

FY-2013 - 2018 Strategic Plan

9/18/2012

OKLAHOMA LOTTERY COMMISSION (435)

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agency management/division/program directors

To update the agency strategic plan, the Oklahoma Lottery Commission held planning meetings to obtain input from each organizational unit and our primary vendors. A preliminary plan was developed by Senior Management staff and presented to the trustees of our board. The plan was reviewed with board members and input from the trustees was incorporated into the plan. The related budget proposal was submitted to the Board for review in the December 18, 2007 board meeting, and has been updated annually since that date.

description of the strategic planning process followed by the agency

If there is a more detailed strategic plan for the agency, available from some other source, please list the name and phone number of the contact person here: N/A

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EXECUTIVE SUMMARY

Summary of environmental assessment:

The Oklahoma Lottery Act requires that all lottery profits be transferred to the Oklahoma Education Lottery Trust Fund (OELTF). We believe the demand for education funding will continue to grow. Elementary & Secondary Education, Higher Education and Career and Technology Education were appropriated more than \$3.35 billion for FY'2013. Lottery funding was \$65.3 million; about 1.94% of the total appropriations to these education agencies. Lottery funds represent additional funding that education programs would not have otherwise received. Lottery profit is currently mandated to be a minimum of 35% of lottery gross revenues. This requirement restricts the funding that can be dedicated to prize payouts which results in lower sales and profits. The estimates in this strategic plan are predicated on no changes to existing law. The impact of this is that sales and profits (real, spendable dollars) can be expected to decrease materially over the next several years.

We are assuming that the overall economy will remain uneasy; state government may have to deal with a decline in funding available for government operations; consumer spending on luxury and entertainment items will continue to be low; gas prices will continue to fluctuate and remain at the current high levels if not gradually increase. We are also assuming that existing laws regarding other legal gambling venues and illegal gambling activities will not change. The current lottery gaming vendor contract expires on August 9, 2013. The Lottery is in the process of issuing an RFP for gaming services. Currently, Oklahoma enjoys a very good rate for these services. Based on recent contracts in other states, Oklahoma can expect a significant increase in the contract rate for gaming services. The impact of this will be lowered prize payouts, resulting in lowered sales and lowered profits available for education, as noted above.

The implementation the Arkansas on September 28, 2009 decreased sales in Oklahoma and first year sales were about double the sales in Oklahoma. The Arkansas lottery does not have a profit restriction similar to the one in Oklahoma law, thus Arkansas offers games with better payouts, resulting in much better sales of their instant ticket games. The recent reversal in interpretation from the Justice Department regarding the Wire Act has opened the door for states to engage in internet sales of lottery products and internet gaming opportunities, even allowing interstate agreements to be developed. The state of Illinois has already started selling lottery products online and is adding more products. Other states are initiating similar actions in order to capture some of the market that is now available online. Oklahoma law prohibits the sale of lottery tickets over the Internet, reducing potential revenue for education from increased lottery sales.

Summary of new conditions / issues that will exist in the short and long-term future:

The Lottery will face the same environmental issues other state agencies will face: slow economy; reduced funding; increased demand and limited resources. While law changes that will improve statutory operating restrictions are requested, this plan is prepared based on current law, without additional restrictions. The economy will continue to be a major factor impacting operations since lottery game sales are affected by how much entertainment dollars players have to spend. We also assume there may be an expansion of tribal gaming capabilities or opportunities.

Summary of agency-wide action plans to address the needs:

The continuation of the 35% profit restriction requires further reductions in expenses. Lottery expenditures for operations have been significantly reduced in the past 4 years and we continue to identify reductions that can be achieved without compromising the security and integrity of the Lottery. Additional reductions will be made in advertising to the extent possible, with the remaining reductions having to come from other areas, such as retailer compensation, operations and prize payouts. The reduction in payouts will negatively impact sales and profits as noted earlier. The Lottery will work to maintain sales through marketing programs applied at the retail level, however case studies of other states clearly illustrate that prize reductions will result in reduced sales and profits. Our aggregate payouts are already the lowest in the nation.

