



Washington's Lottery

BI15-17

Operating Budget

(Electronic Version)

September 12, 2014

Washington's Lottery

814 4th Avenue East

Olympia, WA 98506

www.walottery.com

John Iyall, Budget Manager (664-4791)

Beckie Foster, Director of Finance & Administration (664-4798)



Washington's Lottery

2015-17 Biennial Operating Budget

TAB A

- Agency Organizational Chart 2
- Agency Activity Inventory Report 3
- Performance Measure Incremental Estimates Report 22
- Activity Inventory Indirect Cost Allocation Report 24
- Agency Strategic Plan 25

TAB B

- Recommendation Summary at Agency Level 58

TAB C

- Individual Decision Packages (DP Summary) 62
 - M1 90 Maintenance Level Revenue 63
 - M2 8L Lease Rate Adjustments 67
 - M2 FE FTE Allocation Adjustment 70
 - M2 9J Non-appropriated Fund Adjustment 72
 - PL A0 15% Reductions – Goods and Services 75
 - PL A1 15% Reductions – Staffing Component 77
 - PL N0 District Sales Rep Funding 80
 - PL V0 Funding for Staffing Workload 83
 - PL V1 Gaming Vendor Contract 86

TAB D

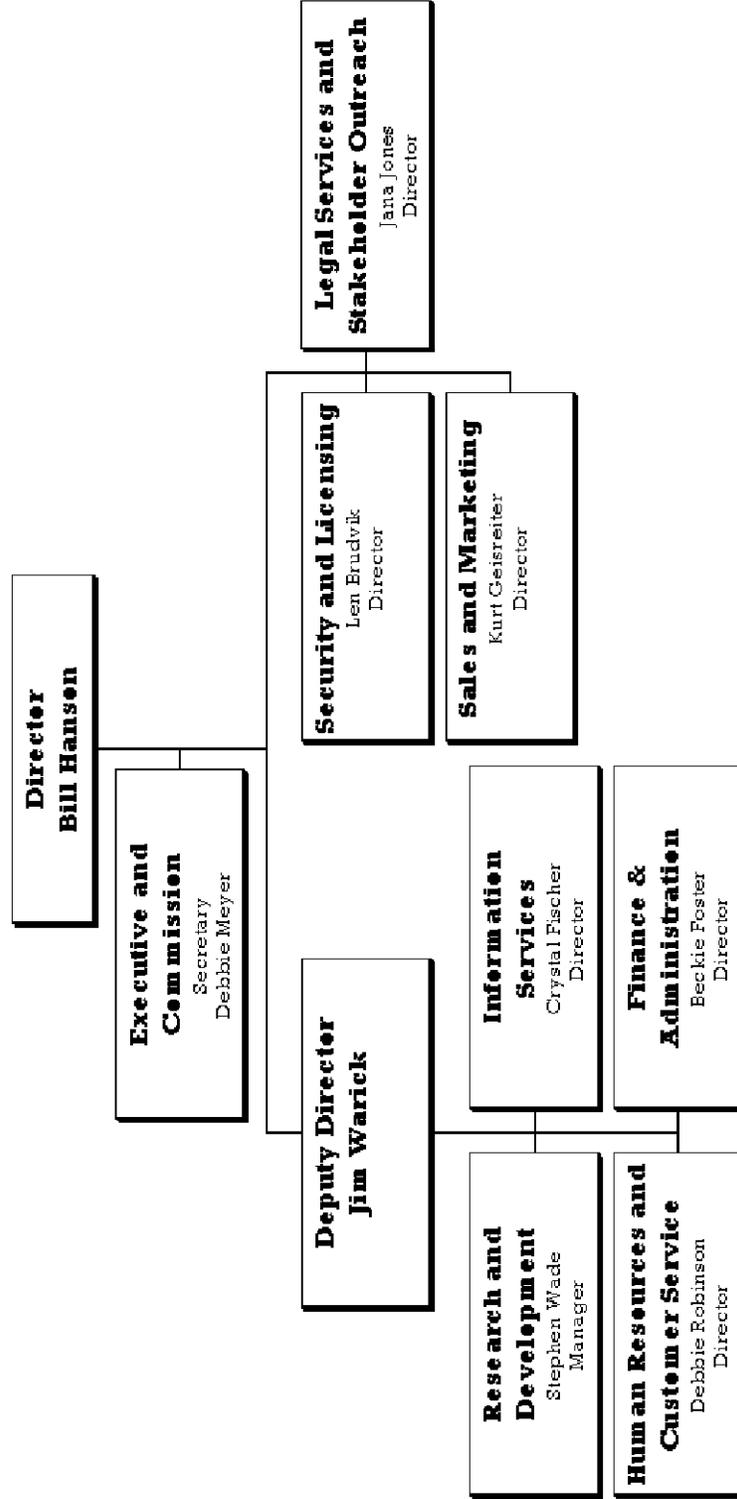
- Summarized Revenues 102
- Working Capital Reserve 105

TAB E

- Specified documents as required for IT-Related 106
- Enterprise Risk Management Updates 112
- Electronic Decision Package Confirmation 113



WASHINGTON'S LOTTERY



9/29/2014

116 - State Lottery Commission

A001 Washington's Lottery

Washington's Lottery generates revenue for various education, cultural, and community beneficiaries by earning profits from the sale of creative and entertaining Lottery products. Beneficiaries of Lottery profits include; the Washington Opportunity Pathways Account, the General Fund Account, the Stadium and Exhibition Center Account (Qwest Field), the Baseball Stadium Account - King County (Safeco Field), the Economic Development Reserve Account, and the Problem Gambling Account.

Account	FY	FY	Biennial Total
FTE			
578-1 State	123.9	123.9	123.9
577-6 Non-Appropriated	19.0	19.0	19.0
FTE Total	142.9	142.9	142.9
578 Lottery Administrative Account			
578-1 State	\$11,608,481	\$11,375,688	\$22,984,169
433 Shared Game Lottery Account			
433-6 Non-Appropriated	\$63,356,989	\$63,218,916	\$126,575,905
577 State Lottery Account			
577-6 Non-Appropriated	\$398,503,208	\$406,850,502	\$805,353,710

Statewide Result Area: Efficient, Effective and Accountable Government

Statewide Strategy: Safeguard and manage public funds

Expected Results

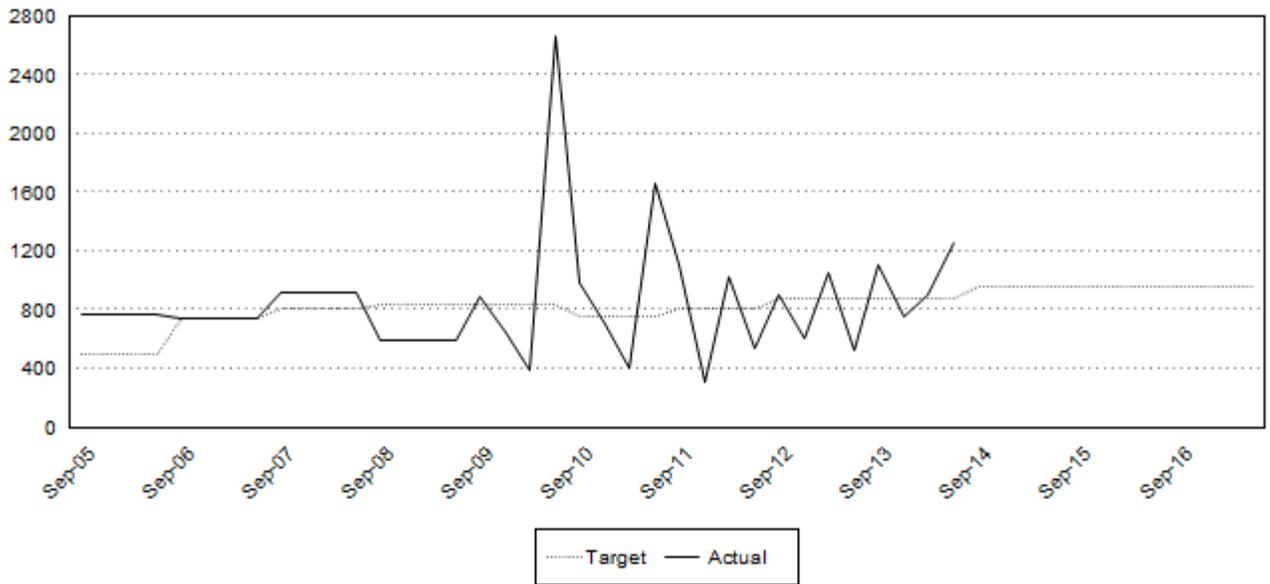
Washington's Lottery expects to meet or exceed contribution targets based on Lottery's most current Pro-Forma and revenue forecast. This is updated periodically throughout the biennium.

Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

000054 Total Distributions to the Economic Development Strategic Reserve Account (in thousands of dollars)			
Biennium	Period	Actual	Target
2015-17	Q8		\$950
	Q7		\$950
	Q6		\$950
	Q5		\$950
	Q4		\$950
	Q3		\$950
	Q2		\$950
	Q1		\$950
2013-15	Q8		\$950
	Q7		\$950
	Q6		\$950
	Q5		\$950
	Q4	\$1,251	\$867
	Q3	\$907	\$867
	Q2	\$751	\$867
	Q1	\$1,108	\$867
2011-13	Q8	\$525	\$867
	Q7	\$1,046	\$867
	Q6	\$609	\$867
	Q5	\$899	\$867
	Q4	\$534	\$800
	Q3	\$1,024	\$800
	Q2	\$303	\$800
	Q1	\$1,107	\$800
Performance Measure Status: Approved			

Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

Dollars 000054 - Economic Development Strategic Reserve Account - 09R



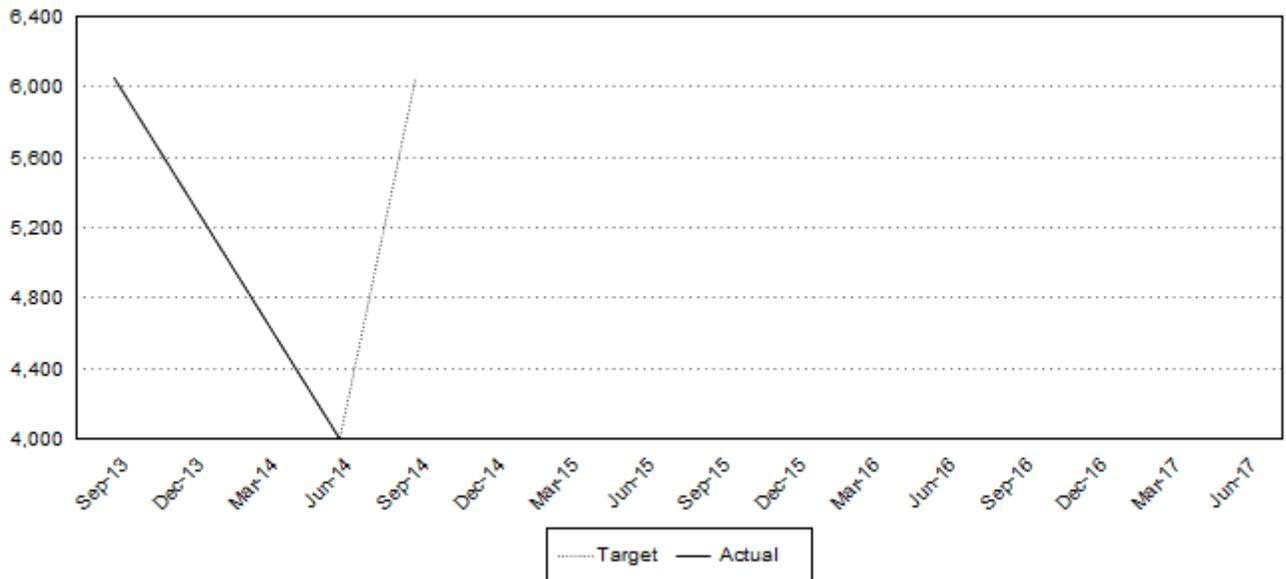
Appropriation Period: 2015-17 Activity Version: B1 - BI15-17 Initial Budget Sort By: Activity

002489 Total Distributions to the Education Legacy Trust Account (in thousands of dollars)			
Biennium	Period	Actual	Target
2015-17	Q8		
	Q7		
	Q6		
	Q5		
	Q4		
	Q3		
	Q2		
	Q1		
2013-15	Q8		
	Q7		
	Q6		
	Q5		\$6,050
	Q4	\$4,000	\$4,000
	Q3		
	Q2		
	Q1	\$6,050	\$6,050

Performance Measure Status: Approved

Dollars

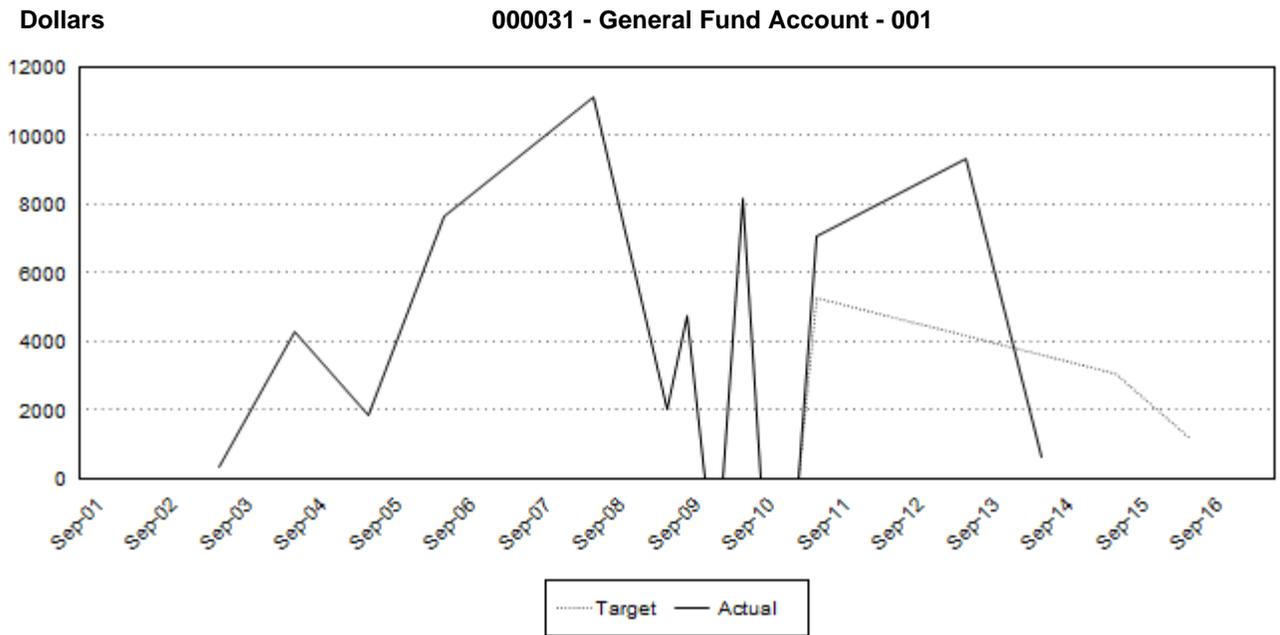
002489 - Education Legacy Trust Account



Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

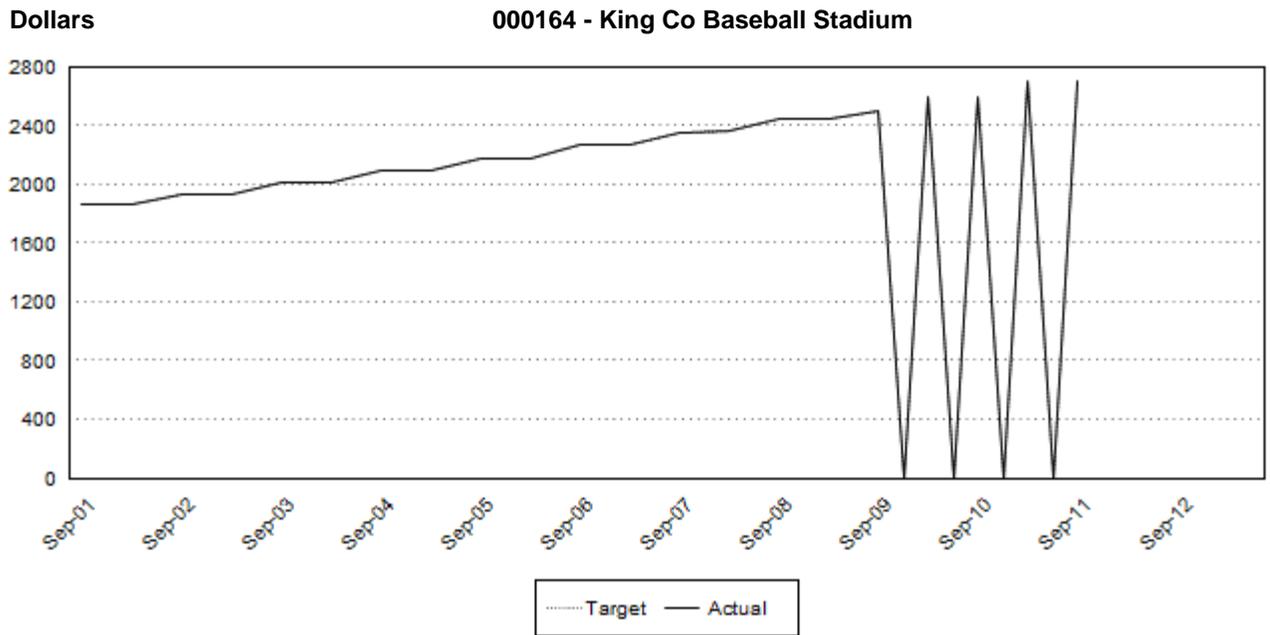
000031 Total Distributions to the General Fund Account (in thousands of dollars)			
Biennium	Period	Actual	Target
2015-17	Q8		
	Q7		
	Q6		
	Q5		
	Q4		\$1,147
	Q3		
	Q2		
	Q1		
2013-15	Q8		\$3,020
	Q7		
	Q6		
	Q5		
	Q4	\$596	
	Q3		
	Q2		
	Q1		
2011-13	Q8	\$9,338	
	Q7		
	Q6		
	Q5		
	Q4		
	Q3		
	Q2		
	Q1		
Performance Measure Status: Approved			

Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity



000164 King County Baseball Stadium Debt Reduction (Safeco Field) (in thousands of dollars)			
Biennium	Period	Actual	Target
2011-13	Q8		
	Q7		
	Q6		
	Q5		
	Q4		
	Q3		
	Q2		
	Q1	\$2,701	\$2,701
Performance Measure Status: Approved			

Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

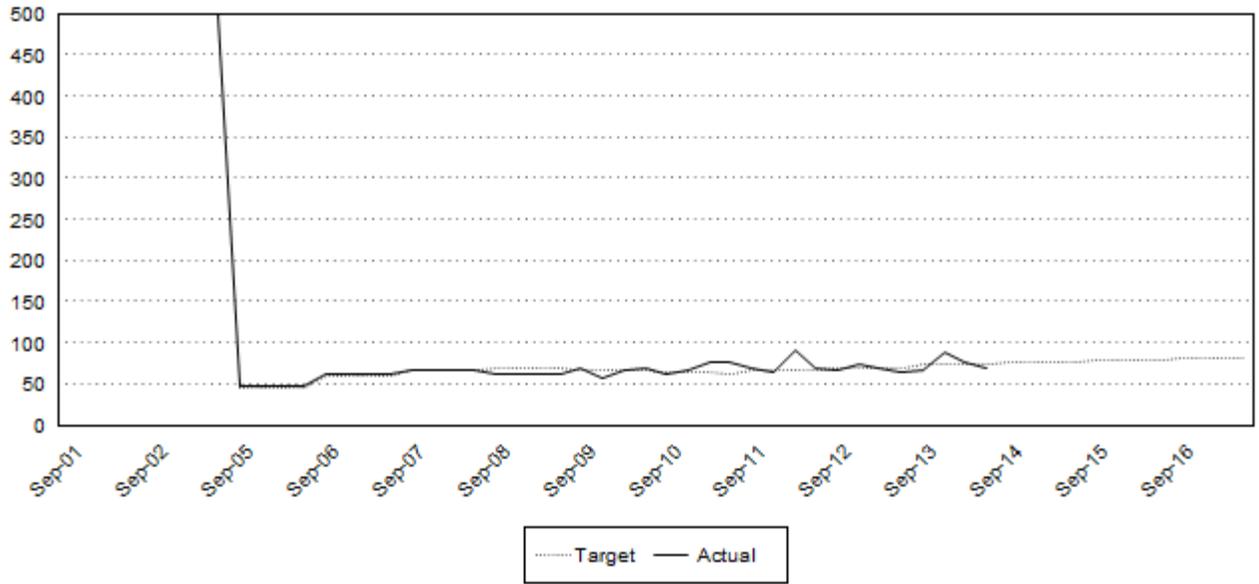


Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

000052 Total Distributions to the Problem Gambling Account (in thousands of dollars)			
Biennium	Period	Actual	Target
2015-17	Q8		\$80
	Q7		\$80
	Q6		\$80
	Q5		\$80
	Q4		\$79
	Q3		\$79
	Q2		\$79
	Q1		\$79
2013-15	Q8		\$77
	Q7		\$77
	Q6		\$77
	Q5		\$77
	Q4	\$70	\$73
	Q3	\$76	\$73
	Q2	\$88	\$73
	Q1	\$67	\$73
2011-13	Q8	\$65	\$70
	Q7	\$70	\$70
	Q6	\$73	\$70
	Q5	\$66	\$70
	Q4	\$70	\$67
	Q3	\$90	\$67
	Q2	\$63	\$67
	Q1	\$68	\$67
Performance Measure Status: Approved			

Dollars

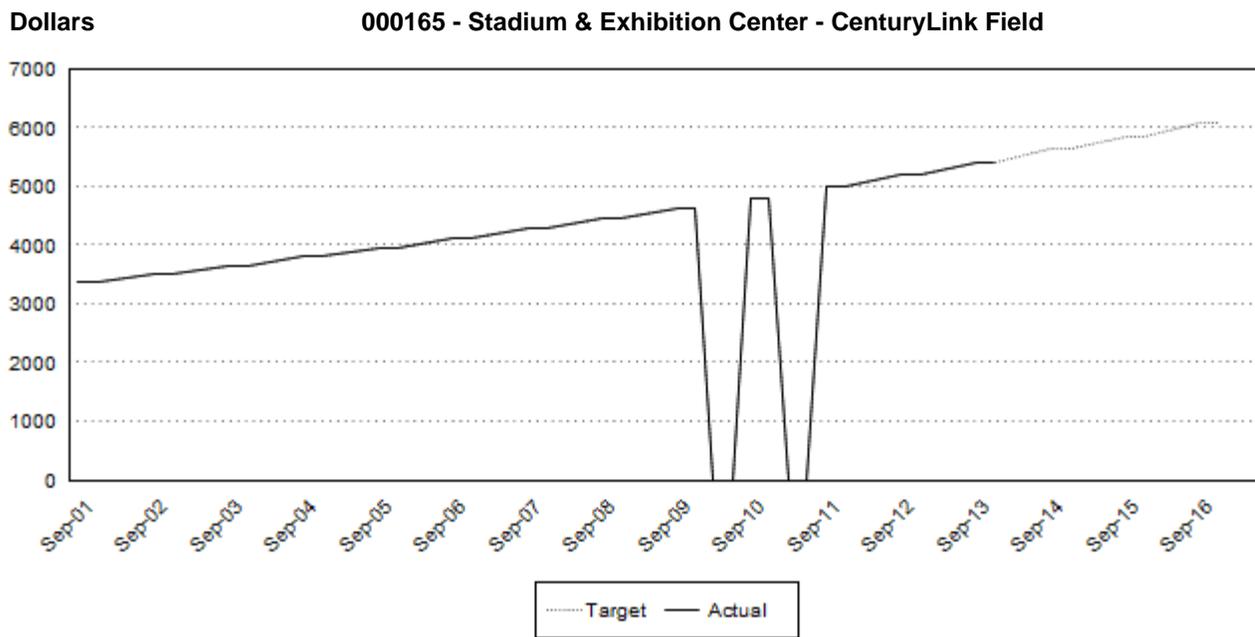
000052 - Problem Gambling Account - 08K



Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

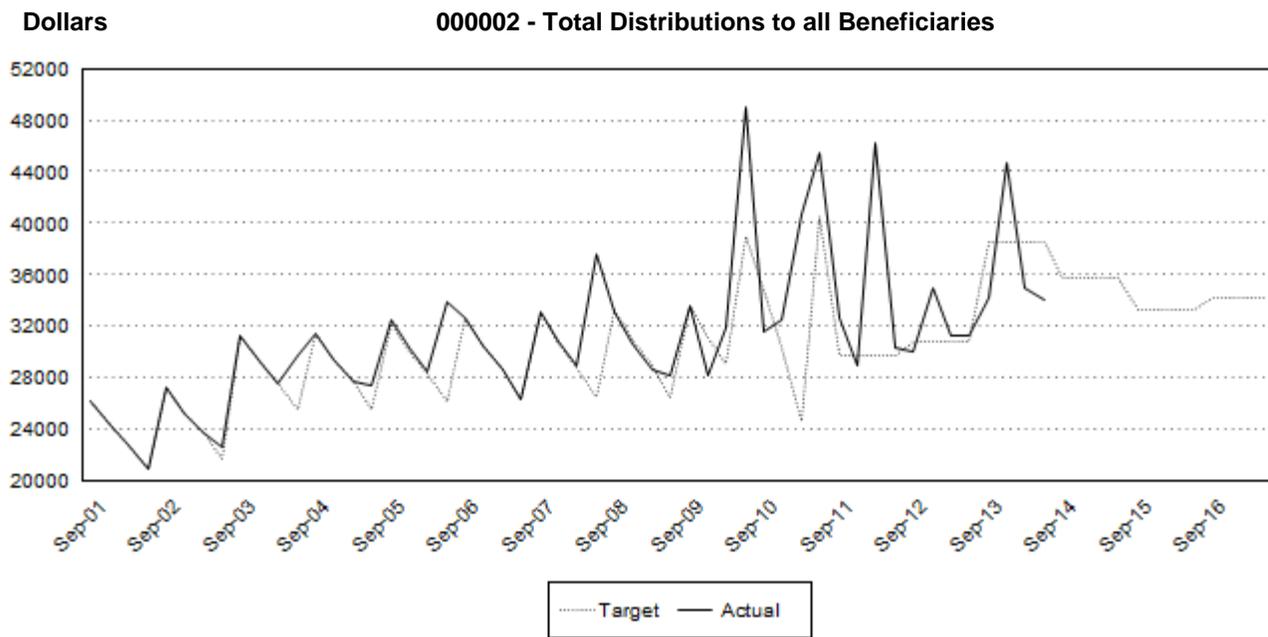
000165 Total Distributions to Stadium & Exhibition Center - CenturyLink Field (in thousands of dollars)			
Biennium	Period	Actual	Target
2015-17	Q8		
	Q7		
	Q6		\$6,077
	Q5		\$6,077
	Q4		
	Q3		
	Q2		\$5,844
	Q1		\$5,844
2013-15	Q8		
	Q7		
	Q6		\$5,619
	Q5		\$5,619
	Q4		
	Q3		
	Q2	\$5,403	\$5,403
	Q1	\$5,403	\$5,403
2011-13	Q8		
	Q7		
	Q6	\$5,195	\$5,195
	Q5	\$5,195	\$5,195
	Q4		
	Q3		
	Q2	\$4,995	\$4,995
	Q1	\$4,995	\$4,995
Performance Measure Status: Approved			

Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity



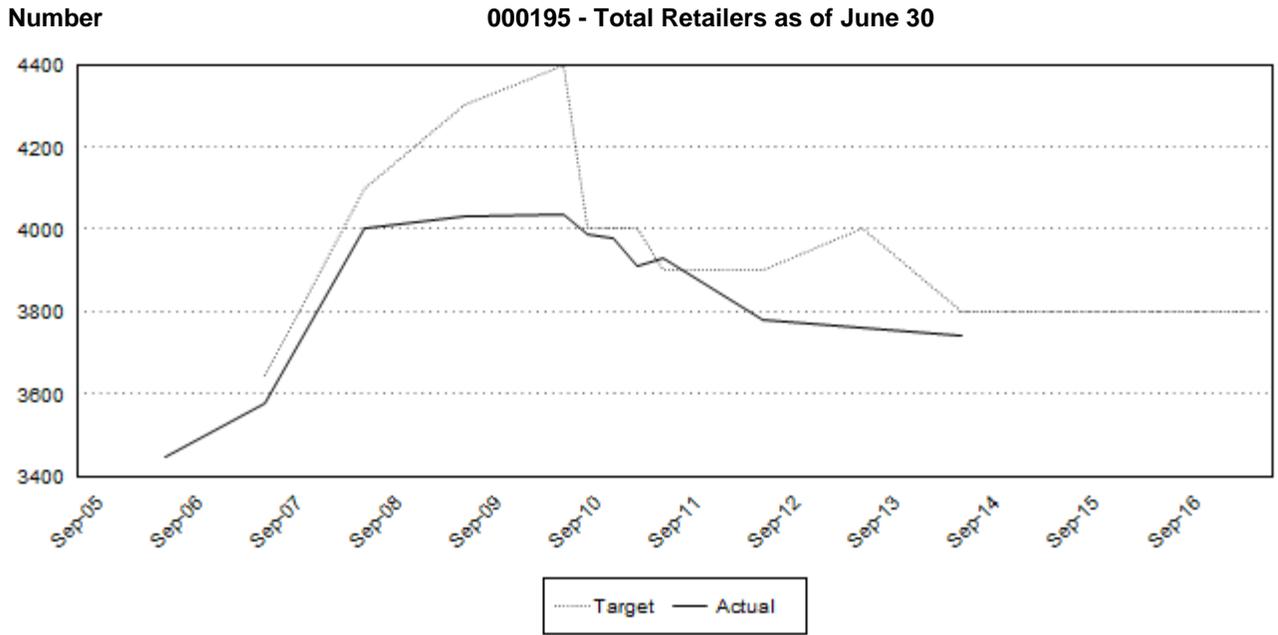
Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

000002 Total Distributions to Lottery Beneficiaries (in thousands of dollars)			
Biennium	Period	Actual	Target
2015-17	Q8		\$34,174
	Q7		\$34,174
	Q6		\$34,174
	Q5		\$34,174
	Q4		\$33,303
	Q3		\$33,303
	Q2		\$33,303
	Q1		\$33,303
2013-15	Q8		\$35,731
	Q7		\$35,731
	Q6		\$35,731
	Q5		\$35,731
	Q4	\$33,991	\$38,508
	Q3	\$34,941	\$38,508
	Q2	\$44,656	\$38,508
	Q1	\$34,087	\$38,508
2011-13	Q8	\$31,284	\$30,724
	Q7	\$31,222	\$30,724
	Q6	\$35,001	\$30,724
	Q5	\$30,029	\$30,724
	Q4	\$30,241	\$29,653
	Q3	\$46,188	\$29,653
	Q2	\$28,963	\$29,653
	Q1	\$32,658	\$29,653
Performance Measure Status: Approved			



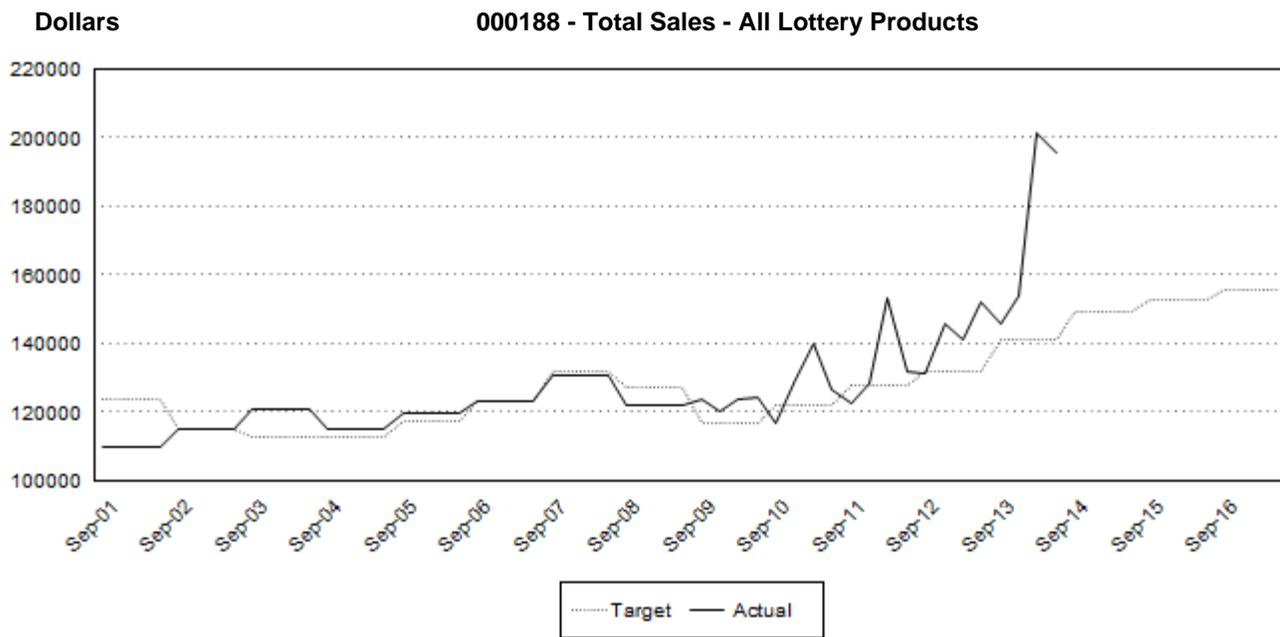
Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

000195 Total Lottery Retailers on June 30			
Biennium	Period	Actual	Target
2015-17	Q8		3,800
	Q7		
	Q6		
	Q5		
	Q4		3,800
	Q3		
	Q2		
	Q1		
2013-15	Q8		3,800
	Q7		
	Q6		
	Q5		
	Q4	3,743	3,800
	Q3		
	Q2		
	Q1		
2011-13	Q8	3,762	4,000
	Q7		
	Q6		
	Q5		
	Q4	3,778	3,900
	Q3		
	Q2		
	Q1		
Performance Measure Status: Approved			



Appropriation Period: 2015-17 Activity Version: B1 - BI15-17 Initial Budget Sort By: Activity

000188 Total Sales - All Lottery Products (in thousands of dollars)			
Biennium	Period	Actual	Target
2015-17	Q8		\$155,575
	Q7		\$155,575
	Q6		\$155,575
	Q5		\$155,575
	Q4		\$152,650
	Q3		\$152,650
	Q2		\$152,650
	Q1		\$152,650
2013-15	Q8		\$149,227
	Q7		\$149,227
	Q6		\$149,227
	Q5		\$149,227
	Q4	\$195,501	\$140,867
	Q3	\$201,399	\$140,867
	Q2	\$153,685	\$140,867
	Q1	\$145,492	\$140,867
2011-13	Q8	\$152,125	\$131,925
	Q7	\$140,817	\$131,925
	Q6	\$145,633	\$131,925
	Q5	\$131,012	\$131,925
	Q4	\$131,602	\$127,651
	Q3	\$153,018	\$127,651
	Q2	\$128,277	\$127,651
	Q1	\$122,300	\$127,651
Performance Measure Status: Approved			



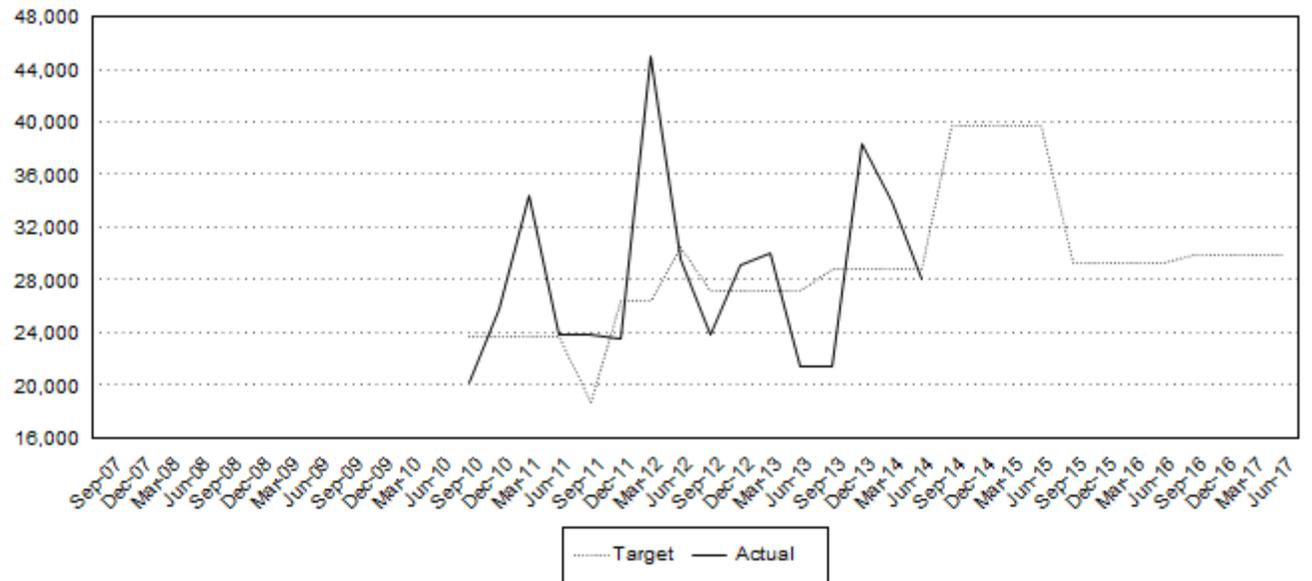
Appropriation Period: 2015-17 Activity Version: B1 - B115-17 Initial Budget Sort By: Activity

001837 Total Distributions to the Washington Opportunity Pathways Account (in thousands of dollars)			
Biennium	Period	Actual	Target
2015-17	Q8		\$29,820
	Q7		\$29,820
	Q6		\$29,820
	Q5		\$29,820
	Q4		\$29,352
	Q3		\$29,352
	Q2		\$29,352
	Q1		\$29,352
2013-15	Q8		\$39,726
	Q7		\$39,726
	Q6		\$39,726
	Q5		\$39,726
	Q4	\$28,074	\$28,817
	Q3	\$33,958	\$28,817
	Q2	\$38,413	\$28,817
	Q1	\$21,460	\$28,817
2011-13	Q8	\$21,356	\$27,105
	Q7	\$30,106	\$27,105
	Q6	\$29,123	\$27,105
	Q5	\$23,869	\$27,105
	Q4	\$29,540	\$30,490
	Q3	\$44,924	\$26,385
	Q2	\$23,602	\$26,385
	Q1	\$23,786	\$18,748
Performance Measure Status: Approved			

Appropriation Period: 2015-17 Activity Version: B1 - BI15-17 Initial Budget Sort By: Activity

Dollars

001837 - Washington Opportunity Pathways Account 17F



Grand Total

	FY 2016	FY 2017	Biennial Total
FTE's	142.9	142.9	142.9
GFS	\$0	\$0	\$0
Other	\$473,468,678	\$481,445,106	\$954,913,784
Total	\$473,468,678	\$481,445,106	\$954,913,784

**Agency Performance Measure
Incremental Estimates for the Biennial Budget**

Agency: 116 State Lottery Commission

Budget Period: 2015-17

Activity: A001 Washington's Lottery

M2	8L	Lease Rate Adjustments	No measures linked to decision package
M2	9J	Nonappropriated Fund Adjustment	No measures linked to decision package
M2	M8	15% Reductions - Goods and Services	No measures linked to decision package
M2	M9	15% Reductions - Staffing Component	No measures linked to decision package
M2	N0	District Sales Rep Funding	No measures linked to decision package
PL	VC	Gaming Vendor Contract	No measures linked to decision package
PL	VE	Funding for Staffing Workload	No measures linked to decision package

Outcome Measures 000188 Total Sales - All Lottery Products (in thousands of dollars)

			<u>FY 2016</u>	<u>FY 2017</u>
M1	90	Maintenance Level Revenue	610,600.00	622,300.00

Output Measures 000002 Total Distributions to Lottery Beneficiaries (in thousands of dollars)

			<u>FY 2016</u>	<u>FY 2017</u>
M1	90	Maintenance Level Revenue	133,211.00	136,702.00

Output Measures 000031 Total Distributions to the General Fund Account (in thousands of dollars)

			<u>FY 2016</u>	<u>FY 2017</u>
M1	90	Maintenance Level Revenue	0.00	1,147.00

Output Measures 000052 Total Distributions to the Problem Gambling Account (in thousands of dollars)

			<u>FY 2016</u>	<u>FY 2017</u>
M1	90	Maintenance Level Revenue	315.00	321.00

Output Measures 000054 Total Distributions to the Economic Development Strategic Reserve Account (in thousands of dollars)

			<u>FY 2016</u>	<u>FY 2017</u>
M1	90	Maintenance Level Revenue	3,800.00	3,800.00

Output Measures 000165 Total Distributions to Stadium & Exhibition Center - CenturyLink Field (in thousands of dollars)

			<u>FY 2016</u>	<u>FY 2017</u>
M1	90	Maintenance Level Revenue	11,687.00	12,155.00

Output Measures 001837 Total Distributions to the Washington Opportunity Pathways Account (in

State of Washington
Agency Performance Measure
Incremental Estimates for the Biennial Budget

Agency: 116 State Lottery Commission **Budget Period: 2015-17**
thousands of dollars)

Activity: A001 Washington's Lottery
Output Measures 001837 Total Distributions to the Washington Opportunity Pathways Account (in
thousands of dollars)

			<u>FY 2016</u>	<u>FY 2017</u>
M1	90	Maintenance Level Revenue	117,408.00	119,280.00

Activity Inventory Indirect Cost Allocation Approach

Agency: 116 Washington's Lottery

Date: September 5, 2014

Allocation Method Description: Total indirect costs include total costs of fund 578 – the Lottery Administrative Account. Costs include the total base, plus carry forward items, and maintenance level requests.

	% Allocation Received	Dollars Allocated FY1	Dollars Allocated FY2	Total Allocated
Activity A001	100%	\$12,797,000	\$12,801,000	\$25,598,000
Total	100%	\$12,797,000	\$12,801,000	\$25,598,000



Washington's Lottery Strategic Plan

2015 – 2017 Biennium

(Fiscal Years 2016 and 2017)

Shared Vision:

Washington's Lottery is an engaging and energetic workplace. We cultivate an environment of empowerment, accountability, teamwork, and learning. Communication is open and honest.

The Lottery promotes strong relationships with our players, retailers and partners. We progressively implement new and emerging technologies to improve processes and communications. What we do positively influences the citizens of Washington State.

We are proud to be members of Team Lottery.

Mission:

Washington's Lottery operates with integrity to offer games of chance that generate revenue for the benefit of the people of Washington.

Values:

Respect: Treating others with dignity; behaving in a way that honors the right of each person to be valued and be treated ethically; showing consideration or thoughtfulness to others. Behaving respectfully includes behaviors like courtesy, honesty, listening, and prompt-ness. Respect also involves encouraging people to express their ideas and opinions, including disagreements and complaints. It involves valuing the differences that arise from unique ideas, experiences, and backgrounds.

Empowerment: Sharing information, skills, resources, and authority so that employees at all levels are free to take initiative and make decisions to solve problems and improve service and performance within their areas of expertise

Integrity: Dealing openly and honestly with customers, fellow employees, regulators, and other stakeholders, meeting or exceeding our commitments and acting consistently with our other values. It means keeping the promises that we make to others, respecting the interests of those with whom we interact, and meeting the highest standards of ethical behavior, as well as communicating candidly and openly in meetings and one-on-one to share ideas, to disagree, and to offer or receive constructive criticism where appropriate.

Accountability: Achieving high performance on a consistent basis involves results-orientation with a focus on accountability in all that we do. This means setting clear goals, reporting progress on a regular basis, and monitoring progress through appropriate performance measures. It also includes following through to ensure completion of what we set out to do and acknowledging mistakes when they are made. This value applies equally to team assignments as it does to individual responsibilities.

Agency Goals (Fundamentals Map)

- Engaged Team Members
- Regulatory Compliance
- Socially Responsible
- Strong Partnerships
- Continuous Improvement
- Maximize Contributions to the State

Statutory Authority:

67.70.040...in order that such a lottery be initiated at the earliest feasible and practicable time, and in order that such lottery produce the maximum amount of net revenues for the state consonant with the dignity of the state and the general welfare of the people...The use of electronic or mechanical devices or video terminals which allow for individual play against such devices or terminals shall be prohibited. Approval of the legislature shall be required before entering any agreement with other state lotteries to conduct shared games;] RCW 67.70.330...To the extent set forth in this section, the office of the director shall be a law enforcement agency of this state with the power to investigate for violations of and to enforce the provisions of this chapter and to obtain information from and provide information to all other law enforcement agencies.

Submitted September 12, 2014: the information in this Strategic Plan is subject to change as legislation, policy changes and economic factors change.

Washington's Lottery Strategic Plan

2015 – 2017 Biennium

Business Description

Washington's Lottery provides funding for legislated beneficiaries as determined by the Washington State Legislature. The lottery does this by maximizing profits from the sale of creative and entertaining Lottery products within our guidelines and regulation. The Lottery's two current product lines include *Scratch* and *Draw* games.

- *Scratch games* – Played by scratching a coating from a paper ticket to reveal any predetermined wins. Priced from \$1 to \$20. 50 – 60 new games are scheduled to be launched annually. *Scratch* is also known as *Instants*.
- *Draw games* – Played by matching numbers on a game ticket to numbers *Drawn* by the Lottery, either daily, twice a week or three times per week. Priced at \$1, games include Mega Millions (multi-state), Lotto, Hit 5 Daily Game and Daily Keno. Priced at \$2, games include Powerball (multi-state) and Match 4. *Draw* is also known as *Online*.

A small staff of 130 full- and part-time employees operates the Lottery with 14 positions held vacant to meet budget requirements. The appropriated FTE level for FY15 and FY17 is 142.9. The Lottery Commission adopts administrative rules that govern the establishment and operation of Washington's Lottery. This Commission is comprised of five Commissioners, appointed by the Governor to rotating six-year terms. Private sector contractors GTECH, Scientific Games and Pollard Banknote provide lottery tickets, gaming equipment and support systems to facilitate ticket sales at retail locations. The Lottery engages and licenses retail business partners to distribute Lottery products. As of June 30, 2014, 3793 retailers sell our complete product line across the state.

The lottery currently accounts 8.3 percent of the gaming market share in the State of Washington (*Washington State Gambling Commission – Fiscal Year Net Receipts Comparison 2013*). The Lottery's sole competitive advantage is rooted in its legislated control over the sale of gaming products at retail locations such as convenience stores and supermarkets. In addition, the Lottery is, for now, the only gaming choice in Washington that offers top prizes of millions of dollars for a wager as small as one dollar.

Gaming / gambling market share consists of tribal casino (80.3 percent) offering table games of chance (craps, roulette), house banked card games (blackjack, poker), multi-draw Keno and Video Lottery Terminals (VLT's). Private casinos and card rooms (7.7 percent) offer traditional poker in addition to house banked card games. Horse Racing, Pull Tabs, Bingo and Raffles make up the remaining 3.7 percent.

Lottery Market Share

Most United States lotteries enjoyed near-monopoly status during their early years, with legitimate gaming competition coming only from resort casinos in Las Vegas and Atlantic City. During the 1990s, lottery monopolies begin to erode as states permitted other gaming activities to expand significantly. The State of Washington has more forms of legal in-state gaming entities than most other states. Washington Lottery's direct legitimate gaming competition comes in many forms. These forms of legitimate competition include tribal casinos, pull-tab games, horse racing and traditional card rooms. All of these activities taken together have produced gaming revenues (wager minus win) that have quint-tripled since 1996. However, this growth in gaming has occurred almost exclusively in tribal casinos.

Lottery revenues have shown a steady increase over this time period, while bingo and pull tab revenue has seen steady declines. In FY1996, Lottery revenues of about \$166 million accounted for 35 percent of statewide gambling revenue. In FY2013, Lottery revenues were \$230.2 million, but gaming had expanded so that the Lottery share accounted for only 8.3 percent of the statewide revenue. In September 2011 the U.S. Justice Department opinion opened the door for cash-strapped states and their lotteries to bring online gambling to their residents, as long as it does not involve sports betting. In 2013 there are only a handful of states that have brought internet gaming to fruition. Sales have not been as robust as predicted. It is still early, and it will be interesting watch how this play's out in the industry.

Lottery Customer Expectations

Customers of the Lottery expect us to keep games interesting and relevant.

Traditionally, the compelling reasons that consumers choose Lottery games over its competitors' games have been rooted in four general areas: 1) the ability to offer extraordinarily large sums of money as prizes for very small wagers; 2) the convenience of play as Lottery games are in nearly every convenience store and supermarket, as well as many other retail outlets; 3) public openness, accountability and integrity with respect to game operations and beneficiaries; and 4) proceeds from the Lottery benefiting the citizens of Washington.

While the Lottery still maintains a competitive edge in these areas, threats to the perceived value, and therefore its player ship base, are numerous.

Increasing gaming options, such as those that attain a fast pace or involve an element of skill, have accounted for much of the growth in the casino and card room venues. The Lottery will need to create compelling games, within its guidelines, that can compete in this market. Much of the growth in casinos has been of games offering top prizes of \$10,000 or less with frequent wins. Rather than leaving this type of game to the casinos, the Lottery continues to introduce games to emphasize this type of prize to our portfolio.

