begin full operation the first week in October.

2. Expand its use of multi-priced on-line games.

- **Lotto Plus:** The Lottery launched Lotto Plus on March 3, 2008. This was the Lottery's most significant step to date into multi-price-point games. Players have the option of playing for a jackpot \$10 million and \$25

million higher by paying an additional one or two dollars. To date, sales of the two add-on options have totaled more than \$46 million with the cumulative play-through rate of 8.0%.

- **Powerball:** *Powerball*, a multi-state game, which will go on sale in Florida on January 4, 2009, also has a buy-up option. For an additional dollar on each *Powerball* play, players can purchase "Powerplay." If that ticket wins any lower-tier prize, the winnings are multiplied by a 2, 3, 4 or 5, depending on the number selected randomly just before the drawing. The Lottery is emphasizing this Powerplay option in its marketing and retailer incentive efforts.
- **New On-line Game:** With the decision to launch *Powerball* in January 2009, the launch of another on-line game has been postponed until at least March of 2009. The results of the marketing research conducted this past April, suggested that either a larger-matrix, multiple-drawing game like the Ohio Lottery's *Ten-OH!* or a new On-line game with a "win for life" prize would be welcomed by players. Discussion and analysis continues on this launch.

3. Carefully evaluate the benefits and disadvantages of adding a super jackpot game and joining a multi-state game and providing the results of its assessment to the Legislature.

- In July 2008, the Florida Lottery announced that it would start offering the multi-state game, *Powerball*. Tickets will go on sale January 4, 2009, for the first drawing on January 27, 2009. *Florida Lotto* will continue, including the \$2 and \$3 buy-up options.
- In the course of preparing forecasts for the July 25th Lottery Revenue Estimating Conference, extensive data and analysis were provided to the Legislature's Economic and Demographic Research Office. In addition, the Lottery has responded to specific questions, has submitted all relevant reports and data, and has provided a special briefing regarding its decision to join *Powerball*.
- With *Powerball*, *Florida Lotto Plus* and the periodic Millionaire Raffle games launching an additional "superjackpot" game is neither warranted nor appropriate at this time.

4. **Establish alternative vendor and retailer payment terms in its future contracts to attract and retain quality vendors and retailers while maximizing revenues to the state.**
 - **Primary Scratch-off Vendor Compensation Structure:** The Lottery has completed the competitive procurement process for selecting vendors to provide instant ticket printing and related services. A comprehensive agreement signed by the vendor selected as the “primary contractor” is under final review by the Lottery and will be signed by September 30, 2008. That agreement calls for vendor compensation to be calculated based on several price point levels. The intent is to neutralize the impacts of shifts in sales to higher price points and to bring the vendor’s interests more into line with the Lottery’s charge to maximize the generation of Educational Enhancement Trust Funds.
 - **Secondary Scratch-off Vendor Compensation:** Similarly, the Lottery has completed negotiations with two secondary vendors who will provide only scratch-off game printing services. These vendors both provide a back-up to the primary vendor and open the possibility of licensed properties and printing capabilities not available from the primary vendor. These two vendors will be compensated on a “per-1000-tickets-printed” basis, again, better enabling the Lottery to align the vendors’ interests with that of the Lottery.
 - **Retailer Commissions:** In regard to retailers, the Lottery currently has no plans to alter basic compensation. Florida’s retailer commissions place it in the middle among US lotteries. Strategic use of the Lottery’s retailer incentive appropriation allows it to encourage retailer involvement in active efforts to promote key game launches and promotions.

5. **Work with the Department of Management Services to develop a detailed cost-benefit analysis and buy versus lease business case to reduce its leased office space. This assessment should include assessing the options of moving to state-owned property, moving to a new, smaller leased building, and negotiating with its current landlord for a reduction in leasing costs and/or the amount of space leased.**
 - The Florida Lottery contracted with one of the DMS’s tenant brokerage firms (Cushman & Wakefield) to provide market information and analysis, as well as recommendations regarding Lottery office space options. Cushman & Wakefield was also chosen to negotiate lease terms on the

Lottery's behalf with the current landlord of the Tallahassee headquarters facility.

- Cushman & Wakefield's analysis considered the feasibility of moving Tallahassee headquarters to a new facility location, but found that both relocation and build-to-suit were cost prohibitive.
- Instead, they recommended that the Lottery leverage the two current five-year lease renewals for a 10 year lease. This approach resulted in reduced lease costs. See the below overview of the savings:
 - The new negotiated rates resulted in a \$559,668 total reduced rate over the life of the 10 year renewal. The cost per square foot per year has been reduced between \$.34 - \$.36. The negotiated price includes the landlord absorbing the costs for janitorial and lawn-care services (approximately \$170,000/year for an estimated total of \$1.8 million over the life of the renewal lease.)
 - The landlord is providing \$2.34 million in Tenant Improvement (TI) Funds with the requirement that \$1.7 million be used by July 2015. The remaining \$640,000 is available at any time during the lease term.
 - All terms and conditions of the current lease remain intact with the exception of the costs associated with the moving of equipment and furnishings during the re-carpeting and repainting. This is estimated to be a \$360,000 value that was part of the original lease agreement (these costs can be paid for out of the TI funds as a soft cost, reducing the effective rate of TI dollars to \$1.98 million).
 - The net savings of the new lease terms is \$2.36 million. The effective value of the lease with the TI funds considered results in a total value of \$4,339,668.
 - In addition, by moving the Lottery's Draw Studio to the Tallahassee headquarters facility, it is estimated there will be a cost avoidance of about \$3.2 million over the life of the lease renewal.
- As part of the business operation streamlining efforts of the Tallahassee headquarters facility, the Florida Lottery continues to consult with the Department of Management Services on office space planning in an effort to consolidate business operations and to reconfigure modular work environments for maximum efficiency.