The Lottery will continue to introduce new and entertaining games. Scratchers games (instant win tickets) will be introduced at a rate and using appropriate and appealing ticket design to keep our players engaged. Prize payouts will be maintained at the highest levels possible through the use of unclaimed prize money as allowed by law. If budget reductions allow, we will continue efforts to improve awareness of the Oklahoma Lottery, enhancing recognition and trust in our brand. We will continue to educate Oklahomans about our beneficiaries and educate our players about how to play our games and how to protect themselves from scams.

Summary of financial needs to address issues:

The Lottery Commission keeps operating expenses low in order to generate the maximum possible funds for education. We have one of the smallest lottery staffs in the nation. In addition, the rates being charged by our major vendors are very good rates. As noted above, the current gaming vendor contract expires 8/9/2013 and costs for a new contract are projected to be much higher. This will require additional prize reductions and result in even lower profit for the state if the 35% profit restriction is not removed. The removal of this profit mandate will result in significant increased funding for Oklahoma education programs; greatly needed after the economic hits the State budget has experienced for the past few years, resulting in continued reductions in funding provided for education.

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AGENCY MISSION

The mission of the Oklahoma Lottery Commission is to maximize revenues for public education through the creation and marketing of fun and entertaining products consistent with the highest levels of service, integrity and public accountability.

AGENCY VISION

The Oklahoma Lottery Commission's vision is to be recognized by the people of Oklahoma as a consistent source of additional funding for Oklahoma Education.

VALUES AND BEHAVIORS

We value our Customers, our Employees and Vendors, and our Image as these are all critical to our success. The Oklahoma Lottery will provide an Equal Opportunity working environment where personal and professional growth are encouraged and where the following behaviors are valued.

TEAMWORK: OLC employees and vendors work together to achieve our mission.

CREATIVITY / INNOVATION: we are creative, thoughtful, stimulating, progressive, and original.

MOTIVATION: we are excited and energized about what we do.

ACCOUNTABILITY: we act responsibly in the discharge of our duties.

PASSION: we are eager, excited, intense and expressive.

COMMUNICATION: we strive to understand and work towards mutually beneficial outcomes.

COMMUNICATION: we listen to our customers, our employees and our vendors.

COMPASSION: we act with kindness and generosity.

COMMITMENT: we are devoted to fulfilling our mission and vision.

INTEGRITY, TRUST, RESPECT: we seek these in everything we do.

POSITIVE CUSTOMER SERVICE: we deal positively and respectfully with our customers.

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LONG-TERM GOALS and AGENCY KEY PERFORMANCE MEASURES

Summary of long-term goals and measures:

Our primary long-term goal is to increase funding for our beneficiaries, Elementary and Secondary Education, Career and Vocational Education, and the institutions of Higher Education. In doing so, we want to increase our sales, increase our profits and reduce our operating expenditures as a percentage of overall revenues. In order to accomplish this, the 35% profit restriction that is in the current Lottery Act must be removed. The removal of this profit mandate will result in significant increased funding for Oklahoma education programs; greatly needed after the economic hits the State budget has experienced for the past few years, resulting in continued reductions in funding provided for education. We will continue to introduce additional Scratchier games and offer additional or enhanced online games as appropriate. We will continue to provide promotional support at our retailer locations. We will continue to attend various local events around the state to promote the lottery and our beneficiaries.

- Goal 1: Long-term sustained growth in funding for Education.
- Goal 2: Continued excellence in customer service, security, integrity and public accountability.
- Goal 3: Development and marketing of fun and innovative lottery products.
- Goal 4: Development and maintenance of a staff and working environment that supports and enhances the OLC's mission, vision and core values.

Goal 1	Long-term sustained growth in funding for Education.
KPM 1	Annual growth in deposits to the State Education Lottery Trust Fund of 3%.

Performance measured by the increase in revenues deposited with the State to the benefit of the Oklahoma Education Lottery Trust Fund (OELTF). The revenues are calculated by taking the OELTF deposits attributed to each fiscal year and dividing that amount by the amount of OELTF deposits attributed to the previous fiscal year. Instant ticket sales began October 12, 2005; online sales November 10, 2005; and Powerball sales January 12, 2006. Other online games have been added since start-up. FY-2007 was our first full fiscal year of business. FY-2008 is the first year for which this performance, growth in funding for Education, can be measured. Unfortunately, the 35% profit restriction that exists in current law limits the funding that the Lottery can return to Oklahoma education programs, and it is unlikely that this goal will be met in future years because of the 35% profit restriction. Revenues for FY'13 and following years are projected to be lower than in prior years. If the 35% profit restriction is not removed from current law, these goals are unattainable and Lottery contributions to Oklahoma education programs will continue to decline.