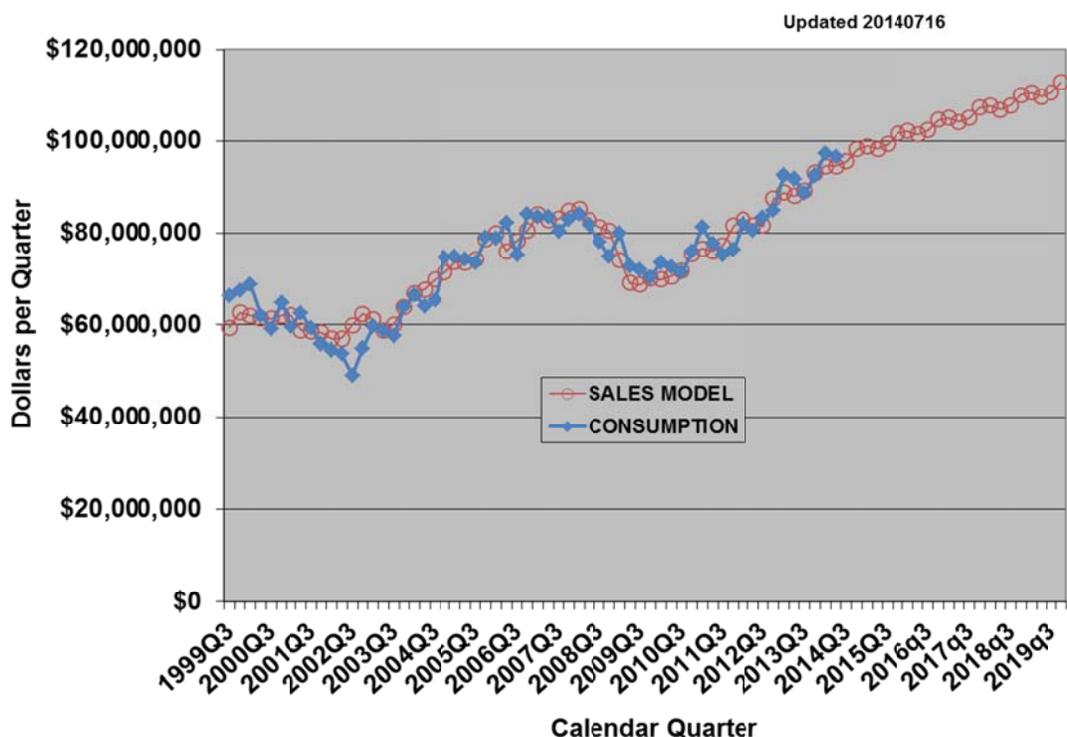
Large, popular mass merchandising outlets do not offer Lottery products, largely because lotteries do not have a consistent business model from jurisdiction to jurisdiction, and commissions on lottery products are relatively low. As these chains continue to expand their product offerings into gasoline, convenience items and groceries, they draw customers away from traditional gas, convenience and grocery stores where Lottery products are sold.

Ongoing public opinion research shows that the Lottery has maintained a reputation for honesty and integrity. The ability to assess trends in public opinion between FY11 and FY12 is weaker than across other years, because of a change in how the population is sampled: Web-based panels, rather than landline telephone respondents, now provide the fundamental data. However, the perception that “proceeds from the Lottery benefit the people of Washington State” appears to have strengthened, if anything, during the economic dislocation that started in 2008. Going forward, we expect to be able to use Web-based panels in population studies for many years.

Economic Factors

In Washington, sales of instant (*Scratch*) games have been largely predictable from macroeconomic factors. Sales of *Draw* games, as a category, have followed the development of jackpots independent of economic factors. Instant sales have increased with the size of the potential playing population (i.e. residents over age 18, and with general price inflation (the Consumer Price Index). Sales have dropped in difficult economic times (which could be represented by a number of measures; we use rate of unemployment). The volume of sales is secondarily affected by characteristics of the product offering, as can be represented by the prize expense of the product. Significant drivers of instant sales are combined in a predictive math model. Model output is shown below in red, actual sales in blue

Projected and Actual Scratch Consumption



The negative impact of the recession on Scratch sales was offset by other factors by the end of FY12. Since then, there has been steady growth consistent with the main economic drivers. One factor in the growth of sales has been a shift in player preference toward higher-priced games, which also have a higher prize expense. Our predictive models were updated in January 2014 to better represent the impact of this shift. Actual sales were within 5% of the current model prediction in 22 out of the 28 quarters in FY08 through FY14. Consequently, we have confidence that the model will continue to give reasonable forecasts of scratch consumption in the near future.

The actual growth rate for FY14 was 6.5 percent over FY13. The current outlook is for annual sales of \$391 million in FY15 (4.2% over the FY14 endpoint), \$405 million FY16 (3.5% over the FY15 model, and \$416 million in FY17 (2.9% over the FY16 model).

Comparison to Other States

Washington's Lottery offers an array of products that includes traditional draw games like *Lotto*, as well as instant games (*Scratch* tickets). Some lotteries offer more recently-developed products, such as quick-draw *Keno* and Video Lottery Terminals, in addition

to these traditional products. These differences in product offerings account for large differences in sales between states.

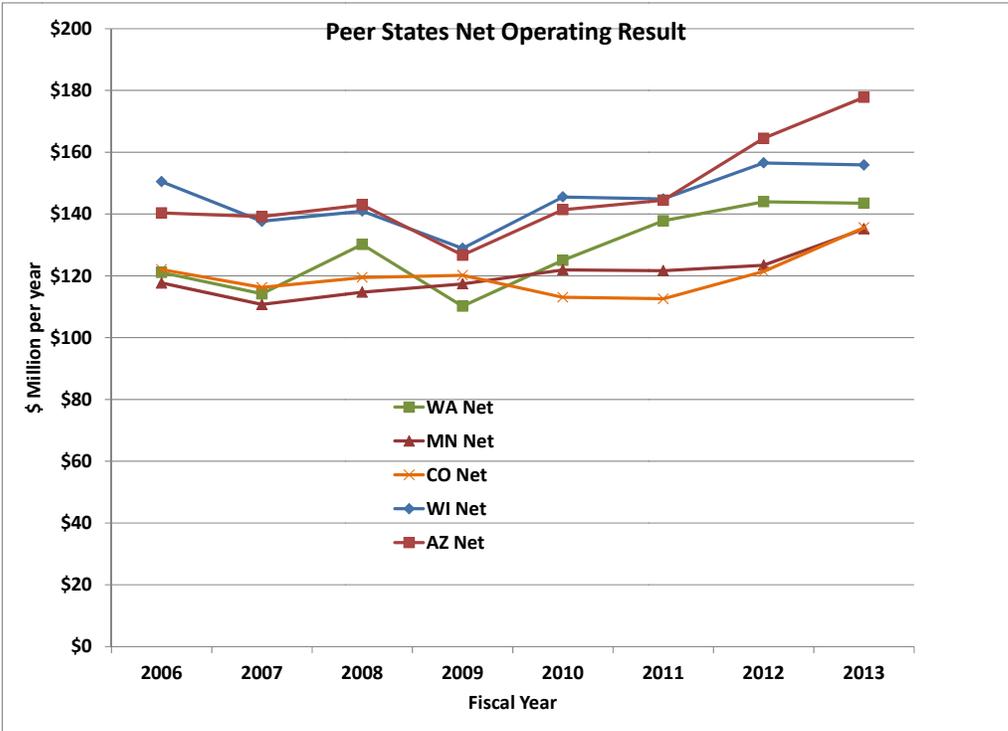
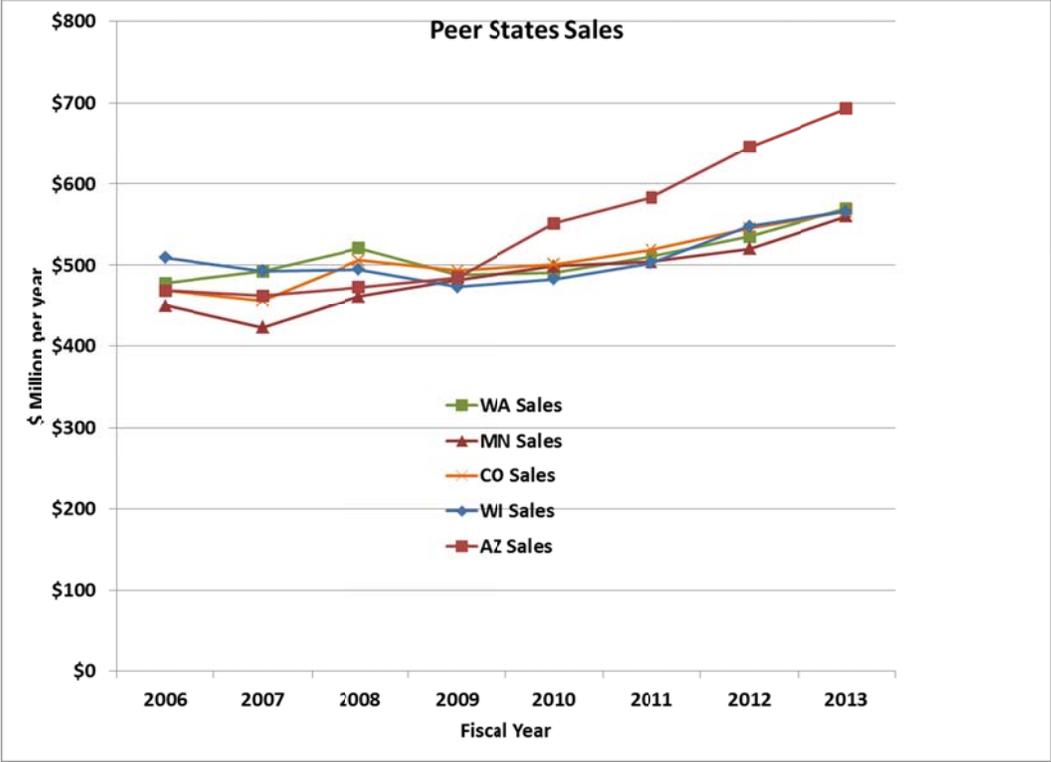
The differences between states in regards to population distribution, as well as the variety of lottery products offered by the different states, create a challenge when attempting to draw comparisons between Washington and other lottery states. Arizona, Colorado, Minnesota, and Wisconsin resemble Washington in product offering, retail sales per capita, and population characteristics. These states have long been used as a comparison group.

Within this group of peer states, we can assess past (FY2006-FY2013) results to illustrate a key fact: beneficiary transfers have been fairly stable, even in the face of large changes in sales.

The chart of sales trends among the peer states shows that AZ sales grew more rapidly than others from fiscal year 2009. This is mostly due to large changes in the product offering in AZ, following relaxation of a legislated restriction on prize expense. Average prize expense of lottery games in AZ grew from less than 56% to almost 62% between 2008 and 2011. Advertising expenditures also grew, averaging slightly more than 2% of sales.

AZ increased annual sales by about \$200 million per year between 2009 and 2013, and by 2013 had increased its net operating result (sales less prizes and operating expenses) by about \$40 million per year. WA (and other peer states) increased net operating result by about \$20 million, on a much smaller increase in sales (roughly \$70 million).

In FY14, WA increased sales to \$595 million, continuing the trend visible in the chart below. The net operating result is estimated at about \$142 million, consistent with 2012 and 2013. Final results, and results from peer states, are not available at the time of this summary.



In both WA and WI, the increase in sales without a corresponding increase in profit is mostly due to shifts in the mix of games that players consume. Between FY09 and FY11, players shifted money away from the highest-priced instant games toward the \$5 instant games, which are more profitable for the lottery. Since 2011, much of the growth in sales of instant games has again been in the highest-priced games. These increased sales have come with a lower rate of profit.

Major Partners

The Lottery's key partners are those outside contractors that work as an extension of the Lottery, and without which we could not operate as efficiently and effectively as we do.

Retailers:

As of June 30, 2014 there were 3793 retailers selling Lottery tickets at their locations are the Lottery's single most important business partners. Retailers represent not only the distribution network for Lottery products, but they are also the main point of contact with the people who purchase and play our games. The Lottery works with retailers not only to encourage the responsible promotion and sale of Lottery products at retail, but also to ensure that Lottery products are represented favorably with the public. It is crucial for the Lottery to continue to review its business relationship through constant refinement of the Lottery's business practices. Expect a professional sales force that will assist them in growing sales, product knowledge, training, and inventory management

GTECH:

GTECH Corporation is the leading global supplier of systems and services for the Lottery industry. Serving clients in over 50 countries, it has 340,000 point of sale terminal and processes 500 million transactions daily through the entire GTECH network. (The Lottery has completed the initial six year contract and is in their first of four one-year extensions). The company design, produces, implements, operates and services computerized networks. GTECH is the Lottery's combined Draw game and Scratch game operations vendor and, as such, plays a critical role in the distribution of tickets, sales tracking, validations of winning tickets, best practices, consulting services, and the Lottery's overall integrity and accountability. The company also provides the Lottery with new and revised gaming concepts, system modifications, information about other lotteries, industry insights and assistance with servicing retailers. GTECH is also the Lottery's provider of Lottery Vending Machines (LVMs). LVMs provide player convenience through self-service dispensing of *Scratch* tickets from machines that can offer up to 24 different games at one time as well as *Draw* game tickets. This is the primary operating system and will expire in 2016. The lottery is in the process to determine who will be the vendor in 2016.

GTECH Printing Corporation:

Today's marketplace is filled with entertainment alternatives that make it difficult for lotteries to create and launch products that can compete successfully. In 2007 GTECH Printing acquired Creative Games International (CGI), an experienced *Scratch* ticket provider. This acquisition has allowed GTECH Corporation to become a single source provider. The Lottery has contracted with GTECH Printing as a secondary *Scratch* ticket provider.

Scientific Games Corporation:

Scientific Games is a global marketing and technology leader in the lottery industry with over 120 national and international customers, including many of the world's highest revenue-producing lotteries. They work in close partnerships with customers to drive retail sales and contain operating costs, resulting in more money for lottery beneficiaries such as education and other worthy causes.

Scientific Games offers a full line of *Scratch* games and *Draw* games, integrated systems and services including *Scratch* tickets, licensed products, entertainment based promotions, *Draw* and *Scratch* ticket validation systems and terminals, cooperative services, best practices, consulting services and innovative ticket vending systems. Scientific Games is Washington's Lottery's primary *Scratch* ticket printing vendor. In March 2014 Scientific Games was awarded a new six year contract with up to four years of extensions.

Pollard Banknote:

Pollard Banknote has been a leading supplier of instant tickets for over 25 years and serves over 60 lottery and charitable gaming organizations worldwide. We are the only lottery supplier solely focused on instant ticket products and related services. Our best talent and resources are dedicated to providing the most innovative, secure, and marketable instant games in the world. We also provide the most comprehensive turnkey support solutions in the industry, including: market research, validation expertise, algorithm development, lottery management services, licensed games, social media expertise, player loyalty clubs and second chance draws, internet and mobile strategies, retail development, and much more! As part of our most recent RFP for a *Scratch* vendor we awarded Pollard Banknote the opportunity to be a secondary *Scratch* ticket provider.

Cole and Weber:

Cole and Weber were awarded our advertising contract in 2008 and have won the competitive bid process in a recent RFP procurement to retain the lotteries business for advertising related services. They are a full service Marketing/Public Relations agency contracted to help promote Washington's Lottery. Their services include creative development, media buying, communications, public relations, promotions, digital media and advertising. The new contract is for three years with three years of extensions.

Beneficiaries

The Lottery's beneficiaries are legislatively mandated.

Washington Opportunity Pathways Account:

The 2010 Legislative session marked an exciting change at Washington's Lottery with the passage of Senate Bill 6409. The law states, "The legislature finds that institutions of higher education are key to the future employment opportunities of Washington citizens and to the economic well-being of the state. The legislature finds that the recruitment of entrepreneurial researchers at institutions of higher education and the formation of research innovation teams will further enhance faculty recruitment and economic development. The legislature further finds that current financial aid and early childhood education programs are underfunded and subject to the unpredictability of the state budget. It is the intent of the legislature to direct lottery account moneys toward the Washington Opportunity Pathways Account and that those funds stabilize and increase existing resources for the recruitment of entrepreneurial researchers, innovation partnership zones and research teams, early childhood education, opportunity grants, educational opportunity grants, get ready for math and science scholarships, passport to college promise scholarships, college bound scholarships, the state work study program, the state need grant, Washington scholars awards, the Washington award for vocational excellence, and Washington promise scholarships. It is also the intent of the legislature to continue funding the education construction fund by redirecting a portion of general state revenues to that fund." WOPA contributions in FY13 were \$115.6 million and are expected to be \$121.4 million in FY14. Contributions for WOPA are expected to be the following; for FY15 a \$119.4 million, FY16 a \$119.0 million and FY17 a \$119.0 million.

Stadium and Exhibition Account (Century Link/Seattle Seahawks):

The Lottery has a legislative mandate to provide funding for construction of the Washington State Football/Soccer Stadium and Exhibition Center, beginning in 1998 and ending December 31, 2020. Total commitments over the life of this mandate will be \$219.7 million. The remaining balance as of July 1, 2015 and beyond is \$88.8 million, of which \$11.2 million will be paid in FY15, \$11.6 million will be paid in FY16 and \$12.1 million will be paid in FY17. The Seattle Seahawks are mandated to assist the Lottery, in the form of in-kind contributions, in generating these funds. To accomplish these goals, the Lottery and the Seahawks have developed a strong partnership that includes joint efforts in creating effective advertising, signage, Web-site links and banner advertisements; training camp, pre-season and regular season home game promotions; and unique sales incentives to support Lottery retailers and consumers.

Governor's Economic Development Fund:

The Lottery has a legislative mandate to distribute one third of all prizes that go unclaimed during the fiscal year to the Economic Development Strategic Reserve Fund. The use of these funds is limited to the funding of a position within the Economic Development Commission and other expenditures authorized by the Governor with recommendation of the Director of the Department of Community, Trade and Economic Development and the Economic Development Commission. Contributions in FY13 were \$3.6 million and are expected to be \$3.8 million in FY14. FY15, FY16 and FY17 contributions are expected to be approximately \$3.5 million per year.

Problem Gambling Account:

The Lottery has a legislative mandate to contribute to a fund for the prevention and treatment of problem and pathological gambling. The Lottery has always been a primary contributor to the prevention of problem gambling. The mandate formalizes that approach. The Lottery contributes to this fund a percentage of its net receipts (the difference between sales of Lottery products less the payments made to winners). The Lottery will contribute 13/100 of 1 percent of our net win receipts to Problem Gambling during fiscal years 2015 - 2017.

Education Legacy Account:

The education legacy trust account is created in the state treasury. Money in the account may be spent only after appropriation. Expenditures from the account may be used only for support of the common schools, and for expanding access to higher education through funding for new enrollments and financial aid, and other educational improvement efforts. For the FY13 – 15 Biennium there was a budget proviso directing the Lottery to place \$16.1 million out of their unclaimed prize fund to this account.

E-Commerce Drivers and Industry Trends

Within the instant game category, there has been a clear trend for growth in sales of games that carry both a higher per-unit price (\$5 to \$20) and a lower rate of profit for the lottery. Nationally, most of the growth in sales since 2011 has been in games in which at least 70% of the purchase price is returned to players as prizes. The potential to increase lottery profits in this way is clearly limited.

The Federal government's re-interpretation of the Wire Act in 2011 removed the federal restriction that had prevented state lotteries from selling their products over the Internet. A few states moved quickly to offer their existing products over the Web. Others (including Washington) have restrictions at the state level that preclude this.

Adaptation to the opportunity to sell over the Web could be called a dominant trend in the US Lottery industry, even though not all states are participating. There are basically two threads of discussion, the first around how Web sales of existing products will impact the current bricks-and-mortar distribution, the second about what forms Lottery games

should take in order to make best use of Web-based play. Traditional retailers have expected a negative impact on their Lottery trade that has not, as yet, materialized- states that have pursued Web sale of traditional Lottery products have not seen large sales volumes in that channel. In the Web space, lottery games compete for attention with skill-based games that can be played for free. Lottery product developers have begun to work on ways to make non skill-based games that cost money an attractive alternative. The unique appeal of Lottery games, on the Web as elsewhere, is the chance to sometimes win money.

Another industry trend in recent years is the increasing importance of multi-state “bloc” games. In 2010, nearly all jurisdictions were selling both Mega Millions and Power Ball. In 2012, the price of Power Ball was increased to \$2 per wager. Power Ball is now attracting somewhat greater dollars for a given jackpot than before the price increase, with half the resulting coverage of the matrix. The outlook is consequently for development of notably higher Power Ball jackpots than before the price increase. The timing of such developments is of course unpredictable. Mega Millions adjusted its matrix in October 2013 to support development of larger jackpots.

In October 2014, many US lottery jurisdictions will introduce a new bloc game, called “Monopoly Millionaires’ Club”. This game is priced at \$5 per play, and has a value proposition that is different from Power Ball and Mega Millions, in that the game is designed to have a top prize no higher than \$50 million and to produce a “shower of millionaires” each time the top prize is won. To the degree that this game draws sales away from Power Ball and Mega Millions, it will slow down development of jackpots in those games. The expectation is for an increase in sales for the bloc game category overall.

Washington, however, will not participate in the October 2014 launch. It is not clear at this time when or whether we will join this game, since doing so requires both legislative approval and considerable development of supporting information systems. Consequently, the “Monopoly Millionaires’ Club” game is a near-term risk to sales in the bloc game category in Washington. This volatile category has produced over \$100 million in sales in Washington during each of the past two years.

Assessment Product Portfolio

Draw Games

Draw game play has evolved over the last 17 years. Between 1998 and 2003 *Draw* games averaged \$219 million per year and consisted of Lotto, Quinto, Daily Game and Daily Keno. The Lottery added Lucky for Life in 1999 and Mega Millions in 2003. Between 2004 and 2009 *Draw* game sales averaged \$180 million per year. There were several changes to the category in this time frame, Lucky for Life was discontinued in 2005, ZIP was added in 2006 and then dropped in 2007, Quinto was replaced by Hit 5 in 2007 and 2008 brought the addition of Match 4, our first \$2.00 per play *Draw* game. We also offered two Raffle games for the first time in 2008. In 2010 and 2011 we saw a stabilizing of the category with \$201 million each year. In 2010 we added Powerball a

second multi-state game and in 2011 reintroduced a Raffle game. In 2012 we had a significant increase due to the largest Mega Millions Jackpot in the history of the game. Our *Draw* game total for FY12 was \$217 million. Also, in 2012 the cost of playing Powerball went from \$1.00 to \$2.00. We have seen a slight increase in *Draw* games over the last three years (FY12 – FY14) has averaged \$215.4 million per year. We anticipate that FY15 – FY17 the *Draw* game category should represent around \$205 million per year.

In some states, lotteries have diversified their product portfolio beyond *Instant* and *Draw* games. A Video Lottery Terminal (VLT) can be thought of as an electronic form of an *Instant* game in that a universe of possible outcomes are pre-determined before the game is initiated, and each play consists of buying one of the predetermined outcomes. This background action can be accomplished by an electronic foreground that simulates the play action of a slot machine, a traditional game of chance, or some other entertainment.

Sales of some *Draw* games can be bolstered by increasing the frequency of the draw. Several states draw their smallest “pick a number” game two to three times a day. In social settings where results can be communicated in real time by video monitors, *Keno* games are most successful when drawn at four to five minute intervals. Quick-draw *Keno* has been a strong revenue generator in the states that offer it.

Several state lotteries have begun to introduce computer, Internet and mobile phone enhancements to their product line. The expectation is that this will continue to increase with the recent DOJ opinion. For Washington state current legislation does not allow the lottery to take advantage of VLTs, multiple drawings or interacting with an electronic device.

Instant Games

Like *Draw* games there have been several new price points added over the last 17 years which have helped to grow the *Scratch* category. In 1998 *Scratch* offered a \$1, \$2 and \$5 games. Between 1999 and 2003 *Scratch* added a \$3 game in 1999, a \$10 game in 2001 and a \$7 game in 2002. *Scratch* as a category averaged \$291.1 million per year. Between 2004 and 2009 *Scratch* saw some of its largest increases with 2008 being the top producing *Scratch* year at \$330 million. In 2004 the \$ 20 game was added and the \$7 game was dropped in 2006. The category averaged sales of \$307 million per year. Both 2009 and 2010 were negatively impacted by the economy with 2010 hitting \$289 million. The category has rebounded since 2011; 2011 was \$20 million over the previous year, 2012 saw another \$24.7 million increase; 2013 was plus \$34.4 million and 2014 was up \$25.5 million. Overall the *Scratch* category is up \$104 million over 2011, this is due primarily due to increases in higher price points. For FY14, scratch games accounted for approximately 64 percent of Sales.

Our current *Scratch* offering ranges in price from \$1 to \$20 and consists of several different play styles. The premium-priced tickets feature bigger top prizes and more variety in appearance and style of play than the lower-priced tickets. Based on a 5 year average, actual prize expense for Scratch games ranges from 56 percent on the \$1 tickets to 73% on the \$20 ticket. At FY14 year end, total prize expense as a percentage of sales was approximately 61 percent.

The current growth trend on *Scratch* is not only from selling more tickets but from getting consumers to trade up from lower priced tickets to higher priced tickets. Our current average sales price (ASP) has increased from \$2.19 in 2003 to \$3.64 in 2014.

Use of Lottery Games

Although we know the volume of Lottery sales precisely, we rely upon population surveys to estimate the number of people who actually play, and how often they play. Population surveys that rely on contacts made through telephone landlines were used by the Lottery from the nineties through FY2011. During the last few years of this period, telephone landlines became a less effective sampling channel because many households changed the way they use such lines or dropped them altogether. Starting in FY12, the Lottery adopted population sampling methods based on responses gathered over the Internet.