- In efforts to continue the pursuit of subleasing excess office space, the Florida Lottery considered moving the telemarketing operations to the Tallahassee headquarters facility. This was in conjunction with the Instant Ticket Games contract solicitation. The Lottery's incumbent contractor, Scientific Games International, was the highest ranked vendor in the competitive solicitation proceedings. During negotiations, however, we determined that even greater cost savings could be recognized for instant ticket printing by leveraging the continued location of the telemarketing operations in central Florida.
- Subleasing will continue to be pursued, such as when the Lottery solicits for advertising contracts that may require a Tallahassee presence. A recent opportunity was the solicitation for draw auditing services. The solicitation was advertised on the Department of Management Services' Vendor Bid System, which provided an opportunity for non-Tallahassee vendors to sublease office space at the Lottery's headquarters facility. While the auditing services solicitation did not result in a sublease of office space, this effort, combined with previously pursued opportunities continues to demonstrate the Lottery's creative approach in finding suitable subleasing tenants.

6. Develop its vendor performance monitoring system to ensure accountability and to help identify further operations efficiencies.

- **Accountability Training and Tools:** The General Services Contract Manager continues to assist Lottery Contract Managers in developing and adopting tools that may be used to make determinations regarding contractor performance and the receipt of contractual deliverables. Use of these methodologies has not been limited to the multi-million dollar contracts, but also is being utilized for the smaller, routine contracts.
 - For example, management of the Banking Services contract, currently being negotiated, will involve a scorecard kept current and discussed at bimonthly meetings.
 - Training will continue to be offered to Lottery Contract Managers in the use of recommended Programmatic Monitoring Tools for monitoring deliverables and the contractor's performance in detail.
 - Efforts are currently underway to develop a contract monitoring tool and process for the new Instant Ticket Games contract. These efforts will be replicated as new contracts are developed and executed.

7. Develop a comprehensive marketing plan and expand its evaluation of marketing outcomes.

- **Market/Environmental Analysis:** To help guide strategic decisions, marketing research has conducted special studies regarding: the player appeal of licensed scratch-off games; the appeal, intent to play and understanding of the *Powerball* concept; and, the customer service provided to Lottery retailers by the Lottery sales staff. This work is in addition to the player preference, attitude, and behavior results generated each month by the tracking survey.

As part of the planning for the launch of *Powerball* in January, GTECH, the Lottery's On-line Gaming System vendor has twice presented day-long workshops for the Lottery regarding other lotteries' experiences and best practices in launching multi-state games.

- **Yearly Sales Goals:** The Lottery has adopted a set of statewide and district-level sales goals for FY 2008-09. Separate goals have been set for each of the two major product lines: Scratch-off games and On-line games.
- **Key Marketing Strategies:** The Marketing Division has prepared a plan of organized strategies and approaches for the Fiscal Year under three topic areas: 1) the Lottery and its brand; 2) Promotions; and 3) Draw Production Enhancements. A supporting plan, timeline, cost-benefit framework, and budget are discussed for each area and responsibilities are assigned.
- **Game and Promotion Launch Schedules:** Since May, the Lottery Marketing, Sales and Product Development Divisions have been actively collaborating on the several facets of market planning, including calendars for game and promotion launches, advertising media placement, special events and retailer incentives.

Scientific Games has developed and presented *The Florida Lottery Marketing Plan* for the year. This plan includes a detailed schedule of Scratch-off game launches in eight waves through August 2009, plus a justification for each game. In addition, the Plan includes a promotional program comprised of game promotion, direct mail and retailer incentive ideas.

Secretary Leo DiBenigno

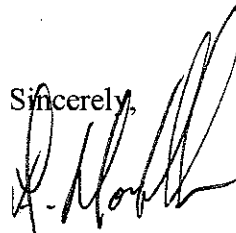
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- **Plan Dissemination:** Sales goals, product strategies and marketing planning calendars will be presented to Lottery staff during training sessions in October 2008.
- **Marketing Outcome Measures:** The Lottery remains committed to analyzing marketing outcomes, as demonstrated last spring. Current work is aimed at ensuring that game and promotion cannibalization impacts are considered, when applicable, in outcome analyses and better utilizing our research vendor's findings regarding each advertising campaign's impacts.

If you require additional information in these matters, please feel free to contact me at your earliest convenience at 487-7726.

Sincerely,



Andy Mompeller
Inspector General

cc. Terry L. Shoffstall, Director
Legislative Auditing Committee