

# PERFORMANCE MANAGEMENT AND INNOVATION REPORT

Submitted Pursuant to St. 2012, c. 165, §§102 and 127

July 1, 2013

## MASSACHUSETTS STATE LOTTERY COMMISSION

### *MISSION*

*To operate in a manner that secures the integrity of the Lottery's games and protects the well-being of its customers while maximizing revenues returned to the Commonwealth for the benefit of its cities and towns.*

#### **I. Background**

The Massachusetts State Lottery Commission and its Executive Director are committed to achieving the Lottery's mission and strategic objectives by using best practices in management that promote accountability and transparency in all of its operations. This includes establishing performance management and measurement tools to monitor goal achievements and improve outcomes. The Lottery is a vital asset for the Commonwealth as it is the largest source of unrestricted local aid to our 351 cities and towns. In Fiscal Year 2012, the Lottery produced record sales of \$4.74 billion and a record net profit of \$984 million. This year, for Fiscal Year 2013, the Lottery preliminarily projects sales that surpass the previous record.

While no effort to increase sales will be tolerated at the expense of the Lottery's integrity or the well-being of the Lottery's customers, the Commission is vigilant in its oversight of the Lottery's fiscal performance to maximize revenues returned to the Commonwealth for the benefit of its cities and towns. These funds have a meaningful and measurable impact on improving the quality of life for residents across the state.

The Lottery's success derives, in part, from the fact that it runs the only self-contained lottery in the United States. Responsible for both its front- and back-end operations, the Lottery is able to be more flexible and responsive to industry needs as they arise than other lotteries dependent on the services of an outside vendor. This contributes to administrative costs hovering annually at the low rate of approximately 2%. To safeguard these efficiencies, the Lottery will soon be issuing a number of related Requests for Responses to competitively procure services to construct a new, state-of-the-art gaming system. Its current system is approximately 16 years old and can no longer effectively support technological advancements in lottery products and services. The Lottery anticipates constructing a multi-vendor gaming system, permitting increased competition among service vendors, to enhance functionality, promote innovation and continue to provide best value for the Commonwealth. The system also will be designed with an eye on the future and potential growth areas, including additional distribution channels such as the Internet and mobile applications.

**II. Public and Transparent Reporting**

To improve the effectiveness of the Lottery and ensure that the public is regularly and transparently informed as to the Lottery’s progress and operations, the Executive Director sends a monthly letter to Legislative and Administration leadership that reports in detail on the Lottery’s fiscal performance. In addition, he prepares and presents a monthly report at the Commission’s public meetings which describes sales performance, marketing plans, and reforms in governance, operations and procurement. Both the Revenue Letters and Executive Director’s Reports dating back to June 2011 are regularly posted for easy public access on the Lottery’s website: <http://www.masslottery.com/about/performance-management>. The Lottery also posts on its website its governance materials, including recently adopted by-laws, Commission meeting minutes and materials, and the Audit Advisory and Compensation Committees meeting minutes and materials, at <http://www.masslottery.com/about>. In addition, the public can find financial statements for the last two fiscal years at <http://www.masslottery.com/about/financial-statements>. Finally, in conjunction with the Lottery’s work to reform its procurement policies and practices, all anticipated, current and awarded RFRs are posted at <http://www.masslottery.com/about/procurements/upcoming-procurements.html>.

**III. Goals and Performance Outcomes**

The Lottery has established five strategic goals to advance its mission, and keeps the Commission fully apprised on a monthly basis of its performance in light of these objectives. By (i) improving fiscal performance, (ii) thinking and implementing innovatively, (iii) strengthening relationships with key stakeholders, (iv) reforming policy to achieve efficiencies and safeguard integrity, and (v) remaining nimble and well-positioned for changing business environments, the Lottery will enhance its reputation as a world-class Lottery, and protect its position as first in the nation for sales per capita. To monitor performance and improve operations, the Executive Director requires all department heads to submit annually a report outlining their respective goals, including performance measures and achievements. Below is a summary of the Lottery’s goals and related achievements for Calendar Year 2012.