Between 2006 and 2011, Lottery participation estimated through phone surveys dropped. However, the drop was most pronounced among the less-engaged players – those who play any game less often than once per week. With the conversion to Web-based surveys, estimated participation recovered. Currently we estimate that about 50% of Washington residents over the age of 18 spend some money on lottery games during the course of a year.

About 68% of lottery sales are due to the smaller group of players who play practically every week. The percentage of the population that is estimated to play every week dropped slightly, from about 9% to about 7%, between FY09 and FY11. Since FY11 it has varied between 7% and 8%.

Roughly 28% of lottery sales are due to people who play on a monthly basis. Currently we estimate that 16% to 17% of the population plays this way. About half of lottery “players” play irregularly, and they account for only about 4% of spending.

Much of our product development and marketing is directed toward the goal of moving those players who now play infrequently to engage with the lottery more consistently.

Assessment Human Capacity

The Lottery's workforce has steadily reduced to 130 employees, down from 144 in 2009. While the overall headcount reduction is small, it represents approximately 10 percent of the agency's employees, and approximately 17 percent of the employees in the Lottery's Headquarters location, the only location in which reductions have occurred. The agency has worked to manage the reductions in order to limit the impacts to our retailers and players as much as possible, but the result has been heavy workloads for the remaining employees.

The Lottery is currently holding approximately 14 positions vacant in order to meet budget restrictions. This has resulted not only in higher workloads for all Lottery staff, but also a reduction in the availability of back-up staff. The work from the positions that have been eliminated due to budget cuts has been distributed among existing employees' already full workloads. It is notable that as staff has been asked to assume new responsibilities, they have responded positively and embraced their new roles, but we recognize that many of our staff is performing at capacity.

The Lottery enjoyed low turnover in fiscal years 2012 and 2013. Total turnover in fiscal year 2014, including retirements and movement to other agencies, was approximately 12.5 percent, and we anticipate another high turnover year in fiscal year 2015. Although we continue to see a low number of employees resigning from state service, we are seeing a growing number of employees retire or move to other state agencies for increased opportunity and higher salaries.

Another concern for the agency is its ability to pay competitive salaries. In addition to competing with other state agencies that offer more opportunity, Lottery draws many of its marketing and sales employees from private-sector employers. In the past, we have been able to point to benefits and work/life balance as counter-balances to offset our lower salaries. However, although the state's benefits remain good, we do not find the benefits package to be a strong enough recruitment tool.

Compounding the concerns discussed above is the continued impact of the state's budget situation. The Lottery's administrative budget has been cut time after time, which impacts the agency into the future. Salaries and benefits are by far the largest component of the administrative budget, totaling approximately \$9.7 million per year, or about 77.8 percent of the Lottery's annual appropriated budget. This tight budget limits our ability to explore recruitment and retention pay or other available options. Each time the budget is cut, it impacts staffing levels, thus increasing workloads.

The Lottery has focused for many years on building efficient processes that make the most of our small staff. Even with this focus, given our current conditions, there is no additional human capacity upon which to draw for projects critical to the organization's future operations, and funds to supplement existing staff are extremely limited.

Internal Resource Assessment

Staffing Levels

Washington's Lottery currently employs approximately 130 full-and part-time employees with a strong mix of private- and public-sector experience. This mix strengthens the Lottery's ability to function as a state agency that produces revenue, as do private-sector companies. As discussed above, this level of staffing is not optimal. The agency's FTE allotment for the biennium is 142.9, which is a reduction from its previous level of 144.9. Previous years' cuts to the agency's budget have caused significant staffing reductions, and although the agency has been successful in absorbing these changes within existing resources, the amount and complexity of the work performed has increased over the years. This extremely tight level of staffing impacts the agency's ability to perform new work. When possible, new projects are timed to have the least impact on existing priorities. Because of the professionalism, passion and dedication of our employees, the agency continues to produce revenues to its beneficiaries. However, in order to support upcoming mission-critical procurements adequately, it will be critical for the Lottery to recover at least a portion of its funding to fill positions currently held vacant.

Employee Survey/Satisfaction

The Lottery's 2013 Employee Survey results showed declines in every area surveyed. The agency's average score is 3.7 out of a possible 5.0. Average responses in past years were 4.07 in 2011, 3.91 in 2007 and 4.02 in 2010. Questions that showed the largest declines were:

- 5) I have opportunities at work to learn and grow
- 12) I know how my agency measures its success
- 13) My agency consistently demonstrates support for a diverse workforce
- 15) I am encouraged to come up with better ways of doing things

While increased workloads are likely contributors to some of these results, we do not believe they are the root cause of this change in satisfaction and are actively working to understand this feedback from employees so that we can work to improve employee satisfaction. We are also participating in the state's Employer of Choice work, participating on the "Better Ways" cohort. The Lottery's management is concerned about these results and focused on maintaining transparency and communicating clearly with employees, believing these philosophies support a performance-based culture. We are currently increasing our emphasis on the quality of supervision and also working to incorporate Lean concepts into the workplace. We believe these focus areas will contribute to improved employee engagement.

Succession Planning

The Lottery has been engaged in succession planning efforts for key positions/employees over the past several years. As a small agency, one of the risks the agency deals with is a concentration of knowledge in a few key employees. Because of the potential impact of knowledge loss when these employees leave the agency, we have made it a priority to cross-train and request additional notice from these employees as we become aware of their future plans. When possible, we work to double-fill positions to ensure adequate training of replacement employees. Budgetary restrictions challenge our ability to do this.

Succession planning also helps address future gaps by placing staff on development paths that will prepare them for higher-level responsibilities in the future. The Lottery also encourages participation in activities that expose staff to projects and activities that are at a higher level and with a broad perspective, such as tactical and strategic planning, return-on-investment determinations, and working cross-functionally to improve results. The benefit to these activities is the exposure it provides staff to other functional areas' needs and interests and the ability the agency has to assess the individual employee's potential and current skills. The disadvantage is that it increases workload issues for staff who are already feeling the impacts of downsizing.

Knowledge loss due to a large number of employees who are eligible for retirement

The Lottery is in its 32nd year. Over the past five years, a number of employees who were with the organization from the beginning have begun to retire from state service. Eighty-nine percent of Lottery employees are over age 40.

The agency's percentage of retirement-eligible employees remains high, with approximately 33 employees, or 25 percent of our workforce, eligible to retire in the next year alone. We have recently begun to see employees who have been retirement-eligible for some time make the decision to leave state service, and we anticipate this trend continuing.

Projections show approximately 64 employees, or 49 percent of our workforce, will be eligible to retire in the next five years. Approximately half of these are employed in the Sales Division and provide direct service to our retailers. Many of the remaining employees who will be eligible to retire in the next five years are in key positions throughout the agency and will require substantial knowledge transfer to assure operations continue without problems. The Lottery relies on having knowledgeable staff in order to continue meeting our sales and contribution goals, but we note that staff reductions further impact our ability to devote the necessary resources to succession planning activities. Doing so remains a priority, however.

Human Resources

Below we have outlined HR's plans to support the Lottery through FY17. This strategy includes four primary elements that are long-lasting and tied to the overall mission of Washington's Lottery. The foundation includes HR's mission, vision, and service philosophy.

Picture This - A Vision of HR's Future Success

Lottery Human Resources, in collaboration with our partners across the agency, is working with Lottery leadership to proactively identify and articulate strategic human resource management challenges, provide expert advice and counsel and lead in implementing best practices.

The Human Resources and Customer Service Division is recognized as adding high value to the achievement of the Lottery's mission and to the agency as a whole by supporting performance, productivity, work/life balance and well-being. We are also seen as a prudent financial steward through our implementation of efficient and cost-effective practices, programs and services.

HR and Customer Service staffs are professionals who are capable, competent and service-oriented. We share a common set of values characterized by trust, collaboration, communication and partnership and take pride in our contribution to the success of the agency.

Why We're Here - HR Mission and Service Philosophy

The Human Resources Division supports the Lottery's mission, goals, strategies, objectives and day-to-day operations by focusing efforts on the agency's most valuable asset—its employees. We support the integrity of the Lottery by impartially administering human resource programs and services to attract, develop, motivate and retain a diverse workforce. We fulfill the roles of a coach to management and leadership; architect of organizational structures and capabilities; designer and deliverer of creative solutions; facilitator of people interactions; and leadership through example. We support an atmosphere where excellence and creativity are valued and recognized.

Human Resources provide high-quality service to all potential, current and past employees. We treat each individual with honesty, respect and personal attention from their first inquiries about position vacancies, services and programs through to retirement (and beyond).

HR/Customer Service's Strategic Response:

Human Resources and Customer Service commits to the agency to achieve the following three-year plan by the end of Fiscal Year 2017. The Human Resources and Customer Service

Strategic Plan aligns HR/CS goals with the top challenges facing the agency. Our strategic goals are:

1. **DEVELOP LEAN LEADERS:** In order to support the agency's goal of Engaged Team Members, we set a goal to strengthen leadership capability and capacity throughout the agency. This goal will encourage leaders to build employees' ability through coaching and supporting high levels of customer-focused performance, creating a culture to sustain improvement, and guiding problem-solving. It will also give managers and supervisors the training and support necessary to hold themselves and others accountable to engage in behaviors that support our values.
 - Arrange for Lean leadership workshop/training focused on the personal and organizational value of creating a healthy workplace culture, moving us to the level of cultural transformation necessary to support our Results Lottery initiative.
 - Develop leadership at all levels using the organizational values and Management Team Principles as a framework.
 - Integrate leadership competencies at multiple levels within the workforce to increase performance and productivity.
 - Support strength and capability at the senior management and executive level.

2. **STRONG PARTNERSHIPS:** As Human Resources and Customer Service professionals our intent is to:
 - Communicate openly with staff, managers, other divisions, customers, and our business partners
 - Partner/collaborate with customers and consistently exceed their expectations
 - Invest in human capacity and readiness to meet the future.
 - Create innovative alternatives, solutions and services that are responsive to organizational needs and consistent with the best human resources practices.
 - Provide results-based solutions that respect agency's values.
 - Work collaboratively and in cross-functional teams to benefit from the synergy of working with a diversity of experience, knowledge and competencies.

3. **ENHANCE CULTURE AND CLIMATE:** Facilitate a workplace culture and climate that is respectful, inclusive, collaborative, safe and healthy. We believe key components of such a workplace are reflected in our stated values and the statements below.
 - Information is shared appropriately and freely across all levels
 - Conflict is managed and differences are respected
 - An environment that supports the physical, psychological and social well-being of employees

- All employees have clearly defined roles, responsibilities, expectations and accountabilities
- Line managers and supervisors are held accountable for effective human resource performance and well-being
- Employees are aware of agency and division direction and how their performance directly affects achieving goals and objectives
- Leaders and employees are held accountable and recognized not just for performance and results but also for demonstrating the agency's values
- Employee contributions are valued and recognized; success is celebrated
- Employees participate in decisions and issues affecting their work

Performance Management

- Refresh the agency's performance management system (when the OFM suspension is ended) in a way that allows flexibility at the departmental level. Identify both high performers and areas for development, including professional and career development training using performance metrics.
- Promote greater leadership capability in the areas of greatest strategic need and support individual career growth to enhance our workplace environment.

Employee Development

- Support shared employer/employee commitment for career and self-development through continuous learning and growth opportunities. Assist in the design of developmental job assignments; maintain adequate training budget to provide opportunities for all employees to attend training as desired.
- Develop and implement a leadership development program and processes focused on the personal and organizational value of creating a healthy workplace culture, moving us to the next level of cultural transformation by educating and inspiring leaders at all levels in the organization.
- Develop a robust set of guidelines, approaches and tools to allow supervisors to be more proactive in setting standards for acceptable behavior and productivity.
- Identify Career Ladders. Develop the foundational pieces of a career ladder structure, including competencies and training provided around specific jobs/occupations

Clearly Articulated and Up-to-date Policies

- Ensure policies are current, clear and meaningful, and communicated to all employees.
- Support consistent application of policies and practices throughout the agency.

Evaluate and Refresh New Employee Orientation and Onboarding Process

- Evaluate current program; receive feedback from participants; benchmark best practices to refresh and improve the orientation experience
- Determine what can be automated and how to streamline modify and improve new plan, based on feedback;
- Develop an orientation for senior leaders (onboarding process, support and tools)
- Develop approach for departmental orientation (to include coach/mentor, feedback loops, etc.)

Support Employee Health and Well-Being: In order to support the Governor's goal of a healthy state workforce, HR will manage the agency's healthy workplace initiatives and implement activities to enhance well-being and productivity.

- Continue participation in Washington Wellness Works.
- Develop, implement and continuously evaluate a more robust engagement plan for Lottery employees to fully engage them in this goal.
- Maximize healthy behaviors through regular wellness activities and areas of focus.
- Offer periodic opportunities to identify health risk factors and access high-quality interventions to reduce them.
- Identify community programs to help staff and their families better manage chronic conditions that impact health costs, absenteeism, productivity and quality of life.
- Implement improvements to support healthy behaviors, such as social and policy support, leadership activities, healthy food availability, and space for lactation.

4. **CONTINUOUS IMPROVEMENT/EFFICIENCY AND EFFECTIVENESS:** In support of the agency's goals listed above, HR and Customer Service will engage in continuous improvements to increase operational effectiveness and reduce/eliminate waste. This will be accomplished through the following activities:

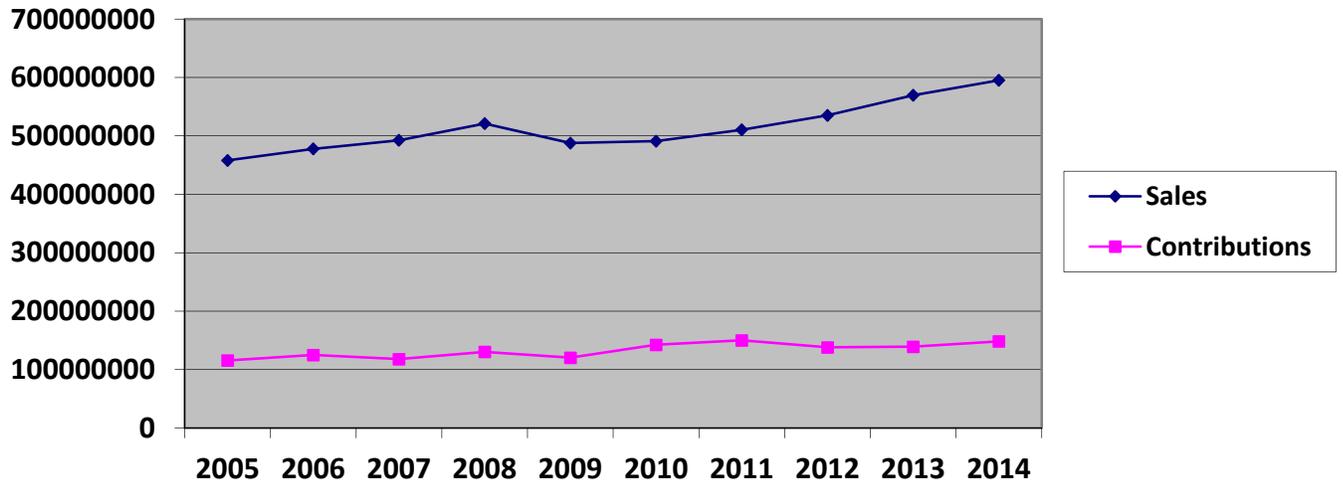
- Provide management strategies and implementation support promoting workforce flexibility to optimize productivity, focusing on telecommuting/flexible schedules where appropriate (EO14-2).
- Teaching, use, and continuous support of Lean leadership and tools, working with teams as requested to improve processes, and supporting the implementation of the new gaming system.
- Review potential for an on-line position description system and an on-line performance evaluation system

- Continue cross-training efforts to enhance service, knowledge and opportunity
- Explore new methods to provide “world-class” customer service to retailers, players and the general public to increase customer satisfaction with Lottery responses. Possibilities include dedicated Customer Service email box, chat, or other options for immediate response to customers.

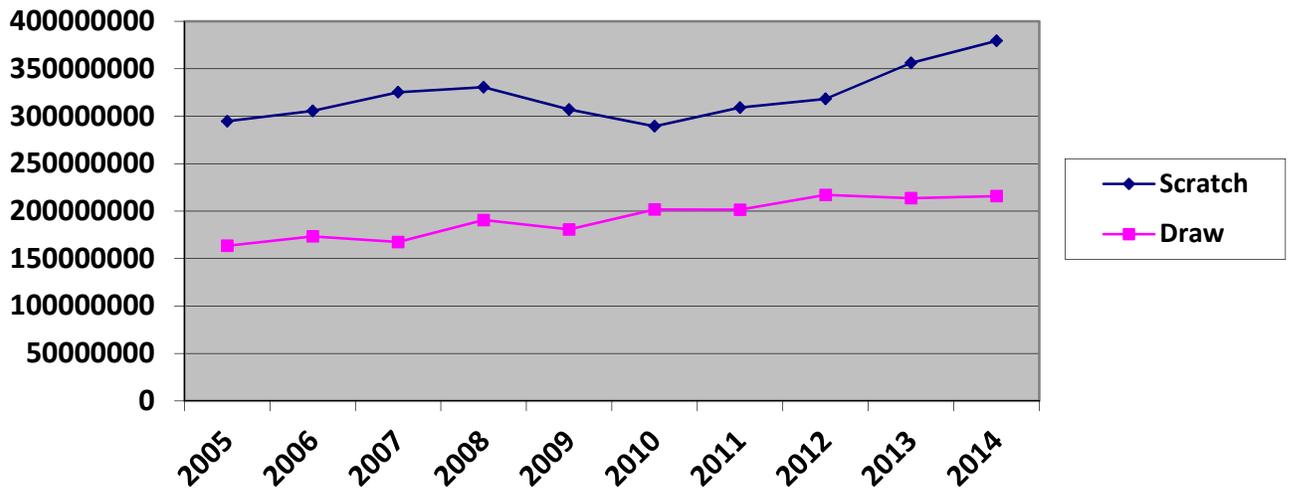
Performance

A 10-year view shows an overall positive growth trend in both Lottery sales and contributions.

**Ten Years History (2005-2014)
Sales and Contribution's**



**Ten Years History (2005-2014)
Scratch and Draw Sales**



Assessment Financial Health

The Lottery's financial health is best measured by its ability to meet its contribution mandates and goals. In terms of traditional financial health measures of assets available to satisfy liabilities and provide adequate operational cash flow, the Lottery must closely manage its cash flow.

All Lottery assets are held in anticipation of future contributions to its beneficiaries. Long-term liabilities, consisting primarily of future annuity payments to winners, are fully collateralized by securities purchased for that purpose. The Lottery does not have, nor is it anticipating, any long term debt.

Cash Flow

Lottery is a self-funded agency which takes no money from the State's General Fund. This requires careful cash management practices to ensure players, employees, vendors, and partners are paid in a timely manner.

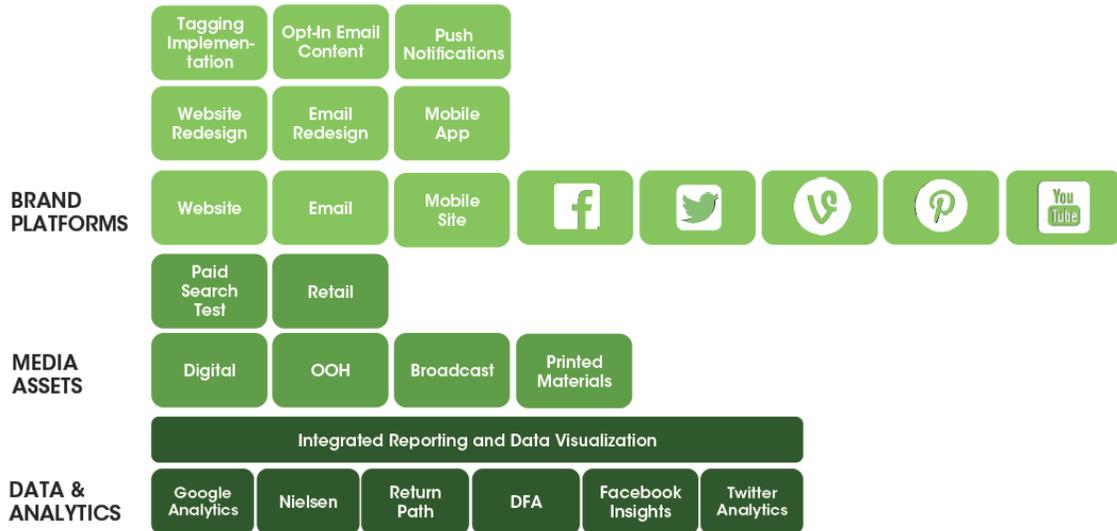
At specific points in time Lottery cash balances in the bank are large; however, there is daily fluctuation. Cash balances in the bank account are comprised of weekly retailer EFT sweeps, securities maturities not yet paid to winners, unclaimed prizes, and prize checks issued but not yet cashed, and cash needed for settlement with other Lotteries for participation in multi-state games. Lottery is working with OFM staff to agree upon a minimum balance to be maintained in the bank account.

Lottery players that win for life or select their winnings to be paid over time (annuity option) are funded through the purchase of US Treasury Strips at a heavily discounted price. Securities are held until maturity which reduces associated market risk.

Assessment of SWOT

Strength's

- Our dedicated, resourceful, experienced employees
- Tenured sales team
- Solid retail execution
- Ability to expand current portfolio
 - New Draw Games
 - Additional Draws on current daily games
 - Different scratch game price points
- Strong Ecosystem " Mobile/Social/Web/Players Club"
 - WSL has the second largest lottery fan base in the country



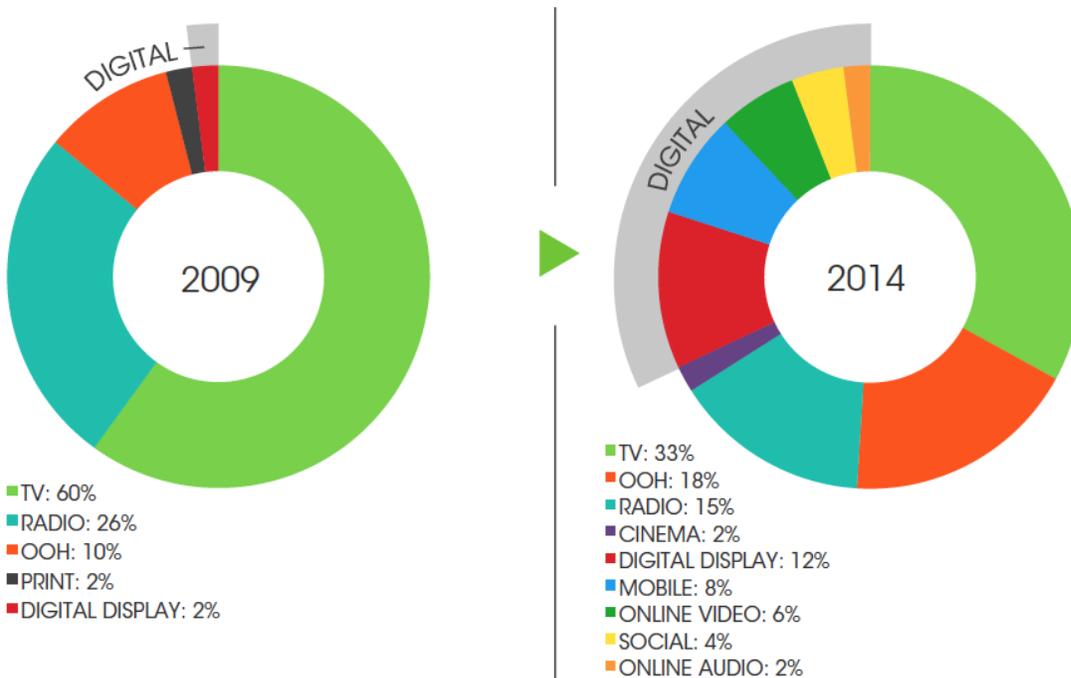
- DOI is a strong property and a nationally recognized and desired brand within the lottery space. The Lottery brand engages both current and new players by making it fun and easy to imagine what you'd do if you'd won.
- There is a strong foundation set for retailer engagement via EDGE.
- Consumer messaging is focused on broad level “play” messages vs. fragmented product marketing.
- Active consumer research continues to provide the insights necessary for marketing messages to be relevant / compelling to our target.