Actual		Budgeted		Estimated	
FY-2010	3.41%	FY-2013	-7.50%	FY-2014	-9.28%
FY-2011	-0.83%			FY-2015	-5.00%
FY-2012	0.86%			FY-2016	-5.00%
				FY-2017	-2.00%
				FY-2018	-2.00%

Goal 2	Continued excellence in customer service, security, integrity and public accountability.
KPM 1	Clean Annual Financial Statements as evidenced by the number of material exceptions noted in our annual audit.

Performance is measured by the number of material exceptions noted by the external financial auditors in our annual financial statements. The desired state being none or "0".

Actual		Budgeted		Estimated	
FY-2010	0	FY-2013	0	FY-2014	0
FY-2011	0			FY-2015	0
FY-2012	0			FY-2016	0
				FY-2017	0
				FY-2018	0

KPM 2	CAFR excellence award.
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Performance is measured by the award of the GFOA Certificate of Excellence for preparation of our CAFR.

Actual		Budgeted		Estimated	
FY-2010	yes	FY-2013	yes	FY-2014	yes
FY-2011	yes			FY-2015	yes
FY-2012	yes			FY-2016	yes
				FY-2017	yes
				FY-2018	yes

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LONG-TERM GOALS and AGENCY KEY PERFORMANCE MEASURES (continued)

Goal 3	Development and marketing of fun and innovative lottery products.
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KPM 1	Maintain Sales
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Performance is measured by growth in the sales of lottery tickets. Sales numbers presented are the audited or estimated sales attributable to the business conducted during a fiscal year. Estimates are based on no change in the current 35% profit restriction in the Lottery Act. Removing this restriction would result in greater sales and in greater profits for Oklahoma education. Through efforts to introduce fun and entertaining lottery games, and through early efforts to enhance prizes in spite of the profit restriction, the Lottery has maintained overall sales the last few years. Projected sales for FY'13 are expected to decrease, as they are expected to decrease in each of the following years as long as the profit restriction remains in effect. Specific estimates are not included for FY'2016 and beyond, however the impact of the profit restriction on prize payouts will result in material decreases to sales and profits provided to Oklahoma education programs; and could result in sales that are less than the estimates provided for FY'14 and '15.

Actual		Budgeted		Estimated	
FY-2010	\$199.7	FY-2013	\$184.9	FY-2014	\$167.7
FY-2011	\$198.2			FY-2015	\$159.3
FY-2012	\$199.9			FY-2016	\$151.3
				FY-2017	\$148.3
				FY-2018	\$145.3

Goal 4	Development and maintenance of a staff and working environment that supports and enhances the OLC's mission, vision and core values.
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KPM 1	Turnover rate.
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Performance is measured by internal turnover rate. Beginning with FY'08, each departing employee is asked to participate in an exit interview to determine why they left and if there are any unresolved issues that could have been, but were not addressed by OLC management. We strive to keep turnover as low as possible. However it will become increasingly more difficult to address staffing and compensation needs if our ability to increase sales remains restricted. The absence of legislation allowing employee pay raises also makes it likely that turnover rates will increase dramatically.

Actual		Budgeted		Estimated	
FY-2010	7.9%	FY-2013	3.2%	FY-2014	10.0%
FY-2011	11.1%			FY-2015	7.4%
FY-2012	6.3%			FY-2016	4.0%
				FY-2017	4.0%
				FY-2018	4.0%

KPM 2	Unresolved grievances.
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Performance will be measured by the number of unresolved grievances that have been raised during the year by employees.

Actual		Budgeted		Estimated	
FY-2010	0	FY-2013	0	FY-2014	0
FY-2011	0			FY-2015	0
FY-2012	0			FY-2016	0
				FY-2017	0
				FY-2018	0