<b>Improve Fiscal Performance</b>	<b>Promote Innovation</b>	<b>Foster Partnerships</b>	<b>Advance Reform Initiatives</b>	<b>Optimize Lottery’s Business Position in Changing Environments</b>
Increased sales by 7.1%	Led New England Lotteries launching first regional game: Lucky for Life with \$1,000/day lifetime prize	Strengthened relationships with compulsive gambling organizations; trained all sales reps with MA Council on Compulsive Gambling	Instituted procedural reforms to procurement process to ensure ethical safeguards and achieve best value	Secured Lottery capital funding for retention of consultant to prepare bid for new front and back IT system
Increased net profit by 10%	Reviewed fully the Instant Ticket portfolio; introduced suite of new, neon-colored Instant Tickets with novel lifetime prizes – reflects creative use of color and graphics for wider player appeal	Met regularly with partner-retailer groups – convenience stores and package stores - to address Lottery impacts and possible online play to strengthen & safeguard key relationships	Revised hiring policy and initiated new evaluation process, including evaluative process that requires management team to set goals and strategies	Launched social media accounts to announce jackpot levels, offer winner information, roll out new games and engage players in two-way conversations to gather valuable feedback

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<i>(continued)</i>				
Reduced operating budget to 1.93%	Implemented pilot programs with CVS and at Logan Airport, using player activated terminals to create new Lottery presence	Regularly produced finance documents for stakeholders, including the Lottery Commission, Legislative and Administration leadership and budget staff	Instituted new governance model, including adoption of By-laws and creation of Compensation and Audit Advisory Committees	Distributing new player activated terminals across the Commonwealth to secure technically advanced sales presence in changing retail space
Ranked First in U.S. in sales per capita	Replacing underperforming horserace-based Keno game with fresh, poker-based monitor game: Jackpot Poker	Cultivated community-based relationships, such as <i>Heroes Among Us</i> program with the Celtics	Launched governance page on the Lottery's website to shed public light on MSLC leadership and governing structure	Led the Treasurer's Online Products Task Force to ensure Lottery is strategically positioned for possible onset of online gaming; filed related legislation
Posted 15 RFRs and one Notice of Intent to achieve rigorous procurement competition; Completed two major bids, including Advertising Services, Banking Custodial Services and Instant Tickets	With hire of new Sales Director, initiated a new regionally-based sales program and business model, resulting in new Agent assignments to reinvigorate sales and relationships with our partner-retailers: "5 and 1 for the 351"	Worked with MA Gaming Commission and Attorney General's Office to address reform of charitable gaming regulation; and with Governor's Office on Tribal Gaming Compact to mitigate Lottery impact	Engaging in significant review, revision and, where necessary, reform of all policies and procedures, commencing with the Compliance Department and production of Manual for Sales Agents.	Working with MA Gaming Commission to mitigate expanded gaming's impact on the Lottery, and with its informal research advisory board on the socio-economic impact of expanded gaming
Ranked among top 10 MA departments in prompt pay savings of \$265,100 – a 16% increase over FY11	Revised 2011's novel \$10 Million Raffle to a 50-50 Raffle to enhance player interest	Met with broad range of vendors to learn more about technology development and further expansion in Lottery products and innovation	Improved process for short bids for services valued under \$150,000 to ensure quality control and achieve best value	Achieved vote from union employees to accept state proposal for two-year contract; initiating steps to improve and streamline union relations
Maintained prerecession-level outstanding receivable balance in FY12 of \$3,700,109, while achieving lowest write off (\$748,233) in the last 10 fiscal years			Instituted new advertising budget reconciliation and tracking process	Assessing long-term space needs – including present warehouse space – to position Lottery for future growth and innovation

#### **IV. Fiscal Performance Measurements**

##### **Revenues**

The Massachusetts State Lottery Commission's Statement of Operations, set forth below, detail a 7.1 % increase in revenues (or sales) in FY2012 over that recorded for FY2011. At the end of May 2013, the Lottery revenues were \$4,469,359,000. Projections suggest that revenues for FY2013 may approximate a 2.7% increase over revenues of \$4,741,417,000 generated in FY2012. This is particularly significant in light of uncontrollable, yet impactful factors affecting FY2013 sales, including snowstorms – one warranting a shut-down of all roads – and the tragic Boston Marathon bombings. FY2011 recorded only a .1% increase in revenues over FY2010 revenues.