Weakness

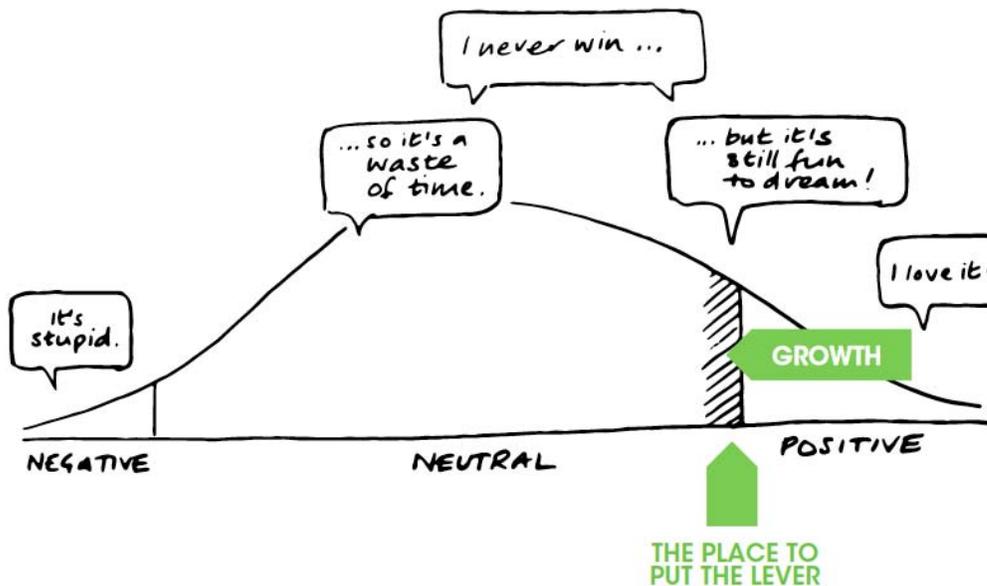
- Outdated technology.
- Reduction in force due to retirements or attrition.
- Reduced appropriation.
- Inability to offer new products to our consumers
- Inability to modernize or keep up with new market opportunities that impact our consumers
- Game mechanics do not match consumer behaviors
 - Not having second chance registration online
 - Not having mobile play
- Our product category/proposition
- We are not able to provided added value to new consumers
 - Not being able to sample/discount products
- Restriction on offering higher price points
- Beneficiary messaging is unclear because there isn't a single source.
- Legislative restraints and process hinders progress/innovation
- To do more with our products and services now requires cooperation with tribes and specific legislative permission

Opportunities

- Ability to expand current portfolio
 - New Draw Games
 - Additional Draws on current daily games
 - Different scratch game price points
- Improve understanding of revenue threats to legislature
- Reaching a younger (20-30 demographic)
- Expansion of standalone kiosk (Lottery owned kiosk)
- Increase Pay stations
- Leverage engaged fans—to help/test/learn
 - i.e. Crowd source promotional ideas
- Build advocates with targeted audiences. Provide content to share with friends to build new players.
- Data / Content Marketing
- Digital marketing



- Co-branding with Nat'l regional/regional companies
 - Shared resources / borrowed equity
- Coupons
- Streamline portfolio for optimal number of new game launches
- Innovative game design.
- Further diminish neutrality with current / future players



- Draw category hasn't changed in 50 years
 - Develop new games and medium for them
- Targeted messaging opportunities for beneficiary and good management truths
- Educate the organization and its partners about the IITWI
- The future is younger. New players are more optimistic and social.

Threats

- Increased market share by Tribal casinos for gaming activities.
- Aging population of core lottery players.
- Reduced discretionary spending by consumers.
- Companies that offer higher pay and better benefits.
- Technologically driven entertainment options to our consumers
 - Internet games, mobile apps & games, etc.
- Inability to expand current game portfolio to consumer
- Technology, Data, and the digitally enabled consumer have changed the game
 - Use of mobile
 - Society moving away from cash
 - How consuming news
 - How consuming media
 - Broadcast vs. online
 - Purchasing behaviors
 - Shifting footprint of sales
 - Consumers will demand more immersive experiences from brands
 - Requires a deeper interaction with Brand
 - Expect brand engagement on a richer, more personal level
 - Changing expectations for the game experience / paper games

- Draw category hasn't changed in 50 years
- Jackpot Fatigue
- Reduction of Lottery Staff
- Budget Cuts
- Profitability of our product for retailers
- Neutrality
- Online gaming
- Tribal lobbyists
- There are misconceptions about the organization with our Stakeholders. They believe:
 - Lottery players are poor
 - WSL is wasteful
 - Cutting budget results in growth in bottom line
- Lottery purchase is an impulse buy; not something consumers plan for.

Strategies

- Obtain a State of the Art Gaming System through selection and negotiation of a new gaming vendor contract.
- Establish various training programs designed for new employees, succession planning, and employee satisfaction, empowerment, understanding of job, recognition
- Implementation of Results Lottery to measure routine work, project work, and process improvement
- Maximize contributions to beneficiaries by increasing sales year over year, while becoming more efficient.
 - Optimize portfolio
 - Increase size of player base
 - Decrease neutrality
 - Provide imagination stimulus and constantly feed our player's imaginations
 - Increase frequency of play
 - Connect with consumers throughout the day organically within their daily habits
 - Shift passive traditional media into innovative media
 - Evolve the WSL ecosystem to connect with new players and deepen engagement with current players:
 - Develop owned assets across new social platforms
 - Optimize play experience with new tools
 - Use social to build brand engagement
 - Close the gap between advertising and point-of-purchase
 - Engage our players' imaginations at retail

Goals

- Finance & Administration:
 - Staff members have the knowledge, skills, and aptitude to effectively and efficiently carry out the responsibilities assigned to the Division and understand how these responsibilities roll up to the Agency's Mission and Vision.
- IS
 - Engaged team members
 - Regulatory compliance
 - Socially responsible
 - Strong partnerships
 - Continuous improvement
 - Maximize contributions to the state
- Sales
 - Hit or surpass sales objectives
 - Add new Lottery retailers that have good sales potential
 - Chain
 - Independents
 - Increase points of sale/distribution in current stores where it makes sense
 - Tactically enhance in-store presence – EDGE program
 - Grow Lottery touch points with its consumers – Kiosks
 - Improve sales force efficiency – iPad/OnePlace
 - Easing the path to purchase for players
 - Increase media efficiency by refining targeting
 - Optimize the cross device experience with WSL marketing communications
 - Evolve WSL's identity in the social space.

Objectives

- Finance & Administration:
 - Develop staff, cross train for back-up purposes and enhanced knowledge of state rules, requirements, practices and lottery business activities.
 - Have 5 key processes flowcharted, analyzed, and process improvements identified such as:
 - Client to Vendor Ordering – Procurement Department will create contracts and clients (internal customers) will order from vendors directly. Purchasing will review contract activities and vendor performance. Vendor Management and spend analysis will be key part of evaluation.
 - Finance & Administration: Support the Gaming Vendor Implementation
- IS
 - Provide reliable, functional, and innovative technology
 - Minimize the number of different platforms and data sources
 - Maximize the number of qualified staff available to complete mission critical projects

- Upgrade and streamline network infrastructure
- Sales
 - Implement Promotions
 - Strategic Statewide Consumer promotions to
 - Target new consumers
 - Entice/Excite our current players
 - Tactical Regional and local promotions
 - Support our retail customers
 - Target new customers
 - Entice/Excite our current players
 - Optimize retail scratch inventory levels
 - Introduce tools to assist sales staff manage at each store
 - Reduce overall number of scratch games introduced annually
 - Enhancements to OnePlace
 - POS Inventory
 - Recruiting
 - Reports
 - Open first Kiosk at SeaTac Airport
 - Begin learning to optimize when to staff for
 - Maximizing consumer connections
 - Best selling opportunities
 - Identify opportunities for
 - Increasing scratch ticket dispenser capacity
 - Adding dual vending machines at high volume stores
- Security
 - Maintain monitoring and conducting of programs, practices, and behaviors that allow day in and day out lottery business to occur with minimal risk to integrity of the lottery and dignity of the state.
 - Introduce “Law Enforcement Awareness” brochure to Washington State law enforcement agencies and organizations.
 - Begin review of Security case reporting system and options for conversion to a non-Access based program.
 - Implement drawing system/upgrade, re-certify all games and new equipment. Test and implement new features of upgraded system.
 - Accelerate staff training to prepare for potential advancement.
 - Establish a permanent presence of Security in Eastern Washington in order to provide rapid response to security concerns and consistent coverage in the eastern half of Washington State.
 - Evaluate, utilize, and implement all new security features within the new gaming system conversion.

▪ Legal and Legislative Services

- Strengthen availability of legal service to all staff through email notices and walk-a-bouts.
- Increase agency awareness of the state Ethics Act through email notices and regular mention at Wednesday meetings.
- Refresh agency knowledge of the priority of public records requests to avoid legal liability.
- Encourage increased participation of legal services in all division brain storm activity, encourage timely utilization of legal services.
- Improve upon staff utilization of counsel regarding agency disclaimers.
- Begin agency discussion of digitizing annuity winner files.
- Reduce AAG bills to below \$2000 per month.
- Build improved rapport with legislators who support the lottery and increase this small number.
- Increase problem gambling funding.
- Pursue the use of electronic signatures throughout the agency including for annuity files and other court documents.
- Win Governor's approval to support legislation adopting the US electronic signature law, the Uniform Electronic Transactions Act (UETA), a model law adopted by the Uniform Law Commission and 47 states.

Performance Measures

- Finance & Administration:
 - Trained back-up for every position by end of Biennium, if there are no staffing changes in key positions
 - Five key processes flowcharted, analyzed, and process improvements identified and implemented
- IS
 - Percent of projects on schedule
 - Systems availability
 - Percent of service desk tickets closed
- Sales
 - Sales vs. Last year
 - EDGE store sales vs. non-EDGE like retailers
 - Retail inventory level reports
 - Annual measurements of:
 - Player neutrality
 - + Positive attitude towards the lottery
 - Frequency of play
 - + Frequent / Moderate play

- Broaden player base
 - + New Players
- Increase YOY contribution to bottom line

Capital and Technology Needs

- Cloud computing sales information hub
 - Efficient access to share/gather information with our sales team

Risk Management

The 3 highest areas of risk identified by the Lottery at this time.

Implementation of the New Gaming Vendor

Washington's Lottery is amidst of a RFP to award a new contract for the gaming system which is the heart of the lottery's operation system. This is a major undertaking for the lottery and will require all employees to be focused on the implementation of the system. The actual implementation will start in January 2, 2015 and will conclude on June 30, 2016, going live on the next day July 1, 2016. All of this will happen in parallel with the day to day operation of the lottery. Any reduction in staffing will have consequences on the successful implementation of the new system. If there are issues they will impact our ability to deliver sales which has a direct correlation to our contributions to the state.

Lottery Administrative Account

Washington's Lottery's administrative account (578) is funded by the sale of lottery tickets but appropriated each biennium by the legislature. This account provides for salaries, benefits, buildings, utilities, equipment and other administrative costs. From BI09-11 through BI13-15, this account has been reduced by \$3,318,000 (approximately 12%) for administrative savings. These reductions were identified as "administrative savings" and are in addition to the customary adjustments to central service charges, the 3% salary reduction, benefits, etc.

Prior to the reductions in 578, these dollars were called upon to provide a budget contingency (a necessity as this is an appropriated account), project funding (such as Gaming Vendor Contract and other RFP's), required equipment purchases, a security guard contract and positions that were subsequently eliminated including a Communications Director, 2 Research Analysts, a Systems Manager, an Internal Auditor, a Fiscal Analyst, and 6 retailer-support positions. This work was redistributed to others within the agency with a total net decrease since the beginning

of BI09-11 of 9 FTE's. The Lottery prides itself on being fiscally responsible to ensure the largest possible contributions to its beneficiaries. Prior to these reductions, staffing was maintained at a "lean" level. The reductions to the administrative budget have impacted staffing to a "critical" level.

Cash Flow

Lottery cash reserves have been depleted over the last couple of biennium's due to legislative mandates. As a result, the Lottery has postponed contribution transfers to Washington's Opportunity Pathways Account. Lottery is attempting to maintain a consolidated daily cash balance to conduct on-going business and be able to pay prizes when players claim their large winnings. At any given time, there is the potential that multiple winners of large prizes can claim within one week. Lottery collects cash from retailers on a weekly basis. Lottery management continues to evaluate its cash position and adjust as needed to maintain a positive cash balance. The Lottery is required to distribute its income to required beneficiaries. For the Lottery to maintain or increase its cash levels to fiscally sound operating levels, the Lottery can defer beneficiary payments or not use unclaimed prizes for future prizes as allowed by RCW 67.70.190. Fiscal responsibility and transparency is paramount for a successful lottery operation. The potential loss of a positive public viewpoint would be extremely detrimental to Lottery business activities on a long term basis.

State of Washington
Recommendation Summary

1:49:30PM

Agency: **116 State Lottery Commission**

9/29/2014

Dollars in Thousands

	Annual Average FTEs	General Fund State	Other Funds	Total Funds
2013-15 Current Biennium Total	142.9		810,427	810,427
CL 01 Biennialize Lease Rate Adjustments			11	11
CL 02 Remove One-Time Gaming Contracts			(597)	(597)
CL 03 AG Legal Services			2	2
CL 04 CTS Central Services			(13)	(13)
CL 05 DES Central Services			17	17
CL 06 Biennialize Salary Step M			16	16
CL 07 Biennialize Employee PEB Rate			554	554
Total Carry Forward Level	142.9		810,417	810,417
Percent Change from Current Biennium			.0%	.0%
M1 90 Maintenance Level Revenue				
Carry Forward plus Workload Changes	142.9		810,417	810,417
Percent Change from Current Biennium			.0%	.0%
M2 8L Lease Rate Adjustments			13	13
M2 9J Nonappropriated Fund Adjustment			143,210	143,210
M2 FE FTE Allocation Adjustment				
Total Maintenance Level	142.9		953,640	953,640
Percent Change from Current Biennium			17.7%	17.7%
PL A0 15% Reductions - Goods and Services			(1,100)	(1,100)
PL A1 15% Reductions - Staffing Component	(19.0)		(2,742)	(2,742)
PL N0 District Sales Rep Funding	19.0		3,900	3,900
PL V0 Funding for Staffing Workload			525	525
PL V1 Gaming Vendor Contract			690	690
Subtotal - Performance Level Changes	0.0		1,273	1,273
2015-17 Total Proposed Budget	142.9		954,913	954,913
Percent Change from Current Biennium			17.8%	17.8%

M1 90 Maintenance Level Revenue

Revenues account for the total projected revenues, including distributions to beneficiaries. This maintenance level decision package displays the expected net revenues for FY2016 and FY2017 by fund and source code. The sales/revenue projections will be revised based on forecasts by the Economic Revenue Forecast Council.. Any changes will be accounted for in quarterly allotment packages.

M2 8L Lease Rate Adjustments

Consistent with the six year facilities plan, existing lease costs are changing. As such, the Lottery needs the appropriate expenditure authority to cover these changes in costs.

M2 9J Nonappropriated Fund Adjustment

This non-appropriated expenditure adjustment adjusts for the variance between the carry forward level from BI13-15 and the BI15-17 Lottery Forecast as of September 2014. These expenditures are based on projected sales and associated expenses such as prizes, retailer commissions, and vendor expenses. As economic factors and actual sales levels change, the sales projections will be revised. Any changes will be accounted for in quarterly allotment packages and economic revenue forecasts.

M2 FE FTE Allocation Adjustment

This decision package is to adjust the Lottery's FTE allocation such that each year's FTE allocation is equal.

PL A0 15% Reductions - Goods and Services

Lottery is required to submit decision packages showing a total of \$3,841,658 (15%) reduction of its legislatively appropriated Lottery Administrative Account, Fund 578. This decision package reflects \$1,100,000 (28.6%) of \$3,841,658, the required reduction. The Lottery will reduce operating expenses totaling \$1.1M for BI 15-17.

Washington's Lottery's appropriated administrative account primarily contains salaries and benefits for its approximately 130 FTE; building leases, maintenance, and utilities for seven locations and other administrative costs.

PL A1 15% Reductions - Staffing Component

Lottery is required to submit decision packages totaling a (15%) reduction or \$3,841,658 of its legislatively appropriated Lottery Administrative Account, Fund 578. This decision package reflects 71.4% or \$2,741,658 of \$3,841,658. This will require Lottery to reduce FTE by 19-22 FTE or 14-17% of its workforce as of 8/31/2014. This would negatively impact contributions to Lottery beneficiaries, primarily the Washington Opportunity Pathway Account and restrict the ability of the remaining Lottery team to successfully develop and implement a new Gaming Vendor Contract.

In the appropriated account, Fund 578, 76% is used to pay for approximately 130 FTE employees' salaries and benefits. Other expenses include building leases and maintenance and utilities for seven locations and other administrative costs.

PL N0 District Sales Rep Funding

The Lottery's requested buyback is to counter the effects of a 15% (\$3.8M) cut to its legislatively appropriated account (fund 578). The effects of this cut could be minimized by adjusting the funding source for the Lottery's District Sales Representative's salaries and benefits (approximately \$3.9M), typically paid for by the Lottery's legislatively appropriated account (fund 578). This decision package suggests paying these costs from the Lottery's State Lottery Account (Fund 577). Based on legal interpretation of RCW 67.70.240(6), this is allowed. This change will achieve a 15% reduction to the legislatively appropriated Lottery Administrative Account (fund 578), contributions to Lottery beneficiaries will not be affected, and this will avoid potential labor union issues. This allows the Lottery to maintain current staffing level.

PL V0 Funding for Staffing Workload

Lottery is requesting an increase to its expenditure authority to fund three additional FTE. The total FTE appropriation number of 142.9 does not need to be increased. The requested authority is to allow for hiring the following positions: (1) back-up position for a key manager, (1) addition to IS staff to help convert from a HP Non-stop server known as Tandem, and (1) addition to staff to develop training programs for Lean initiatives. Lottery's current appropriation is not enough to allow for these additional Staff.

PL V1 Gaming Vendor Contract

This decision package provides expenditure authority for staffing and other expenses to continue the Gaming Vendor Contract development and implementation. The Lottery's Gaming Vendor Contract, which expires June 30, 2016, is necessary for the Lottery to conduct daily business. In BI 13-15 the legislative process provided \$596,000 in expenditure authority. Washington's Lottery's current expenditure authority is not sufficient to fund this project. It is important to note that the Lottery's legislatively appropriated operating account (578) is funded directly by Lottery ticket sales, not the General Fund.

This Page Intentionally

Left Blank



Agency Budget Request Decision Package Summary

(Lists only the agency Performance Level budget decision packages, in priority order)

Agency: **116 State Lottery Commission**

9/29/2014
1:50:30PM

Budget Period: **2015-17**

Decision Package

<u>Code</u>	<u>Decision Package Title</u>
PL-V1	Gaming Vendor Contract
PL-V0	Funding for Staffing Workload
PL-N0	District Sales Rep Funding
PL-A0	15% Reductions - Goods and Services
PL-A1	15% Reductions - Staffing Component

State of Washington
Decision Package

FINAL

Agency: 116 State Lottery Commission
Decision Package Code/Title: 90 Maintenance Level Revenue
Budget Period: 2015-17
Budget Level: M1 - Mandatory Caseload and Enrollment Changes

Recommendation Summary Text:

Revenues account for the total projected revenues, including distributions to beneficiaries. This maintenance level decision package displays the expected net revenues for FY2016 and FY2017 by fund and source code. The sales/revenue projections will be revised based on forecasts by the Economic Revenue Forecast Council.. Any changes will be accounted for in quarterly allotment packages.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
996-Z -Estimated All Other Funds-Other	0	0	0

Staffing

FTEs

Revenue

<u>Fund</u>	<u>Source</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
0644 General Fund Tran	001 General Fund	0	1,146,720	1,146,720
0621 Operating Trans In	08K Problem Gambling Act	315,401	320,577	635,978
0621 Operating Trans In	09R Econ Dev Strat R A	3,800,000	3,800,000	7,600,000
0640 Lott Rev	17F WA Opportunity Pathw	117,408,497	119,279,885	236,688,382
0477 Lottery Ticket Procd	433 S Game Lottery	102,100,000	102,100,000	204,200,000
0622 Operating Trans Out	433 S Game Lottery	-731,344	-731,344	-1,462,688
0640 Lott Rev	433 S Game Lottery	-39,422,692	-39,422,692	-78,845,384
0644 General Fund Tran	433 S Game Lottery	0	-1,146,720	-1,146,720
0211 Gambling Licenses	577 State Lottery Acct	3,020,000	3,020,000	6,040,000
0409 Interest Income	577 State Lottery Acct	80,000	80,000	160,000
0477 Lottery Ticket Procd	577 State Lottery Acct	508,500,000	520,200,000	1,028,700,000
0622 Operating Trans Out	577 State Lottery Acct	-19,281,057	-19,290,233	-38,571,290
0640 Lott Rev	577 State Lottery Acct	-77,985,805	-79,857,193	-157,842,998
0641 Stadium & Ex Trans	577 State Lottery Acct	-11,687,403	-12,154,899	-23,842,302
0621 Operating Trans In	578 Lott Administrative	12,797,000	12,801,000	25,598,000
0641 Stadium & Ex Trans	816 Stadium/Exhibition	11,687,403	12,154,899	23,842,302
Total Revenue		610,600,000	622,300,000	1,232,900,000

Package Description:

The mission of Washington's Lottery, as stated in RCW 67.70.040, is to maximize revenue consonant with the dignity of the state and the general welfare of the people. Sales of lottery tickets are achieved through a network of retailers in various industries throughout the state, ranging from supermarkets to convenience stores to bowling centers. These retailers are compensated for selling lottery tickets via a commission on the sale of each ticket. Sales of lottery tickets have increased from \$ 570 million in FY13 to \$595 million in FY14. Washington's Lottery ticket sales are projected to be \$610.6 million in FY16 and \$622.3 million in FY17.

Revenues account for the total projected sales, non operating revenues, and revenue distributions to beneficiaries. The sales/revenue projections will be revised base on forecasts by the Economic Revenue Forecast Council. Any changes will be accounted for in quarterly

allotment packages.

For additional information or questions, please contact John Iyall (360-664-4791) or Beckie Foster (360-664 4798).

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

N/A

Performance Measure Detail

Activity	A001	Washington's Lottery	Incremental Changes	
			<u>FY 2016</u>	<u>FY 2017</u>
Outcome Measures				
		000188 Total Sales - All Lottery Products	\$610,600.00	\$622,300.00
Output Measures				
		000002 Total Distributions to all Beneficiaries	\$133,211.00	\$136,702.00
		000031 General Fund Account - 001	\$0.00	\$1,147.00
		000052 Problem Gambling Account - 08K	\$315.00	\$321.00
		000054 Economic Development Strategic Reserve Account - 09R	\$3,800.00	\$3,800.00
		000165 Stadium & Exhibition Center - CenturyLink Field	\$11,687.00	\$12,155.00
		001837 Washington Opportunity Pathways Account 17F	\$117,408.00	\$119,280.00

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

N/A

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

N/A

What are the other important connections or impacts related to this proposal?

N/A

What alternatives were explored by the agency, and why was this alternative chosen?

N/A

What are the consequences of adopting or not adopting this package?

N/A

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

See attachment

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

N/A

Object Detail

Total

	Lottery Projected FY 2016 Sales and Expenses	% of Total Sales		
Sales				
Scratch	404,600,000	66.26%		
Lotto	47,900,000	7.84%		
Mega Millions	46,600,000	7.63%		
Power Ball	55,500,000	9.09%		
Hit 5	21,500,000	3.52%		
Match 4	12,100,000	1.98%		
Daily Game	16,800,000	2.75%		
Daily Keno	5,600,000	0.92%		
Total Sales	610,600,000	100%		
Expenses				
Prizes	367,983,485	60.27%		
Retailer commissions	38,642,000	6.33%		
Vendor expense	32,878,713	5.38%		
Media - Branding	2,165,000	0.35%		
Media - Games	3,498,000	0.57%		
Media Production	2,632,000	0.43%		
Advertising Fees/PR/Web/Research	3,955,000	0.65%		
Kiosk & Mobile Expense	500,000	0.08%		
Promotional Expense	2,056,000	0.34%		
Other operating expenses	5,600,000	0.92%		
Depreciation expense (577, 433, 578)	150,000	0.02%		
Administration - leg. Appropriated	12,797,000	2.10%		
Total Expenses	472,863,698	77.44%		
Profit	137,736,302	22.56%		
Operating & Non-operating Revenues	3,100,000	0.51%	Fiscal Year:	2016
			Fund-Source	Total
Net Income	140,836,302	23.07%	001-0644 General Fund Tran	0
			08K-0621 Operating Trans In	315,401
Funds Restricted (Unclaimed)	(11,400,000)	-1.87%	09R-0621 Operating Trans In	3,800,000
Restricted Funds Released by Lottery	3,800,000	0.62%	17F-0640 Lott Rev	117,408,497
578 and Miscellaneous Adjustments	(25,000)	0.00%	433-0477 Lottery Ticket Procd	102,100,000
Net change in restricted fund balance & retained earnings	(7,625,000)	-1.25%	433-0622 Operating Trans Out	-731,344
			433-0640 Lott Rev	-39,422,692
Income before contributions	133,211,302	21.82%	433-0644 General Fund Tran	0
Contributions				
			577-0211 Gambling Licenses	3,020,000
			577-0409 Interest Income	80,000
WOPA	117,408,497	19.23%	577-0477 Lottery Ticket Procd	508,500,000
CenturyLink Field	11,687,403	1.91%	577-0622 Operating Trans Out	-19,281,057
Education Legacy Trust Account	-	0.00%	577-0640 Lott Rev	-77,985,805
Econ Dev Reserve Account	3,800,000	0.62%	577-0641 Stadium & Ex Trans	-11,687,403
Problem Gambling Account	315,401	0.05%	578-0621 Operating Trans In	12,797,000
General Fund	-	0.00%	816-0641 Stadium & Ex Trans	11,687,403
	133,211,302	21.82%	Total	610,600,000
				These cells net to zero

	Lottery Projected FY 2017 Sales and Expenses	% of Total Sales		
Sales				
Scratch	416,300,000	66.90%		
Lotto	47,900,000	7.70%		
Mega Millions	46,600,000	7.49%		
Power Ball	55,500,000	8.92%		
Hit 5	21,500,000	3.45%		
Match 4	12,100,000	1.94%		
Daily Game	16,800,000	2.70%		
Daily Keno	5,600,000	0.90%		
Total Sales	622,300,000	100%		
Expenses				
Prizes	375,702,259	60.37%		
Retailer commissions	39,344,000	6.32%		
Vendor expense	32,667,160	5.25%		
Media - Branding	2,165,000	0.35%		
Media - Games	3,498,000	0.56%		
Media Production	2,632,000	0.42%		
Advertising Fees/PR/Web/Research	3,955,000	0.64%		
Kiosk & Mobile Expense	500,000	0.08%		
Promotional Expense	2,056,000	0.33%		
Other operating expenses	5,600,000	0.90%		
Depreciation expense (577, 433, 578)	150,000	0.02%		
Administration - leg. Appropriated	12,801,000	2.06%		
Total Expenses	481,072,919	77.31%		
Profit	141,227,081	22.69%		
Operating & Non-operating Revenues	3,100,000	0.50%	Fiscal Year:	2017
			Fund-Source	Total
Net Income	144,327,081	23.19%	001-0644 General Fund Tran	1,146,720
			08K-0621 Operating Trans In	320,577
Funds Restricted (Unclaimed)	(11,400,000)	-1.83%	09R-0621 Operating Trans In	3,800,000
Restricted Funds Released by Lottery	3,800,000	0.61%	17F-0640 Lott Rev	119,279,885
578 and Miscellaneous Adjustments	(25,000)	0.00%	433-0477 Lottery Ticket Procd	102,100,000
Net change in restricted fund balance & retained earnings	(7,625,000)	-1.23%	433-0622 Operating Trans Out	-731,344
			433-0640 Lott Rev	-39,422,692
Income before contributions	136,702,081	21.97%	433-0644 General Fund Tran	-1,146,720
			577-0211 Gambling Licenses	3,020,000
Contributions			577-0409 Interest Income	80,000
WOPA	119,279,885	19.17%	577-0477 Lottery Ticket Procd	520,200,000
CenturyLink Field	12,154,899	1.95%	577-0622 Operating Trans Out	-19,290,233
Education Legacy Trust Account	-	0.00%	577-0640 Lott Rev	-79,857,193
Econ Dev Reserve Account	3,800,000	0.61%	577-0641 Stadium & Ex Trans	-12,154,899
Problem Gambling Account	320,577	0.05%	578-0621 Operating Trans In	12,801,000
General Fund	1,146,720	0.18%	816-0641 Stadium & Ex Trans	12,154,899
	136,702,081	21.97%	Total	622,300,000
				These cells net to zero

Agency: 116 State Lottery Commission
Decision Package Code/Title: 8L Lease Rate Adjustments
Budget Period: 2015-17
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

Consistent with the six year facilities plan, existing lease costs are changing. As such, the Lottery needs the appropriate expenditure authority to cover these changes in costs.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
578-1 -Lottery Administrative Account-State	263	12,787	13,050

Staffing

FTEs

Package Description:

Adjust for increased lease costs at the Spokane, Yakima, Everett Lottery offices and the Offsite Warehouse in Lacey. For additional information, please contact John Iyall (360) 664-4791 or Beckie Foster at (360) 664-4798

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

To maintain appropriate funding for leases.

Performance Measure Detail

Activity A001 Washington's Lottery **Incremental Changes**

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

N/A

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

N/A

What are the other important connections or impacts related to this proposal?

N/A

What alternatives were explored by the agency, and why was this alternative chosen?

N/A

What are the consequences of adopting or not adopting this package?

N/A

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

See attached lease template.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are ongoing.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
E Goods\Other Services	263	12,787	13,050
Total Objects	263	12,787	13,050

Agency: 116 State Lottery Commission
Decision Package Code/Title: FE FTE Allocation Adjustment
Budget Period: 2015-17
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

This decision package is to adjust the Lottery's FTE allocation such that each year's FTE allocation is equal.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
996-Z -Estimated All Other Funds-Other	0	0	0
Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	(1.0)	1.0	0.0

Package Description:

Between the 2009-11 and the 2011-13 bienniums, the Lottery received a reduction to its FTE expenditure authority of 1 in FY1 and 3 in FY2. The Lottery's FTE usage does not vary from FY1 and FY2. Therefore, the Lottery requests to make its FTE expenditure authority between FY1 and FY2 equal.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

N/A

Performance Measure Detail

Activity A001 Washington's Lottery

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

N/A

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

N/A

What are the other important connections or impacts related to this proposal?

N/A

What alternatives were explored by the agency, and why was this alternative chosen?

N/A

What are the consequences of adopting or not adopting this package?

N/A

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

CF Level is 143.9 for FY1 and 141.9 for FY2. This adjustment will make both FYs equal 142.9.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

This adjustment would create an equal FTE expenditure authority in future biennia.

Object Detail

Total

Total Objects

Agency: 116 State Lottery Commission
Decision Package Code/Title: 9J Nonappropriated Fund Adjustment
Budget Period: 2015-17
Budget Level: M2 - Inflation and Other Rate Changes

Recommendation Summary Text:

This non-appropriated expenditure adjustment adjusts for the variance between the carry forward level from BI13-15 and the BI15-17 Lottery Forecast as of September 2014. These expenditures are based on projected sales and associated expenses such as prizes, retailer commissions, and vendor expenses. As economic factors and actual sales levels change, the sales projections will be revised. Any changes will be accounted for in quarterly allotment packages and economic revenue forecasts.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
433-6 -Shared Game Lottery Account-Non-Appropriated	3,607,989	2,483,916	6,091,905
577-6 -State Lottery Account-Non-Appropriated	67,092,208	70,025,502	137,117,710
Total Cost	70,700,197	72,509,418	143,209,615

Staffing
FTEs

Package Description:

The mission of Washington's Lottery, as stated in RCW 67.70.040, is to maximize revenue consonant with the dignity of the state and the general welfare of the people. Sales of lottery tickets are achieved through a network of retailers in various industries throughout the state, ranging from supermarkets to convenience stores to bowling centers. These retailers are compensated for selling lottery tickets via a commission on the sale of each ticket. Sales of lottery tickets have increased from \$ 570 million in FY13 to \$595 million in FY14.

Non-appropriated expenditure adjustments account for the difference in the carry forward expenditures from the 2013-15 biennium and the expenditures in the 2015-17 biennium working budget as of September 2014. The change is due to the projected increase in sales, projected to be \$610.6 million in FY16 and \$622.3 million in FY17, and the associated expenses such as prizes, retailer commissions, and vendor expense. Revenues account for the total projected sales, non-operating revenues, and revenue distributions to beneficiaries.

As economic factors and actual sales levels change, the sales projections will be revised. Any changes will be accounted for in quarterly allotment packages and economic revenue forecasts. If you have any questions, please contact John Iyall (360)664-4791 or Beckie Foster (360-664 4798).

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Washington's Lottery projects a higher level of sales and therefore a higher level of expenditures for those expenses, typically calculated as a percentage of sales. Contributions to beneficiaries based on these revenues and expenses are anticipated to be Washington Opportunity Pathway Account (\$236.7 million); CenturyLink Field (\$23.8 million); Economic Development Reserve Account (\$7.6 million); and Problem Gambling (\$.6 million).

Performance Measure Detail

Activity A001 Washington's Lottery

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

N/A

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

N/A

What are the other important connections or impacts related to this proposal?

N/A

What alternatives were explored by the agency, and why was this alternative chosen?

N/A

What are the consequences of adopting or not adopting this package?

N/A

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

See attachment

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

One time.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
E Goods\Other Services	14,131,534	14,314,968	28,446,502
N Grants, Benefits & Client Services	56,568,663	58,194,450	114,763,113
Total Objects	70,700,197	72,509,418	143,209,615

FY16 Carry Forward Level by Fund			Lottery Projected FY16 Expenses	Projection By Fund	Entry *
433	577	Expenses		433 577	433 577
		Prizes	367,983,485	48,643,740 319,339,745	
		Retailer commissions	38,642,000	7,147,000 31,495,000	
		Vendor expense	32,878,713	5,497,734 27,380,978	
		Media - Branding	2,165,000	- 2,165,000	
		Media - Games	3,498,000	1,430,000 2,068,000	
		Media Production	2,632,000	399,915 2,232,085	
		Advertising Fees/PR/Web/Research	3,955,000	- 3,955,000	
		Kiosk & Mobile Expense	500,000	- 500,000	
		Promotional Expense	2,056,000	60,000 1,996,000	
		Other operating expenses	5,600,000	178,600 5,421,400	
		Depreciation expense (577, 433, 578)	150,000		
		Administration - leg. Appropriated	12,797,000		
59,749,000	329,461,000	Total Expenses	472,857,198	63,356,989 396,553,208	3,607,989 67,092,208
FY17 Carry Forward Level by Fund			Lottery Projected FY17 Expenses	Projection By Fund	Entry *
433	577	Expenses		433 577	433 577
		Prizes	375,702,259	48,643,740 327,058,519	
		Retailer commissions	39,344,000	7,147,000 32,197,000	
		Vendor expense	32,667,160	5,359,661 27,307,499	
		Media - Branding	2,165,000	- 2,165,000	
		Media - Games	3,498,000	1,430,000 2,068,000	
		Media Production	2,632,000	399,915 2,232,085	
		Advertising Fees/PR/Web/Research	3,955,000	- 3,955,000	
		Kiosk & Mobile Expense	500,000	- 500,000	
		Promotional Expense	2,056,000	60,000 1,996,000	
		Other operating expenses	5,600,000	178,600 5,421,400	
		Depreciation expense (577, 433, 578)	150,000		
		Administration - leg. Appropriated	12,801,000		
60,735,000	334,875,000	Total Expenses	481,070,419	63,218,916 404,900,503	2,483,916 70,025,503
Sub-Object Split:				FY16	FY17
		FY 2016 Prize Expense	367,983,485	56,568,663	58,194,451
		All other FY2016 433 & 577	459,910,198	14,131,534	14,314,968
		Prize to other expenses ratio:	80%	70,700,197	72,509,419

Agency: 116 State Lottery Commission
Decision Package Code/Title: A0 15% Reductions - Goods and Services
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

Lottery is required to submit decision packages showing a total of \$3,841,658 (15%) reduction of its legislatively appropriated Lottery Administrative Account, Fund 578. This decision package reflects \$1,100,000 (28.6%) of \$3,841,658, the required reduction. The Lottery will reduce operating expenses totaling \$1.1M for BI 15-17.

Washington's Lottery's appropriated administrative account primarily contains salaries and benefits for its approximately 130 FTE; building leases, maintenance, and utilities for seven locations and other administrative costs.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
578-1 -Lottery Administrative Account-State	(550,000)	(550,000)	(1,100,000)

Staffing
FTEs

Package Description:

This decision package reflects \$1,100,000 of the \$3,841,657 required 15% reduction of the Lottery's legislatively appropriated Lottery Administrative Account, Fund 578. Washington's Lottery's appropriated administrative account primarily contains salaries and benefits for its approximately 130 FTE; building leases and maintenance and utilities for Headquarters, (5) regional offices and (1) warehouse locations; travel, legal services, furniture, equipment, agency training, unemployment, and interagency services and other administrative costs.

To achieve this reduction, restrictions will be placed in affect to minimize expenses in the following areas: replacements for warehouse equipment, IT equipment or software upgrades, legal services, employee training or recruitment expenses, and employee travel.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

This decision package is required to comply with the budget instructions.

Performance Measure Detail

Activity	A001 Washington's Lottery	Incremental Changes
-----------------	----------------------------------	----------------------------

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This decision package would inhibit the ability of the Agency to meet its strategic plans. In addition, this decisions package inhibit Lottery's ability to meet expectations of the Governor's Goals (1) World Class Education and (5) Effective, Efficient and Accountable Government.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

No, it reduces the Lottery's ability to support the "World Class Education" Results Washington priority. Washington's Lottery provides funding to the Washington Opportunity Pathways Account. This account provides funding for expenditures in the following programs:

- chapter 28B.12 RCW (state work study)
- chapter 28B.50 RCW (opportunity grant)
- RCW 28B.76.660 (Washington scholars award)
- RCW 28B.76.670 (Washington award for vocational excellence)
- chapter 28B.92 RCW (state need grant program)
- chapter 28B.101 RCW (educational opportunity grant)
- chapter 28B.105 RCW (GET ready for math and science scholarship)
- chapter 28B.117 RCW (passport to college promise)
- chapter 28B.118 RCW (college bound scholarship)
- chapter 28B.119 RCW (Washington promise scholarship)
- chapter 43.215 RCW (early childhood education and assistance program)
- RCW 43.330.280 (recruitment of entrepreneurial researchers, innovation partnership zones and research teams).

What are the other important connections or impacts related to this proposal?

None.

What alternatives were explored by the agency, and why was this alternative chosen?

All activities processed through this appropriated account were reviewed to determine the least impact to the agency.

What are the consequences of adopting or not adopting this package?

If this package is adopted it will restrict the ability to maintain on going operations. Employee development and training such as leadership courses, business courses to improve skill sets will not be provided. As equipment becomes worn out, it will not be replaced. Software upgrades will be postponed. Employee travel will be restricted which will impact the ability to effectively work with corporate retailers which produce the majority of our sales, reduce communication with other Lotteries, and eliminate sales force meetings.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Reduced expenditure spend based on the FY15 planned spend.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All cost savings would remain in effect until an increased legislative appropriation is granted.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
C Professional Svc Contracts	-10,000	-10,000	-20,000
E Goods\Other Services	-183,700	-183,700	-367,400
G Travel	-15,000	-15,000	-30,000
J Capital Outlays	-341,300	-341,300	-682,600
Total Objects	-550,000	-550,000	-1,100,000

Agency: 116 State Lottery Commission
Decision Package Code/Title: A1 15% Reductions - Staffing Component
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

Lottery is required to submit decision packages totaling a (15%) reduction or \$3,841,658 of its legislatively appropriated Lottery Administrative Account, Fund 578. This decision package reflects 71.4% or \$2,741,658 of \$3,841,658. This will require Lottery to reduce FTE by 19-22 FTE or 14-17% of its workforce as of 8/31/2014. This would negatively impact contributions to Lottery beneficiaries, primarily the Washington Opportunity Pathway Account and restrict the ability of the remaining Lottery team to successfully develop and implement a new Gaming Vendor Contract.

In the appropriated account, Fund 578, 76% is used to pay for approximately 130 FTE employees' salaries and benefits. Other expenses include building leases and maintenance and utilities for seven locations and other administrative costs.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
	(1,370,829)		
578-1 -Lottery Administrative Account-State		(1,370,829)	(2,741,658)
Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	(19.0)	(19.0)	(19.0)

Package Description:

Lottery is required to submit decision packages showing a total of \$3,841,658 (15%) reduction of its legislatively appropriated Lottery Administrative Account, Fund 578. Washington's Lottery's appropriated account primarily contains salaries and benefits for its approximately 130 FTE; building leases, maintenance, and utilities for its headquarters, (5) regional offices, and (1) warehouse locations; travel, legal services, furniture, equipment, agency training, unemployment, and interagency services and other administrative costs. This decision package reflects \$2,741,658 (71.4%) of \$3,841,658, the required reduction.

To achieve this reduction, it will require elimination of 19-22 FTE or 14-17% of Lottery's workforce. This is based on the average cost of salary and benefits for current Lottery employees. Lottery will manage this through retirements and other attrition first and then thru a reduction in force process. This will impact each Division within the Lottery which is comprised of Sales & Marketing, Human Resources & Customer Service, Finance & Administration, Information Services, Security, Legal Services, Research & Development, and Executive.

Our current biennial FTE appropriation is 142.9, although the Lottery's legislatively appropriated expenditure authority is not sufficient to employ that many FTEs. The Lottery currently employs approximately 130 FTEs. With the additional reduction of 19-22 FTE, our staffing levels would be approximately 108-111 FTE or approximately 76-78% of our FTE appropriation. This would be the fewest number of people employed at the Lottery since inception. From 1982-84, Lottery employed 166-186 employees. During late 1984 to early 1985, the Lottery experienced a reduction which brought Lottery to 130-140. This FTE approximate level continued until the mid 90s, when Lottery staffed in the 145-150 range. That continued until 2009 when Lottery started reducing to its current level.

Some employees that will be impacted by this reduction are members of the Washington Federation of State Employees.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Contributions to beneficiaries will be negatively impacted by an unknown amount due to this FTE cutback.. Also, the Lottery's gaming system conversion would be negatively impacted and may not be successfully implemented which would have a substantial impact on sales and contributions. The majority of the conversion work will be completed in BI 15-17 which would coincide with this reduction in force process.

The current Gaming System Contract expires June 30, 2016. Reduction of any staff at this point in time would jeopardize the success of development and implementation. This system is the backbone for processing lottery products at retail locations, including sales and prize payouts. It tracks all tickets and authenticates tickets presented for payment. Performance outcomes with reduced staff would include an overwhelming amount of work and turmoil for remaining staff which could lead to morale issues, staff turnovers, and increased absences. This in turn could reduce sales and/or reduced revenue to the beneficiaries; longer wait times for players to receive prizes, information technology projects to maintain existing systems or upgrade processes would be delayed or cancelled. During this extremely crucial period, the Lottery needs "all hands on deck" and cannot afford to lose experienced employees or to have employees uncertain about their future employment.

Performance Measure Detail

Activity A001 Washington's Lottery

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This decision package would inhibit the ability of the Agency to meet its strategic plans. In addition, this decisions package would greatly inhibit our ability to meet expectations of the Governor's Goals (1) World Class Education and (5) Effective, Efficient and Accountable Government

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

No, it reduces the Lottery's ability to support the "World Class Education" Results Washington priority. Washington's Lottery provides funding to the Washington Opportunity Pathways Account. This account provides funding for expenditures in the following programs:

- chapter 28B.12 RCW (state work study)
- chapter 28B.50 RCW (opportunity grant)
- RCW 28B.76.660 (Washington scholars award)
- RCW 28B.76.670 (Washington award for vocational excellence)
- chapter 28B.92 RCW (state need grant program)
- chapter 28B.101 RCW (educational opportunity grant)
- chapter 28B.105 RCW (GET ready for math and science scholarship)
- chapter 28B.117 RCW (passport to college promise)
- chapter 28B.118 RCW (college bound scholarship)
- chapter 28B.119 RCW (Washington promise scholarship)
- chapter 43.215 RCW (early childhood education and assistance program)
- RCW 43.330.280 (recruitment of entrepreneurial researchers, innovation partnership zones and research teams).

What are the other important connections or impacts related to this proposal?

Potential labor issues with Washington Federation of State Employees if the sales force is reduced.

What alternatives were explored by the agency, and why was this alternative chosen?

All activities processed through this appropriated account were reviewed to determine the least impact to the agency.

What are the consequences of adopting or not adopting this package?

If adopted, Lottery may not be able to contribute as much to Washington's Opportunity Pathways Account.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Calculations are based on the averages salary and benefits for all employees budgeted in SPS for BI15-17.

This package does not consider additional costs such as unemployment; leave buyout, retiree leave buyout for these reduced FTEs which would reduce the total package reduction. The cost for unemployment and leave buyouts is unknown at this time.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All cost savings would remain in effect until an increased legislative appropriation is granted.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages	-1,035,846	-1,035,846	-2,071,692
B Employee Benefits	-334,983	-334,983	-669,966
Total Objects	-1,370,829	-1,370,829	-2,741,658

Agency: 116 State Lottery Commission
Decision Package Code/Title: N0 District Sales Rep Funding
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

The Lottery's requested buyback is to counter the effects of a 15% (\$3.8M) cut to its legislatively appropriated account (fund 578). The effects of this cut could be minimized by adjusting the funding source for the Lottery's District Sales Representative's salaries and benefits (approximately \$3.9M), typically paid for by the Lottery's legislatively appropriated account (fund 578). This decision package suggests paying these costs from the Lottery's State Lottery Account (Fund 577). Based on legal interpretation of RCW 67.70.240(6), this is allowed. This change will achieve a 15% reduction to the legislatively appropriated Lottery Administrative Account (fund 578), contributions to Lottery beneficiaries will not be affected, and this will avoid potential labor union issues. This allows the Lottery to maintain current staffing level.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
577-6 -State Lottery Account-Non-Appropriated	1,950,000	1,950,000	3,900,000
Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	19.0	19.0	19.0

Package Description:

The Lottery's requested buyback is to counter the effects of a 15% (\$3.8M) cut to its legislatively appropriated account (fund 578). The effects of this cut could be minimized by adjusting the funding source for the Lottery's District Sales Representative's salaries and benefits (approximately \$3.9M), typically paid for by the Lottery's legislatively appropriated account (fund 578). This decision package suggests paying these costs from the Lottery's State Lottery Account (Fund 577). Based on legal interpretation of RCW 67.70.240(6), this is allowed. This change will achieve a 15% reduction to the legislatively appropriated Lottery Administrative Account (fund 578), contributions to Lottery beneficiaries will not be affected, and this will avoid potential labor union issues. This allows the Lottery to maintain current staffing level.

According to RCW 67.70.240(6), monies in the state lottery account (fund 577) can be used "for the purchase and promotion of lottery games and game related services". Based on discussions with the Lottery's Assistant Attorney General, the salaries and benefits for the sales representatives can be paid from the state lottery account, fund 577. The District Sales Representatives prime duties are to distribute scratch tickets to and to merchandise or place POS with Lottery retailers. As part of their responsibilities, District Sales Representatives work with managers and owners to maximize the product offering at each location.

District Sales Representatives are represented by the Washington Federation of State Employees Union.

Beneficiary contributions would not be affected by this change of funding source.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

By approving this decision package, the Lottery will have the ability to maintain its current staffing level and will continue to maximize revenue to the state and contributions to its beneficiaries; it will be able to meet its strategic plans; and also ensure a successful gaming system development and implementation.

Performance Measure Detail

Activity A001 Washington's Lottery

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes. To keep existing staff will allow the agency to maximize revenue to the state, continue to improve operations and efficiencies within the organization, provide the ability to successfully implement a new gaming system with an outside vendor which is the back bone for Lottery operations.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes, it supports the "World Class Education" Results Washington priority. Washington's Lottery provides funding to the Washington Opportunity Pathways Account. This account provides funding for expenditures in the following programs:

- chapter 28B.12 RCW (state work study)
- chapter 28B.50 RCW (opportunity grant)
- RCW 28B.76.660 (Washington scholars award)
- RCW 28B.76.670 (Washington award for vocational excellence)
- chapter 28B.92 RCW (state need grant program)
- chapter 28B.101 RCW (educational opportunity grant)
- chapter 28B.105 RCW (GET ready for math and science scholarship)
- chapter 28B.117 RCW (passport to college promise)
- chapter 28B.118 RCW (college bound scholarship)
- chapter 28B.119 RCW (Washington promise scholarship)
- chapter 43.215 RCW (early childhood education and assistance program)
- RCW 43.330.280 (recruitment of entrepreneurial researchers, innovation partnership zones and research teams)

What are the other important connections or impacts related to this proposal?

Potential union issues will be averted. Strong support to the Lottery's retailers and consumers will continue.

What alternatives were explored by the agency, and why was this alternative chosen?

All activities processed through this appropriated account were reviewed to determine the least impact to the beneficiary contributions short term and long term.

What are the consequences of adopting or not adopting this package?

If this decision package is not adopted, Lottery operations will be severely impacted; payment to players could be delayed; the gaming vendor system replacement project would be negatively impacted. Overall, the impact would be a reduction in sales and beneficiary contributions.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

The FTEs requested correspond to the 15% reduction staffing decision package.

The dollar amounts provided represent the Lottery's anticipated future spending level related to its District Sales Representatives.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are ongoing.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages	1,423,500	1,423,500	2,847,000
B Employee Benefits	526,500	526,500	1,053,000
Total Objects	1,950,000	1,950,000	3,900,000

Agency: 116 State Lottery Commission
Decision Package Code/Title: V0 Funding for Staffing Workload
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

Lottery is requesting an increase to its expenditure authority to fund three additional FTE. The total FTE appropriation number of 142.9 does not need to be increased. The requested authority is to allow for hiring the following positions: (1) back-up position for a key manager, (1) addition to IS staff to help convert from a HP Non-stop server known as Tandem, and (1) addition to staff to develop training programs for Lean initiatives. Lottery's current appropriation is not enough to allow for these additional Staff.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
578-1 -Lottery Administrative Account-State	262,380	262,380	524,760

Staffing
FTEs

Package Description:

Lottery is requesting an increase to its expenditure authority in order to fund three additional FTE. The total FTE appropriation number, 142.9, does not need to be increased. The requested authority is to allow for hiring the following positions: (1) back-up to a key manager, (1) addition to Information Services staff to help convert from a HP Non-stop server known as Tandem, and (1) addition to staff to develop and deploy training programs for Lean initiatives. Lottery's current expenditure authority appropriation is not sufficient to allow for these additional staff.