##### **Prize Payout**

The Lottery, despite its high rate of return to the Commonwealth's cities and towns, proudly provides its loyal customers with a rewarding payout. In terms of prize payout as a percentage of sales, Massachusetts boasts the highest annual average payout in

the nation at approximately 72%. Arkansas and Missouri are the next highest at approximately 65%.

### **Administrative Expenses**

As reported above, the Lottery is able to keep its administrative costs to a low average of about 2%, much due to the fact that it operates both the front- and back-end of its business unlike any other state in the country. By managing without the services of an outside vendor, the Lottery enjoys efficiencies that are difficult to achieve in other states. These costs, as part of the Statement of Operations, are detailed below and updated regularly at <http://www.masslottery.com/about/financial-statements>.

### **Statement of Operations**

	Year to Date			FY2012	% Change	FY2011	%	% Change	
	FY2013	%	% Change						
<b>Revenues</b>									
Instant Games	3,075,638	68.8	-5.4	3,251,483	68.6	8.1	3,008,070	67.9	-0.3
MegaMillions	51,702	1.2	-49.1	101,480	2.1	-3.3	104,910	2.4	-13.9
Powerball	144,104	3.2	73.8	82,913	1.7	36.3	60,833	1.4	71.4
Numbers Game	298,887	6.7	-10.5	333,857	7.0	-3.1	344,437	7.8	-0.2
Mass Cash	64,476	1.4	-9.3	71,058	1.5	49.7	47,470	1.1	0.1
Keno	737,871	16.5	-6.7	790,459	16.7	2.9	768,218	17.3	1.9
Cash Winfall	0	0.0	-100.0	13,528	0.3	-55.0	30,037	0.7	-19.3
Race Game	23,535	0.5	0.9	23,319	0.5	12.1	20,800	0.5	9.0
Lucky for Life	37,245	0.8	122.0	16,775	0.4	100.0	0	0.0	0.0
On-Line Raffle	2,847	0.1	-72.3	10,291	0.2	100.0	0	0.0	0.0
Charity Game	1,618	0.0	-15.4	1,912	0.0	-4.8	2,008	0.0	-2.7
Beano Tax (2/5)	630	0.0	-17.0	759	0.0	-6.9	815	0.0	-7.1
Pull Tabs	655	0.0	-23.4	855	0.0	-2.8	880	0.0	-3.8
License Fees	130	0.0	-8.3	141	0.0	6.9	132	0.0	-11.3
Bond Fees & Fines	1,914	0.0	-4.7	2,008	0.0	-0.5	2,018	0.0	7.5
Service Fees	5,187	0.1	-7.7	5,621	0.1	0.6	5,585	0.1	0.6
Clean Fun	[NA]	[NA]	[NA]	0	0.0	0.0	0	0.0	0.0
Megabucks	22,888	0.5	-31.8	33,581	0.7	9.6	30,634	0.7	-13.5
Misc. Income	32	0.0	-3.0	33	0.0	3.3	32	0.0	33.3
Interest	0	0.0	-100.0	1,341	0.0	23.6	1,085	0.0	-1.6
<b>Subtotal Revenues</b>	<b>4,469,359</b>		<b>-5.7</b>	<b>4,741,417</b>	<b>100.0</b>	<b>7.1</b>	<b>4,427,961</b>	<b>100.0</b>	<b>0.1</b>
<b>Subtotal Prizes</b>	<b>3,246,646</b>		<b>-4.4</b>	<b>3,396,833</b>	<b>71.6</b>	<b>6.2</b>	<b>3,199,444</b>	<b>72.3</b>	<b>0.8</b>
<b>Operating Expenses</b>									
Commissions	227,667		-5.6	235,994	5.0	7.1	220,354	5.0	0.1
Bonuses	32,247		-4.2	33,662	0.7	6.5	31,616	0.7	-18.9
<b>Sub. Op. Expenses</b>	<b>254,913</b>		<b>-5.5</b>	<b>299,657</b>	<b>5.7</b>	<b>7.0</b>	<b>251,970</b>	<b>5.7</b>	<b>-2.8</b>
<b>Operating Revenue</b>	<b>967,800</b>		<b>-10.0</b>	<b>1,074,927</b>	<b>22.7</b>	<b>10.1</b>	<b>976,547</b>	<b>22.1</b>	<b>-1.3</b>
<b>Administrative Expenses</b>									
Salaries	25,647	37.8	-6.0	27,278	.6	2.6	26,587	0.6	-2.7
Advertising	1,516	2.2	40.9	2,564	.1	33.2	1,925	0.0	37.5
Equip Rental	418	0.6	-56.3	955	0.0	-9.1	1,050	0.0	-7.7
Admin/Facilities	17,092	25.2	-19.4	21,198	0.4	-4.0	22,077	0.5	4.8
Facilities Rental	3,205	4.7	-11.3	3,614	0.1	1.0	3,576	0.1	1.6
Telephone	7,577	11.2	-25.4	10,151	0.2	3.4	9,815	0.2	-7.6
Travel	59	0.1	-41.4	100	0.0	-43.4	177	0.0	-3.7
Employee Benefits	877	1.3	-29.5	1,257	0.0	-2.3	1,287	0.0	29.0
Off./Other Equipment	930	1.4	-82.7	5,391	0.1	10.1	4,895	0.1	10.6
Postage & Freight	2,494	3.7	-17.2	3,014	0.1	2.7	2,936	0.1	26.6
Maintenance	1,194	1.8	-30.6	1,721	0.0	-21.7	2,196	0.0	-10.1
Professional Services	6,085	9.0	74.1	3,494	0.1	7.9	3,237	0.1	-1.1