Back-up position for a key manager: A long-term employee with specialized knowledge has no back-up and is nearing retirement. This person is the Agency's Risk Manager, Safety Manager and administers the Safety Program, Sustainability Program, and Commute Trip Reduction Program. Responsibilities also include records and forms management, and the operations of Fleet, Mail, and Warehouse. Transfer of knowledge of complex issues needs to be started now in order for seamless transition in the future.

For the addition to IT staff: The Lottery is in the process of transferring programs off its TANDEM system which contain COBOL programs. Some of the Lottery's critical systems are housed on the HP Non-stop server known as Tandem. The Tandem is operational 24 hours a day, 365 days a year. It houses several subsystems including Accounts Receivable, Prize Payments, Debt Processing, Annuities, IRS recording/processing, Sales Reporting, Promotions, etc. Application developers and system administrators with COBOL programming skills are nearing retirement age making it increasingly difficult to find and retain COBOL programmers. In addition, having two platforms and development languages, means only half of the available resources can complete projects. The Lottery is increasingly at risk of losing and not being able to find qualified Tandem experts. This could result in extended system outages as inexperienced staff try to learn and fix and issues that arise. It is critical that Lottery migrate to newer technology to ensure the Lottery systems are adequately supported and remain functional. Due to the heavy workload of an impending gaming system conversion as well as day to day work, an additional FTE is needed

For the addition to HR staff, the agency is undertaking the implementation of Lean initiatives. Through trial and error as well as viewing how others have implemented Lean initiatives, it has become apparent that resources are needed to devote to training of all staff regarding lean activities and how they are to be implemented at this agency. To be successful, Lottery is in need of a staff addition whose primary job is to develop programs and train staff.

Lottery's current biennial FTE appropriation is 142.9, although the Lottery's legislatively appropriated expenditure authority is not sufficient to employ that many FTEs. The Lottery currently employs approximately 130 FTEs. With the additional reduction of 19-22 FTE, our staffing levels would be approximately 108-111 FTE or approximately 76-78% of our FTE appropriation. This would be the fewest number of people employed at the Lottery since inception. From 1982-84, Lottery employed 166-186 employees. During late 1984 to early 1985, the Lottery experienced a reduction which brought Lottery to 130-140. This FTE approximate level continued level until the mid-90s, when Lottery staffed in the 145-150 range. That continued until 2009 when Lottery started reducing to its current level.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Minimize risk to the agency. This will also allow the Lottery to implement an effective Lean program in a shorter timeframe.

Performance Measure Detail

Activity A001 Washington's Lottery

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes. Development and implementation of Results Lottery, similar to Results Washington

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes, Washington's Lottery provides funding to the Washington Opportunity Pathways Account that provides funding for expenditures in the following programs which support the "World Class Education" Results Washington priority:

- chapter 28B.12 RCW (state work-study)
- chapter 28B.50 RCW (opportunity grant)
- RCW 28B.76.660 (Washington scholars award)
- RCW 28B.76.670 (Washington award for vocational excellence)
- chapter 28B.92 RCW (state need grant program)
- chapter 28B.101 RCW (educational opportunity grant)
- chapter 28B.105 RCW (GET ready for math and science scholarship)
- chapter 28B.117 RCW (passport to college promise)
- chapter 28B.118 RCW (college bound scholarship)
- chapter 28B.119 RCW (Washington promise scholarship)
- chapter 43.215 RCW (early childhood education and assistance program)
- RCW 43.330.280 (recruitment of entrepreneurial researchers, innovation partnership zones and research teams).

What are the other important connections or impacts related to this proposal?

The current Gaming System Contract expires June 30, 2016. This system is the backbone for processing lottery products at retail locations, including sales and prize payouts. It tracks all tickets and authenticates tickets presented for payment. This project will require substantial amount of time and effort to implement. The addition of these 3 positions will help with on-going business, other vital projects underway.

What alternatives were explored by the agency, and why was this alternative chosen?

Yes. We discussed hiring contract workers. That option did not provide long term benefits to the agency. The base of knowledge needed to keep processes and systems in-tact would not be available with contract workers.

What are the consequences of adopting or not adopting this package?

Lottery is at risk when State and Lottery experienced staff or technically skilled staff leave the agency.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Based on current employee's salaries in similar jobs

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

Ongoing.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages	196,785	196,785	393,570
B Employee Benefits	65,595	65,595	131,190
Total Objects	262,380	262,380	524,760

Agency: 116 State Lottery Commission
Decision Package Code/Title: V1 Gaming Vendor Contract
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

This decision package provides expenditure authority for staffing and other expenses to continue the Gaming Vendor Contract development and implementation. The Lottery's Gaming Vendor Contract, which expires June 30, 2016, is necessary for the Lottery to conduct daily business. In BI 13-15 the legislative process provided \$596,000 in expenditure authority. Washington's Lottery's current expenditure authority is not sufficient to fund this project. It is important to note that the Lottery's legislatively appropriated operating account (578) is funded directly by Lottery ticket sales, not the General Fund.

Agency Total

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
578-1 -Lottery Administrative Account-State	469,458	220,728	690,186

Staffing
FTEs

Package Description:

Washington's Lottery's current online gaming system contract expires June 30, 2016. This decision package provides for project staff to assist as the Lottery develops a new On-Line Gaming System Contract. Efforts commenced August 2012 (FY 2013) and will run through December 2016 (FY 2017). This contract will be in place for a minimum of ten years and is integral to the successful operation of the Lottery. The contract development lifecycle must receive all requested resources to ensure success of the project starting with the request for information, request for proposal periods; through implementation, go-live, and post-implementation of the new Gaming System contract. If unsuccessful, the Lottery will not be able to conduct daily business. There will be an interruption in sales, a negative impact to public perception, lawsuits (brought on by other Gaming System Vendors, etc.), and a contract which may contain performance problems potentially impacting revenue to the state.

The previous gaming system RFP and conversion project occurred at a time when Washington Lottery's staffing level was approximately 8.0 FTE's higher than current levels and before approximately \$3.3 million in legislatively-mandated administrative reductions. Washington's Lottery's expenditure authority is not sufficient to fund this project.

During the previous gaming system RFP and conversion project, Washington's Lottery employed a larger number of highly experienced staff and they were integral to the project. Also, the short timeline and unexpected complications seriously taxed Lottery's resources. Since that time, many of those experts have retired or moved on, which means those positions are now held by less experienced individuals. The possibility of complications and burden on a smaller staff who are less experienced in Lottery business poses a significant risk to business continuity.

This request is to provide continued funding for FY 2016 and FY 2017. For BI 13-15, \$596,000 was provided to fund associated costs incurred during that biennium.

For these reasons, Washington's Lottery had started this project in August 2012 and requires the requested resources to continue developing a new online gaming system contract.

For additional information, or to answer any questions, please contact John Iyall (360-664-4791) or Beckie Foster (360-664 4798).

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The primary outcome is the successful implementation of a new online gaming system contract effective July 1, 2016, allowing the Lottery to continue selling lottery products in order to contribute valuable revenue to the state. To elaborate, following is a brief timeline of the project and the various phases and associated purposes or outcomes for each phase.

Review Prior Project and Set up New Project 8/2012 (FY13)

Previous project documentation and lessons learned will be analyzed to ensure the new project capitalizes on past experiences and existing assets where possible.

Review Business Rules and Processes 8/2012 - 10/2012 (FY13)

Certain rules dictate business practices and feed into how processes flow. Diligent review and update of existing rules and processes, as well as adding new ones, is a critical step in determining what a system needs to do.

Complete Request For Information (RFI) 10/2012 - 4/2013 (FY13)

Lottery will develop a Request for Information to discover what is available and possible that meets the high level needs of the agency. Vendors will present their innovative ideas and systems. This information will help create and shape the requirements for the upcoming Request for Proposal (RFP).

Complete Request For Proposal (RFP) 4/2014 -10/2014 (FY14, & FY15)

Utilizing valuable information gained from the RFI, as well as business rules and processes, Washington's Lottery will develop a detailed RFP outlining both mandatory and desired features required for a gaming system. Vendors will submit proposals and present their systems and pricing, to be scored by the agency. This phase will include vendor site trips by the project team. This process will culminate in an apparent successful bidder.

Negotiations and Contract Award 10/2014 - 12/2014 (FY15)

Negotiations resulting in a signed contract will occur after the apparent successful bidder is announced.

Implementation 1/2015 - 6/2016 (FY 15 & FY16)

Once a contract has been signed, Lottery staff will work closely with the successful bidder to combine the business rules, processes, RFP, and contract content into Business Requirements. Software, hardware, and connectivity specifications will be created based on business requirements and will be the roadmap for internal staff to design, program, test, and implement software. Communication and training are a key part of implementation, requiring involvement agency wide. This phase will result in a new gaming system consisting of a communication network and terminals at retail locations statewide.

Post Implementation Support and Handoff 7/2016 - 12/2016 (FY17)

Implementing the new system is a key milestone but does not signify the end of the work to be done. Post implementation support including retailer transition assistance, bug fixes and post implementation feature enhancements are common and result in a more successful handoff. After handoff, the Lottery will conduct a thorough analysis of the project to provide a close out report and key lessons learned for the future.

Performance Measure Detail

Activity A001 Washington's Lottery

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes. The Lottery's plan includes strategies to:

- Streamline activities where possible to improve service and deliver savings
- Provide a system that is easy for retailers, players, and staff to use
- Maximize new technology to replace legacy systems
- Adapt to industry changes and new opportunities quickly
- Gain valuable tools to increase efficiency and better use scarce resources

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes, Washington's Lottery provides funding to the Washington Opportunity Pathways Account that provides funding for expenditures in the following programs which support the "World Class Education" Results Washington priority:

- chapter 28B.12 RCW (state work-study)
- chapter 28B.50 RCW (opportunity grant)
- RCW 28B.76.660 (Washington scholars award)
- RCW 28B.76.670 (Washington award for vocational excellence)
- chapter 28B.92 RCW (state need grant program)
- chapter 28B.101 RCW (educational opportunity grant)
- chapter 28B.105 RCW (GET ready for math and science scholarship)
- chapter 28B.117 RCW (passport to college promise)
- chapter 28B.118 RCW (college bound scholarship)
- chapter 28B.119 RCW (Washington promise scholarship)
- chapter 43.215 RCW (early childhood education and assistance program)
- RCW 43.330.280 (recruitment of entrepreneurial researchers, innovation partnership zones and research teams).

What are the other important connections or impacts related to this proposal?

The contributions made by Washington's Lottery to the Washington Opportunity Pathways account (17F), the Stadium & Exhibition Account (816) and other beneficiaries receive a part of their funding from the sale of Lottery tickets.

In total, approximately 3,800 lottery retailers earn in excess of \$35M commissions annually by selling Lottery tickets.

In order to continue these activities, a Gaming System Contract must be in place with Washington's Lottery.

What alternatives were explored by the agency, and why was this alternative chosen?

The process of entering into a new online gaming system contract is a project which requires approximately four and a half years of concerted effort which began in the 2013-15 biennium. This contract is a requirement for the continual operation of Washington's Lottery. The Lottery does not have the staffing or budget resources to develop an internal solution; therefore contracting is the only viable option.

What are the consequences of adopting or not adopting this package?

If this package is not adopted, Washington's Lottery bears an increased risk of interrupted sales, lawsuits, inability to fulfill other contractual obligations or a decrease in services otherwise typically provided by the Lottery.

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None

Expenditure and revenue calculations and assumptions

Although no increase to Lottery Revenues is expected from this decision package, it is important to note that without funding, Washington's Lottery bears an increased risk of interrupted sales, a problematic contract, lawsuits, inability to fulfill other contractual obligations or a decrease in services otherwise typically provided by the Lottery.

As mentioned previously, this project will take approximately four and a half years. The costs we are including in this decision package represent only those to be incurred in BI115-17 and include staffing and vendor costs.

Following is a detailed outline of costs: Audit related costs (\$30,000), Staff (Tandem programmer (ITAS5), Tandem programmer (ITAS3), Bus. anlyst/spc wtr(ITAS4), Finance (FA3), Admin/Warehouse) totaling \$660,187 for a grand total of \$690,187.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

There will be no ongoing project related costs, all are one time.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages	340,051	170,880	510,931
B Employee Benefits	99,407	49,848	149,255
C Professional Svc Contracts	30,000	0	30,000
Total Objects	469,458	220,728	690,186

JAY INSLEE
Governor



STATE OF WASHINGTON

OFFICE OF THE CHIEF INFORMATION OFFICER

P.O. Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0407

May 8, 2014

TO: H. W. Hanson, Director
Washington's Lottery

FROM: Michael DeAngelo, Deputy Chief Information Officer
Office of the Chief Information Officer 

SUBJECT: Investment Plan Approval Request for Lottery's Gaming Vendor Project

The Washington Lottery's (Lottery) investment approval request for the Lottery Gaming Vendor Project has been approved by the Office of the Chief Information Officer (OCIO). The approved investment cost is \$1,588,715.00.

The assessment of the project against the OCIO Severity/Risk Matrix criteria results in a Level 3 rating. As a Level 3 project, Lottery's management and staff must ensure the investment is consistent with the information technology policies, procedures and practices of Lottery as well as the OCIO policies, procedures and standards.

Lottery must obtain additional approval from the OCIO if there are any changes to the scope, schedule or budget of the approved investment.

If you have any questions, please contact the OCIO at 360-902-0407.

Attachment: Signed Investment Plan Approval Document (#2014-020)

cc: Rich Frady, Lottery
Jim Warick, Lottery
Marilyn Freeman, OCIO
David Walddon, OCIO
Jim Hammond, OCIO

Investment Plan Approval Document

(See OCIO Policy 121- IT Investments – Approval and Oversight)

OCIO Log Number: 2014-020

(Check box below that applies)

Email the Investment Plan Packet To:

OCIOSubmitInvestment@ofm.wa.gov

- First Time Investment Plan
 Amendment to Previously Approved Investment Plan

1	Agency Name: Washington's Lottery	
	Contact Name: Crystal Fischer, Directory of Information Services	Phone No. and E-mail: 360-664-4708 cfischer@walottery.com
	Project Manager Name: Rich Frady, Gaming Vendor Liaison	Phone No.: 360-664-4705
	Executive Sponsor Name: Bill Hanson, Lottery Director	Phone No.: 360-664-4800
	Business Owner Name: Jim Warick, Lottery Deputy Directory	Phone No.: 360-664-4807
2	Project Title: Lottery's Gaming Vendor Project	Oversight Level: 3
	Description of Project: Description of Investment: The Washington Lottery is seeking a contract with a responsible and experienced vendor for a Lottery system to replace the current contract, which expires 30 June 2016. The new contract will require the vendor to provide a fully functioning on-line and instant ticket system, including the following services: hardware, software and communications, the installation of the new system, conversion of data from the old system and operation of the system. The expected time period for the new contract is July 1, 2016 through June 30, 2026, with the option to renew for up to ten (10) years in any number of extensions	
	<i>(Attach Policy 121 Appendix B: Implementation and Maintenance Cost Spreadsheets)</i>	
3	Project Cost: \$1,588,715	
	Maintenance Cost: Vendor cost is solely based on percentage of sales. The current cost of \$104,615,429 has a purchased services rate of 3.2487% of sales. General Fund dollars are not used for Vender payment.	
	Total Lifecycle Cost: \$106,204,144	
4	Project Start Date: August 2012	Project End Date: December 2016
	Project Duration in Months: 51	
5	Procurement Delegated Authority Amount: \$	
	Procurement Approval Date from Department of Enterprise Services:	
6	Agency Approval (Print Name/Title/Signature): A.W. HANSON Director <i>A.W. Hanson</i>	Date: 4/29/14
7	OCIO Approval (Print Name/Title/Signature): MICHAEL DEFRANCESCO, Dep CIO <i>Michael DeFrancisco</i>	Date: 5/7/14
8	(OCIO USE ONLY)	

Investment Plan Approval Document

(See OCIO Policy 121- IT Investments – Approval and Oversight)

OCIO Log Number:

(Check box below that applies)

Email the Investment Plan Packet To:

OCIOSubmitInvestment@ofm.wa.gov

- First Time Investment Plan
 Amendment to Previously Approved Investment Plan

1	Agency Name: Washington's Lottery Contact Name: Crystal Fischer, Directory of Information Services Phone No. and E-mail: 360-664-4708 cfischer@walottery.com Project Manager Name: Rich Frady, Gaming Vendor Liaison Phone No.: 360-664-4705 Phone No.: 360-664-4800 Executive Sponsor Name: Bill Hanson, Lottery Director Phone No.: 360-664-4807 Business Owner Name: Jim Warick, Lottery Deputy Directory	
2	Project Title: Lottery's Gaming Vendor Project Description of Project: Description of Investment: The Washington Lottery is seeking a contract with a responsible and experienced vendor for a Lottery system to replace the current contract, which expires 30 June 2016. The new contract will require the vendor to provide a fully functioning on-line and instant ticket system, including the following services: hardware, software and communications, the installation of the new system, conversion of data from the old system and operation of the system. The expected time period for the new contract is July 1, 2016 through June 30, 2026, with the option to renew for up to ten (10) years in any number of extensions	Oversight Level: 3
3	<i>(Attach Policy 121 Appendix B: Implementation and Maintenance Cost Spreadsheets)</i> Project Cost: \$1,588,715 Maintenance Cost: Vendor cost is solely based on percentage of sales. The current cost of \$104,615,429 has a purchased services rate of 3.2487% of sales. General Fund dollars are not used for Vender payment. Total Lifecycle Cost: \$106,204,144	
4	Project Start Date: August 2012 Project Duration in Months: 51	Project End Date: December 2016
5	Procurement Delegated Authority Amount: \$ _____ Procurement Approval Date from Department of Enterprise Services: _____	
6	Agency Approval (Print Name/Title/Signature): T.W. HANSON DIRECTOR <i>T.W. Hanson</i>	Date: 4/29/14
7	OCIO Approval (Print Name/Title/Signature):	Date:
8	(OCIO USE ONLY)	

A. Purpose of the Planned Investment

1. *Business Problem to Be Solved:*

Business Problem: Continued Revenue

The Washington Lottery's mission is to provide funding for scholarships by contributing to the Washington's Opportunity Pathways Account and other state programs. The Lottery generates revenue through the sale of lottery tickets to the public. The Lottery's on-line vendor provides all the hardware, software, communication lines and retailer terminals used to sell lottery tickets. The services provided by that vendor are the subject of this investment.

Without the gaming system provided by its on-line vendor, the Lottery could not sell tickets. Without ticket sales, the Lottery could not meet its legislative mandate to fund education and other programs. The Lottery is seeking approval to enter into a new contract for an on-line gaming system that will ensure a continued revenue stream to fulfill its legislative mandate.

Opportunity: Maximize Profits From Ticket Sales

In addition to continuing the existing Lottery revenue stream, the Lottery will explore other available opportunities to lower costs, increase revenues and increase customer satisfaction. Washington's Lottery has conducted a Request for Information (RFI) to obtain information about what the gaming systems vendors are currently implementing or planning to implement at other United States lotteries. Vendor responses will assist Washington's Lottery in determining how best to achieve these goals.

2. *Proposed Solution to Business Problem:*

This project provides for staff to assist as the Lottery develops a new On-Line Gaming System Contract. Project planning commenced August 2012 (FY 2013) and will run through December 2016 (FY 2017). This contract will be in place for a minimum of ten years and is integral to the successful operation of the Lottery. The contract development lifecycle must receive all requested resources to ensure success from the request for information, request for proposal periods; through implementation, go-live, and post-implementation of the new Gaming System contract. If unsuccessful, the Lottery will not be able to conduct daily business. There will be an interruption in sales, a negative impact to public perception, lawsuits (brought on by other Gaming System Vendors, etc.), and a contract which may contain performance problems potentially impacting revenue to the state.

3. *Business Benefits/Performance Outcome and Measures:*

The Lottery's Strategic Plan for FY 13 – FY 15 is focused on the goal to **Optimize Sales**. This procurement supports the following objectives listed in the plan for this goal:

- Drive sales and maximize contributions
- Grow Lottery player base
- Position Lottery for future growth
- Create stable game portfolio
- Provide value to our stakeholders

B. Justification

1. *Market Analysis:*

In considering the following alternatives to this investment, Washington's Lottery preformed internal meetings and consulted with other State Lotteries:

- a. Lottery Privatization: By statute, the Lottery is a Washington State administrative agency and therefore subject to the laws and regulations that govern all such agencies. Privatization would affect the Lottery's essential nature and business structure. Unless or

until the Legislature moves to privatize the lottery, the sole statutory basis for providing necessary on-line services and equipment remains the Director's authority to enter into public contracts as necessary. See RCW 67.70.050(6).

- b. Contract Extension: The Lottery could seek approval to extend the current contract and beef up the current system. However, the Lottery has already extended the contract to its legal and practical limit.
- c. Standard Systems: Standard "off the shelf" systems are not robust enough to deliver the scope of on-line system services that the Lottery requires to conduct business. They do not offer the level of security and integrity that is required for a government-operated gaming system. Consequently, those types of solutions are neither compliant nor cost effective.
- d. Internally Developed System: Manpower considerations make this option problematic. The Lottery does not have the staff or expertise to install point-of-sale terminals in each of its 3800 retailer locations, or to connect each of these sales terminals to a centralized gaming system. The Lottery does not have the communications assets or expertise to install and maintain a statewide communications network to perform secure transactions. Moreover, considering the severity and risk factors of this project, the Lottery cannot make a compelling case for internal development.¹
- e. Competitive Bid Solicitation: The fifth alternative considered was solicitation of bids for a new contract. This was the alternative we selected.

2. Alignment to the State Enterprise-based Strategy:

Lottery sales benefit the Washington Opportunity Pathways Account (WOPA). The majority of lottery money going to beneficiaries are dedicated WOPA to support programs such as the State Need Grant, the State Work Study program and early learning. Once the required contribution is made to WOPA, the remaining lottery money goes to the Education Legacy Trust Account, the Economic Development Reserve Account, the Problem Gambling Account, and the Stadium and Exhibition Center.

Lottery proceeds are transfer to State Treasury Office (fund 17F) for disbursement to WOPA programs.

3. Relationship to State's Technology Infrastructure:

The Lottery uses the CTS communications backbone to connect four regional Lottery offices. This communications network is crucial to the Lottery's day-to-day business applications. We do not anticipate any changes in our communications requirements due to this investment.

The successful vendor will provide a fully functioning on-line and instant ticket system, including hardware, software, communications, system installation, data conversion and system operation through the life of any subsequent contract that may result from this solicitation. The vendor Lottery will not utilize the States' Technology infrastructure.

A Security Design review with CTS will be conducted after the contract is awarded to the successful bidder.

¹ The Executive Guide to Managing Information Technology Portfolios states: "Unless an agency demonstrates a compelling case to do otherwise, technology projects with high risk and severity factors will be developed by the private sector, under fixed price contracts with payments tied to the delivery and acceptance of specific system results."

4. Proposed Exceptions to OCIO Policies and Technical Standards:

Exception to the policies or technical standards of the OCIO or from our agency will not be required.

C. Funding

1. Project Funding:

Funding of implementation costs will be born from the Lottery Administrative Account (578). <http://www.ofm.wa.gov/fund/detail.asp?fund=578>. The legislature has provided expenditure authority for FY2014 & 2015, additional will be required for FY2016 & 2017.

2. Maintenance Funding:

See attached cost spreadsheet

3. Cost Benefit Analysis (Level 3 Projects Only):

Due to multiple factors, the Lottery did not complete a Cost Benefit Analysis for this project. The current Gaming Vendor contract will expire June 30th, 2016, with no possibility of extension. The Lottery doesn't have the equipment or the expertise to continue without an gaming vendor. Therefore a new contract must be procured.

An RFI was conducted in April of 2013 to all interested parties that may be capable of providing Lottery services. There are only three vendors capable and experienced in gaming in the United States. Those vendors are:

- GTECH Corporation (based in Rhode Island)
- Scientific Games Corporation (based in Georgia)
- INTRALOT (USA) (based in Georgia)

The Lottery is requesting an exception to the CBA.

D. Schedule

1. Procurement Schedule:

Milestone	Start Date	Completion Date
Review Business Rules and Draft RFI	9/1/2012	12/31/2012
Issue RFI	2/1/2013	3/29/2013
Review Responses and Vendor Presentations	4/1/2013	4/30/2013
Draft RFP	5/1/2013	2/28/2014
Issue RFP	4/14/14	4/14/14
Round 1 - Questions Due	5/5/14	5/5/2014
Round 1 - Responses	5/6/2014	5/12/2014
Round 2 - Questions Due	5/28/14	5/28/2014
Round 2 - Responses	5/29/14	6/4/14
Proposals Due	7/25/2014	7/25/2014
Evaluation of Proposals	7/29/2014	9/11/14
Site Visits	9/12/14	9/18/14
Finalize Evaluations	9/19/2014	9/23/2014
Open Pricing	9/24/2014	9/26/2014
Presentation to MT	10/14/2014	10/14/2014
QA Consultant (Bid)	10/14/2014	11/14/2014
Announce Apparent Successful QA Bid	11/14/2014	11/14/2014
QA Consultant (Start)	12/15/2014	12/15/2014
Sign Contract	12/30/2014	12/30/2014

2. Implementation Schedule:

This is a tentative schedule based on past implementation and projects. The final schedule will be developed during negotiations with the vendor.

Milestone	Start Date	Completion Date
Security Design Review (CTS)	4/01/2014	4/30/2014
Execute Contract	1/7/15	1/7/15
Business Requirement Review	1/18/15	2/12/15
Software Requirements (Test Plans, Scripts, etc.)	2/13/15	4/16/15
Vendor Software Development	3/26/15	8/14/15
Files to be supplied to the Lottery	3/27/15	4/16/15
Lottery Software Development	4/17/15	9/3/15
Develop Consumables	3/2/15	7/3/15
Vendor Software Testing	8/11/15	11/2/15
Lottery Software Testing	8/11/15	11/2/15
Combined Software Testing	7/11/15	7/30/16
Data Conversion	10/21/15	2/23/16
Parallel Processing	2/23/16	6/30/16
Training Retailers & Users	3/7/16	6/24/16
Terminal Supplies & Distribution	4/25/16	6/24/16
Terminal Install	2/29/16	5/20/16
Communication Network Activities	10/5/15	6/10/16
Go Live	7/1/16	7/1/16

E. Project Management

1. Experienced Project Manager:

Crystal Fischer, PMP, Lottery IS Director,

- Experienced in all phases of project management.
- Established in understanding and executing industry standards and best practices.
- Provides independent, objective, and not aligned with any individual stakeholder process.
- Demonstrate she communicates in a straightforward, accurate, and specific manner that highlights aspects of the project requiring additional attention or action.
- Has a comprehensive understanding of how to successfully implementation projects.
- Has a comprehensive understanding of Lottery business rules and software requirements.
- Knowledgeable about the political environment in the Lottery environment.

Richard Frady, Gaming Vendor Liaison, Project Manager.

Consult and advise the Director of Information Systems and business Directors of the Lottery in matters pertaining to customized applications software development by the gaming vendor. Also responsible for technical advice to Lottery teams that negotiates with the gaming and/or scratch ticket vendors.

12 years of experience with Lottery/Gaming software development and project management

Project manager for the 2006 gaming system software conversion.

All projects have been delivered on time and within budget

Have a comprehensive understanding of Lottery business rules and software requirements.

Developed business and software requirement documents for the 2006 gaming conversion and all software enhancement, games and fixes since 2002.

Knowledgeable about the political environment in the Lottery environment.

Software project manager for the implementation of the following games:

- Megamillions
- Powerball
- Raffle
- Hit 5
- Match 4

2. Executive Management Support:

Lottery executive management, from the Director down, will exercise strong sponsorship of, and oversight over, the project. In the solicitation, the Lottery will require bidders to describe their ability to mitigate project development risks and to provide references that will verify this ability. Bidders will be required to operate under a methodology for a Systems Development Life Cycle to be used for the development of on-line games and instant ticket systems. The vendor and the Lottery must agree to the methodology.

Bidders must also provide comprehensive documentation of the methodology, such as is required for ISO 9000 compliance, ² for evaluation by the Lottery.

During development the Lottery will require the vendor project staff to use documented processes that can be duplicated, for tracking status, problems, and change. The Lottery and the current vendor are using Microsoft Project for this purpose; this project management tool will be specified in the solicitation.

3. Quality Assurance (QA)/Independent Verification and Validation (IV&V):

The Lottery is thoroughly reviewing and analyzing previous RFP documents and lessons learned to ensure a smooth, successful procurement and implementation. Additionally the NASPL document Best Practice, Request for Proposal (RFP) Process identifies useful quality assurance processes applicable to this investment. From these sources the Lottery has formulated the following measures to be built into the investment process to ensure that the Lottery receives the exact product it needs:

² ISO (the International Organization for Standardization) is the world's largest developer of standards. ISO's principal activity is the development of technical standards. ISO 9000 is the internationally recognized standard for quality management systems.

Quality Assurance (QA): a discipline to ensure that project management standards processes, and procedures are appropriate and correctly implemented to increase the probability of a project's success. Quality Assurance is a systematic approach that monitors, evaluates, and provides interactive feedback about a project's activities and ensures that the project is properly managed (OCIO Policy No. 132).

Business Requirements: A business requirements document will be used to analyze the Lottery's key business objectives and to focus on the Lottery's strategic goal to optimize sales.

Vendor Testing and Lottery Acceptance Testing: Before the new gaming system is activated, the vendor must test the system during and after application development. The Lottery's acceptance testing team will then test the gaming

Conversion Testing: The vendor will be responsible to convert the data ³ from the current to the new system before system startup. The vendor must test the software developed for this purpose before actual conversion.

Network Testing: After the communications network and the terminals are installed the vendor must test the network, from the central computer to the new terminals, before to new system startup.

QA Completion: Only after the acceptance testing and operational testing processes are successfully completed will the Lottery accept the procured system.

Parallel System Testing: Sixty days before new system startup the vendor must operate the new system, off-line, in parallel to the current system. Lottery staff will verify the results by comparing system-balancing reports produced by both systems at the end of each day.

QA Consultant: As a level 3 project a third party QA consultant will be contracted for OCIO oversight.

4. Formal Methodology

Bidders must also provide comprehensive documentation of the methodology, such as is required for ISO 9000 compliance, ⁴ for evaluation by the Lottery.

During development the Lottery will require the vendor project staff to use documented processes that can be duplicated, for tracking status, problems, and change. The Lottery and the current vendor are using Microsoft Project for this purpose; this project management tool will be specified in the solicitation.

Documentation of Current Business Processes: Comprehensive documentation of the Lottery's current business processes will be included in the RFP. A requirement will be included in the RFP that during the first 30 days after signing the contract, the vendor has a Business Analyst spend at least 40 hours at the Lottery observing the business processes and meeting with end users. The Lottery staff should use up-to-date desk manuals in these meetings.

Software Specifications: System implementation will be driven by written software requirements specifications, which explain in detail the required response to specific software applications.

³ This refers to data of continuing games, including transaction files for validations, claims, inventory and accounts receivable files.

⁴ ISO (the International Organization for Standardization) is the world's largest developer of standards. ISO's principal activity is the development of technical standards. ISO 9000 is the internationally recognized standard for quality management systems.

Project Management: A requirement will be included in the RFP that the vendor project manager must be Project Management Institute (PMI) certified.

5. Scope Management

Best Practices: The Lottery will follow the Best Practices that have been adopted by our industry organization, the North American Association of State and Provincial Lotteries (NASPL). Those Best Practices address a wide range of lottery business operations, including the competitive procurement of services and equipment, software and system development, acceptance testing and system implementation/ deployment.

These Best Practices apply to the lottery industry, have been approved by the NASPL Standards Initiative and are recommended for adoption by the lottery industry. They are intended to improve the quality and integrity of the lottery environment and to provide increased efficiencies, resulting in reduced costs and increased profit margins for lotteries, vendors and lottery retailers.

These Best Practices provide a set of processes and procedures that define quality assurance requirements throughout the hardware and/or software production cycle from requirements specification through design, implementation, and testing, to acceptance and deployment. They are not intended to apply to the procurement of off-the-shelf applications or ready solutions. Rather, they are designed to be applied to the specialized procurement of lottery-specific applications.

6. Business User Involvement

Although the procurement will replace the current gaming system with a new system, there will be little change to business rules and processes. It is therefore seen as a major enhancement of the Lottery's mission critical system.

The Lottery will ensure that its staff at the operational level fully understands how the vendor will implement the Lottery's current business processes. To that end key personnel from every business area affected by the new system will be involved in the development process from start to finish, and line workers and supervisors from these business areas will be involved in the review processes

7. Organizational Change Management:

Bidders must also provide comprehensive documentation of the methodology, such as is required for ISO 9000 compliance, ⁵ for evaluation by the Lottery.

During development the Lottery will require the vendor project staff to use documented processes that can be duplicated, for tracking status, problems, and change. The Lottery and the current vendor are using Microsoft Project for this purpose; this project management tool will be specified in the solicitation.

Employee Training: Immediately after acceptance testing is complete, Lottery employees will be trained on the new system for an operational test.

⁵ ISO (the International Organization for Standardization) is the world's largest developer of standards. ISO's principal activity is the development of technical standards. ISO 9000 is the internationally recognized standard for quality management systems.

8. Dependencies:

Consolidated Technology Services (CTS) provide network communications between Washington Lottery and its vendor's gaming system for back office and data feeds only. The Gaming vendors provide their own network and communication between retailer locations and the gaming host system.

The Lottery has a CTS Security Design Review on 17 April 2014.

9. Investment Impact on Other Governmental Organizations:

No impact on other Governmental Organizations

F. Risk

1. Project Risks:

Without the ability to acquire a new gaming vendor system contract and continue the sales of Lottery tickets with minimal interruption, which in turn provides valuable revenue to the state. This continued profitability will have a direct impact on our primary beneficiary, Washington Opportunity Pathways Account (WOPA).

2. Severity and Risk Assessment:

{Attach the completed OCIO Policy 121- Appendix A: Severity and Risk Assessment.}

State of Washington

Summarized Revenue by Account and Source

Budget Period: 2015-17
 Dollars in thousands
 116 - State Lottery Commission
 Agency Level
 B1 - BI15-17 Initial Budget
 Supporting Text Included

	Maintenance Level		Performance Level		Biennium Totals		Total
	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017	
001 - General Fund							
Total - 0644 - General Fund Tran - S		1,147				1,147	1,147
001 - General Fund - State		1,147				1,147	1,147
Total - 001 - General Fund		1,147				1,147	1,147
08K - Problem Gambling Act							
Total - 0621 - Operating Trans In - S	315	321			315	321	636
08K - Problem Gambling Act - State	315	321			315	321	636
Total - 08K - Problem Gambling Act	315	321			315	321	636
09R - Econ Dev Strat R A							
Total - 0621 - Operating Trans In - S	3,800	3,800			3,800	3,800	7,600
09R - Econ Dev Strat R A - State	3,800	3,800			3,800	3,800	7,600
Total - 09R - Econ Dev Strat R A	3,800	3,800			3,800	3,800	7,600
17F - WA Opportunity Pathw							
Total - 0640 - Lott Rev - S	117,408	119,280			117,408	119,280	236,688
17F - WA Opportunity Pathw - State	117,408	119,280			117,408	119,280	236,688
Total - 17F - WA Opportunity Pathw	117,408	119,280			117,408	119,280	236,688
433 - S Game Lottery							
Total - 0477 - Lottery Ticket Procd - S	102,100	102,100			102,100	102,100	204,200
Total - 0622 - Operating Trans Out - S	(731)	(731)			(731)	(731)	(1,462)
Total - 0640 - Lott Rev - S	(39,423)	(39,423)			(39,423)	(39,423)	(78,846)

433 - S Game Lottery

Total - 0644 - General Fund Tran - S		(1,147)		(1,147)	(1,147)
433 - S Game Lottery - State	61,946	60,799	61,946	60,799	122,745
Total - 433 - S Game Lottery	61,946	60,799	61,946	60,799	122,745
577 - State Lottery Acct					
Total - 0211 - Gambling Licenses - S	3,020	3,020	3,020	3,020	6,040
Total - 0409 - Interest Income - S	80	80	80	80	160
Total - 0477 - Lottery Ticket Procd - S	508,500	520,200	508,500	520,200	1,028,700
Total - 0622 - Operating Trans Out - S	(19,281)	(19,290)	(19,281)	(19,290)	(38,571)
Total - 0640 - Lott Rev - S	(77,986)	(79,857)	(77,986)	(79,857)	(157,843)
Total - 0641 - Stadium & Ex Trans - S	(11,687)	(12,155)	(11,687)	(12,155)	(23,842)
577 - State Lottery Acct - State	402,646	411,998	402,646	411,998	814,644
Total - 577 - State Lottery Acct	402,646	411,998	402,646	411,998	814,644
578 - Lott Administrative					
Total - 0621 - Operating Trans In - S	12,797	12,801	12,797	12,801	25,598
578 - Lott Administrative - State	12,797	12,801	12,797	12,801	25,598
Total - 578 - Lott Administrative	12,797	12,801	12,797	12,801	25,598
816 - Stadium/Exhibition					
Total - 0641 - Stadium & Ex Trans - S	11,687	12,155	11,687	12,155	23,842
816 - Stadium/Exhibition - State	11,687	12,155	11,687	12,155	23,842
Total - 816 - Stadium/Exhibition	11,687	12,155	11,687	12,155	23,842
116 - State Lottery Commission - State	610,599	622,301	610,599	622,301	1,232,900
Total - 116 - State Lottery Commission	610,599	622,301	610,599	622,301	1,232,900

This Page Intentionally

Left Blank



FUND	FUND TITLE	FUND ADMINISTRATOR AGENCY ONLY	
		RECOMMENDED ENDING FUND BALANCE	RECOMMENDED ENDING FUND BALANCE
		Current Biennium	Ensuing Biennium
433	Shared Game Lottery Account	3,000,000	3,000,000
577	State Lottery Account	10,000,000	10,000,000
578	Lottery Administrative Account	2,000,000	2,000,000

Information Technology Addendum

Recsum Code and Title **V1 Gaming Vendor Contract**

Brief Description: This decision package provides expenditure authority for staffing and other expenses to continue the Gaming Vendor Contract development and implementation. The Lottery's Gaming Vendor Contract, which expires June 30, 2016, is necessary for the Lottery to conduct daily business. In BI 13-15 the legislative process provided \$596,000 in expenditure authority. Washington's Lottery's current expenditure authority is not sufficient to fund this project. It is important to note that the Lottery's legislatively appropriated operating account (578) is funded directly by Lottery ticket sales, not the General Fund.

If this investment includes the use of servers, do you plan to use the state data center?

Yes No, waiver received No, waiver not received Does not apply

Security

Security: How does this investment affect the state's security posture? Have the proper security considerations been made? Does the investment itself actually improve infrastructure security? What, if any, security concerns are there?

Consolidated Technology Services (CTS) provide network communications between Washington Lottery and its vendor's gaming system for back office and data feeds only. The Gaming vendors provide their own network and communication between retailer locations and the gaming host system.

The Lottery will meet the the CTS Security Design committee after contract signing with the new vendor.

Feasibility/Risk

Cultural readiness/organizational capacity: Does this investment require significant institutional change within the agency, and is the agency prepared for that change? Is there committed and proven leadership? Is there a record of successful projects? Does the agency foster a culture of creative problem solving?

Although the procurement will replace the current gaming system with a new system, there will be little change to business rules and processes. It is therefore seen as a major enhancement of the Lottery's mission critical system. The Lottery successfully updated it's system with GTECH in 2006.

The Lottery will ensure that its staff at the operational level fully understands how the vendor will implement the Lottery's current business processes. To that end key personnel from every business area affected by the new system will be involved in the development process from start to finish, and line workers and supervisors from these business areas will be involved in the review processes.

Technical complexity: Can the investment realistically be completed within the proposed framework of time, budget and resources?

Lottery executive management, from the Director down, will exercise strong sponsorship of, and oversight over, the project. In the solicitation, the Lottery will require bidders to describe their ability to mitigate project development risks and to provide references that will verify this ability. Bidders will be required to operate under a methodology for a Systems Development Life Cycle to be used for the development of on-line games and instant ticket systems. The vendor and the Lottery must agree to the methodology.

Bidders must also provide comprehensive documentation of the methodology, such as is required for ISO 9000 compliance, for evaluation by the Lottery.

During development the Lottery will require the vendor project staff to use documented processes that can be duplicated, for tracking status, problems, and change. The Lottery and the current vendor are using Microsoft Project for this purpose; this project management tool will be specified in the solicitation.

During development the Lottery will require the vendor project staff to use documented processes that can be duplicated, for tracking status, problems, and change. The Lottery and the current vendor are using Microsoft Project for this purpose; this project management tool will be specified in the solicitation.

Urgency: Is the investment urgent or can wait until a future funding cycle? Must the investment be completed all at once, or can we break it into incremental pieces?

The investment is urgent and must be completed by July 1, 2016. Without this project funding, the Lottery's ability to acquire a new gaming vendor system contract and continue the sales of Lottery tickets will be hindered, which in turn will hinder the Lottery's ability to provide revenue to the state and will negatively impact on our primary beneficiary, Washington Opportunity Pathways Account (WOPA).

Impact of not doing: What are the potential impacts to the state, agency, or the public if this investment is not completed?

Washington's Lottery's mission is to provide funding for scholarships by contributing to the Washington's Opportunity Pathways Account and other state programs. The Lottery generates revenue through the sale of lottery tickets to the public. The Lottery's on-line vendor provides all the hardware, software, communication lines and retailer terminals used to sell lottery tickets. The services provided by that vendor are the subject of this investment.

Without the gaming system provided by its on-line vendor, the Lottery could not sell tickets. Without ticket sales, the Lottery could not meet its legislative mandate to fund education and other programs.

Technology Strategy Alignment

Agile value: Is the investment broken into incremental steps that provide customer-facing value and allow periodic assessment of progress?

The Lottery is thoroughly reviewing and analyzing previous RFP documents and lessons learned to ensure a smooth, successful procurement and implementation. Additionally the NASPL document Best Practice, Request for Proposal (RFP) Process identifies useful quality assurance processes applicable to this investment. From these sources the Lottery has formulated the following measures to be built into the investment process to ensure that the Lottery receives the exact product it needs:

Quality Assurance (QA): a discipline to ensure that project management standards, processes, and procedures are appropriate and correctly implemented to increase the probability of a project's success. Quality Assurance is a systematic approach that monitors, evaluates, and provides interactive feedback about a project's activities and ensures that the project is properly managed (OCIO Policy No. 132).

Business Requirements: A business requirements document will be used to analyze the Lottery's key business objectives and to focus on the Lottery's strategic goal to optimize sales.

Vendor Testing and Lottery Acceptance Testing: Before the new gaming system is activated, the vendor must test the system during and after application development. The Lottery's acceptance testing team will then test the gaming system.

Conversion Testing: The vendor will be responsible to convert the data from the current system to the new system before startup. The vendor must test the software developed for this purpose before actual conversion.

Network Testing: After the communications network and the terminals are installed the vendor must test the network, from the central computer to the new terminals, before to new system startup.

QA Completion: Only after the acceptance testing and operational testing processes are successfully completed will the Lottery accept the procured system.

Parallel System Testing: Sixty days before new system startup the vendor must operate the new system, off-line, in parallel to the current system. Lottery staff will verify the results by comparing system-balancing reports produced by both systems at the end of each day.

QA Consultant: As a level 3 project a third party QA consultant will be contracted for OCIO oversight.

Modernization of state government: Will the investment result in replacing legacy systems that are no longer solving business problems with modern, appropriate technology solutions?

The successful vendor will provide the Lottery with modern and appropriate technology solutions to provide a fully functioning draw game and instant ticket system, including hardware, software, communications, system installation, data conversion and system operation through the life of any subsequent contract that may result from this solicitation.

Mobility: Does the investment help state employees conduct business “any time, anywhere”? Does it improve mobile access to services for customers?

Lottery Sales staff will be provided with up to date mobile technology that will assist them in interacting with their retailers with better information that will in turn provide better service to Lottery players.

Transparency: Does it increase public visibility of services provided with public funds? Does this investment increase public access to searchable public data and information?

The Lottery will continue to provide complete transparency in the sale of Lottery products. Any negative perception will have an adverse effect on sales.

Accountability: Are the investment's goals well articulated? How will "success" be determined or measured?

Washington's Lottery's mission is to provide funding for scholarships by contributing to the Washington's Opportunity Pathways Account and other state programs. The Lottery generates revenue through the sale of lottery tickets to the public. The Lottery's on-line vendor provides all the hardware, software, communication lines and retailer terminals used to sell lottery tickets. The services provided by that vendor are the subject of this investment.

Without the gaming system provided by its on-line vendor, the Lottery could not sell tickets. Without ticket sales, the Lottery could not meet its legislative mandate to fund education and other programs. This project will be considered successful if all milestones are met and the system is implemented on time and to specification.

Financial

Financial risk of not doing: Are there potential financial consequences for not completing this investment, such as fines for noncompliance with legal requirements or a loss of federal funding?

If unsuccessful, the Lottery will not be able to conduct daily business. There will be an interruption in sales, a negative impact to public perception, possible lawsuits (brought on by other Gaming System Vendors, etc.), and a contract which may contain performance problems potentially impacting revenue to the state.

Cost Reduction: Does this investment prevent or reduce expenses, such as the cost of maintaining labor-intensive systems that could be automated, repairs or maintenance to obsolete or outdated infrastructure, or specialty expertise required for legacy technologies?

In addition to continuing the existing Lottery revenue stream, the Lottery will explore other available opportunities to lower costs, increase revenues and increase customer satisfaction. Vendor responses will assist Washington's Lottery in determining how best to achieve these goals.

Revenue Generation: Does this investment generate new revenue, or capture additional revenue left "on the table" by current solutions?

In addition to continuing the existing Lottery revenue stream, the Lottery will explore other available opportunities to lower costs, increase revenues and increase customer satisfaction. Washington's Lottery has conducted a Request for Information (RFI) to obtain information about what the gaming systems vendors are currently implementing or planning to implement at

other United States lotteries. Vendor responses will assist Washington's Lottery in determining how best to achieve these goals

Business Case/Agency Mission Priority

Mission priority: Does this investment help the agency better deliver its mission?

The Lottery's Strategic Plan for FY 13 – FY 17 is focused on the goal to Optimize Sales. This procurement supports the following objectives listed in the plan for this goal:

Drive Sales and maximize contributions

Grow Lottery player base

Position Lottery for future growth

Create stable game portfolio

Provide value to our stakeholders

Business case: Is there a clear problem with the status quo, and does this investment clearly solve that business problem?

The Washington Lottery's mission is to provide funding for scholarships by contributing to the Washington's Opportunity Pathways Account and other state programs. The Lottery generates revenue through the sale of lottery tickets to the public. The Lottery's on-line vendor provides all the hardware, software, communication lines and retailer terminals used to sell lottery tickets. The services provided by that vendor are the subject of this investment.

Without the gaming system provided by its on-line vendor, the Lottery could not sell tickets. Without ticket sales, the Lottery could not meet its legislative mandate to fund education and other programs. The Lottery is seeking approval to enter into a new contract for an on-line gaming system that will ensure a continued revenue stream to fulfill its legislative mandate

Implementation of the New Gaming Vendor

Washington's Lottery is amidst of a RFP to award a new contract for the gaming system which is the heart of the lottery's operation system. This is a major undertaking for the lottery and will require all employees to be focused on the implementation of the system. The actual implementation will start in January 2, 2015 and will conclude on June 30, 2016, going live on the next day July 1, 2016. All of this will happen in parallel with the day to day operation of the lottery. Any reduction in staffing will have consequences on the successful implementation of the new system. If there are issues they will impact our ability to deliver sales which has a direct correlation to our contributions to the state.

Lottery Administrative Account

Washington's Lottery's administrative account (578) is funded by the sale of lottery tickets but appropriated each biennium by the legislature. This account provides for salaries, benefits, buildings, utilities, equipment and other administrative costs. From BI09-11 through BI13-15, this account has been reduced by \$3,318,000 (approximately 12%) for administrative savings. These reductions were identified as "administrative savings" and are in addition to the customary adjustments to central service charges, the 3% salary reduction, benefits, etc.

Prior to the reductions in 578, these dollars were called upon to provide a budget contingency (a necessity as this is an appropriated account), project funding (such as Gaming Vendor Contract and other RFP's), required equipment purchases, a security guard contract and positions that were subsequently eliminated including a Communications Director, 2 Research Analysts, a Systems Manager, an Internal Auditor, a Fiscal Analyst, and 6 retailer-support positions. This work was redistributed to others within the agency with a total net decrease since the beginning of BI09-11 of 9 FTE's. The Lottery prides itself on being fiscally responsible to ensure the largest possible contributions to its beneficiaries. Prior to these reductions, staffing was maintained at a "lean" level. The reductions to the administrative budget have impacted staffing to a "critical" level.

Cash Flow

Lottery cash reserves have been depleted over the last couple of biennium's due to legislative mandates. As a result, the Lottery has postponed contribution transfers to Washington's Opportunity Pathways Account. Lottery is attempting to maintain a consolidated daily cash balance to conduct on-going business and be able to pay prizes when players claim their large winnings. At any given time, there is the potential that multiple winners of large prizes can claim within one week. Lottery collects cash from retailers on a weekly basis. Lottery management continues to evaluate its cash position and adjust as needed to maintain a positive cash balance. The Lottery is required to distribute its income to required beneficiaries. For the Lottery to maintain or increase its cash levels to fiscally sound operating levels, the Lottery can defer beneficiary payments or not use unclaimed prizes for future prizes as allowed by RCW 67.70.190. Fiscal responsibility and transparency is paramount for a successful lottery operation. The potential loss of a positive public viewpoint would be extremely detrimental to Lottery business activities on a long term basis.