(Continued)

	Year to Date			FY2012	% Change	FY2011	% Change	FY2011	% Change	
	FY2013	%	% Change							
Other	50	0.1	-80.2	254	0.0	645.8		34	0.0	9.3
Vehicles	363	0.5	-57.8	861	0.0	100.0		0	0.0	0.0
Building Improvements	399	0.6	-27.3	548	0.0	6.8		513	0.0	-1.5
Prior Year Adjustment	16	0.0	-33.0	24	0.0	929.9		2	0.0	15.0
Fringe Benefit Alloc.	0	0.0	-100.0	8,719	0.2	4.7		8,326	0.2	19.2
<b>Subtotal Admin. Exps.</b>	<b>67,931</b>		<b>-25.5</b>	<b>91,142</b>	<b>1.9</b>	<b>2.8</b>		<b>88,634</b>	<b>2.0</b>	<b>2.8</b>
<b>Net Profit</b>										
<b>Before Distributions</b>	<b>899,869</b>		<b>-8.5</b>	<b>983,786</b>	<b>20.7</b>	<b>10.8</b>		<b>887,913</b>	<b>20.1</b>	<b>-1.7</b>

**V. Performance Metrics**

The Lottery, in compliance with G.L. c. 10, §26A, has established a performance management system for each department. Through each department’s self-assessment and metrics, the Lottery will be able to measure program performance against agency-wide and departmental goals, as well as determine the quality of service of all private entities that perform services on behalf of the Commission. For the purposes of this report, the Lottery has compiled below a description of metrics that the Lottery expects to follow over the course of the next fiscal year. This is not intended to be a comprehensive list of the Lottery’s metrics, but rather illustrative of the Lottery’s ongoing effort to formalize the measure of performance.

Department	Division	Metric Description
Finance	Asset Protection	Number of Agents overdue for audit (180+days) at end of year
	Fixed Assets & Inventory Mgmt.	Terminated Instant Games
	Credit and Collections	Number of missed sweeps
		Outstanding receivable balance
		Debt written off
Operations	Budget	Prompt Pay Savings
	Facilities	Total fuel costs for entire MSLC fleet including cars, trucks and vans
		Maintenance costs for all vehicles
	Warehouse	Total packages received/shipments from vendors
MIS		Number of books shipped (aggregate number, unrelated to \$value of books)
		Total shipments of rolled ticket stock
	Computer Operations	Gaming System Performance: % Up-time; transactions per minute; number of incident reports
	Data Control & Development	Review run times and resource usage for key processes to anticipate potential problems failures; invoice processing; day-end processing; GEMS loads
	Programming	Trouble Incident Reports(TRs)/New Requests: TRs opened/closed; time to develop new program; time to modify existing product; requests made/completed
	Network	LAN/WAN performance: Up-time; breach attempts/successes; e-mail messages processed/rejected/isolated
	Website	Usage statistics: hits, bandwidth usage; unique

Security		visitors; stickiness
	Security Guards	Alarm Response: frequency and timeliness
		Facility tours
Human Resources		Process lost/stolen reports
	Hiring	Time to fill a position
	Employee/Agent Development	Performance Evaluations: timeliness; ratings
Sales		Agent Training: Number of events and hours
		New retail locations enlisted as agents
	Sales Representatives	Sales per regional office
		% of SR90 credits relative to sales per route
		Number/efficiency of multi-terminal agents
		X books (not activated in 180 days) in the field
		Makeovers of Instant Ticket presentations at agent locations performed
	Service Tech	Overdue preventative maintenance calls
		Service response time
		Service repair time
		ISYS Installations
		Field Service cleared calls
	Customer Service	Sales at regional/HQ desks
		Check errors per customer service staff member
	Retail Service	Sales representatives routes called
		Manual orders completed
		UPS orders traced
Technical Support	Repairs for monitor game PCs	
	Repeat printer repair percentage	
	Top 12 parts repaired per budget cycle	
Corporate Accounts	Cashing to sales %	
	Instant Ticket facings	

## VI. Performance Nationally and Worldwide

The Massachusetts State Lottery Commission continues to be a national and worldwide leader in sales per capita. According to *La Fleur's 2012 World Lottery Almanac* (pp. 314, 327), Massachusetts has the second best sales per capita in the world.

The world's top five (5) per capital sales lottery organizations are:

- 1) Singapore Pools
- 2) Massachusetts Lottery (U.S.)
- 3) OPAP (Greece)
- 4) Veikkaus Oy (Finland)
- 5) Lottomatica S.p.A. (Italy)

The Lottery's success in sales hinges on its strong partnership with its retailers. Massachusetts' agent penetration ranks as the best in the United States, with a ratio of 1:812. Rhode Island (1:851), Vermont (1:863), Michigan (1:919) and New Hampshire (1:1,058) follow according to the FY2011 agent-population ratios cited by *La Fleur's 2012 World Lottery Almanac* (p. 279). In turn, Massachusetts paid in FY2011 commissions totaling \$251,970,000, second only to New York (\$404,660,000, *Id.* at p. 281). While the Lottery appreciates its responsibility to advertise with the welfare of its loyal customers in mind, its success as a worldwide and national leader is particularly noteworthy given its relatively low advertising budget. Fiscal Year 2011

advertising budgets – as a percentage of (FY2010) overall budgets and in full dollar amounts – for the five leading states in gross ticket sales are set forth below.

<u>State</u>	<u>FY11 Ticket Sales (\$M)</u>	<u>FY11 Ad Budget as % of FY10/</u>	<u>\$M</u>
New York	\$6,758.65	1.4%	\$92.08
Massachusetts	\$4,416.29	0.0%	\$2.00
Florida	\$4,008.72	0.8%	\$33.15
Texas	\$3,811.27	0.8%	\$32.00
California	\$3,438.58	1.3%	\$45.43

*La Fleur's 2012 World Lottery Almanac (p. 301)*

**VII. Conclusion**

The Massachusetts State Lottery Commission, since January of 2011, has worked to improve the accountability and transparency of its governance and operations to ensure that its program goals and performance may be measured and assessed by Legislative and Administration leadership, and, most importantly, the public. It is pleased to submit this report in compliance with G.L. c. 10, §26A, and will be equally pleased to address any questions that may arise. The Commission meets monthly to accommodate the business needs of the Lottery as well as to ensure proper oversight. The Commission welcomes the public to attend these open hearings to learn more about the Lottery's overall performance, innovation and reform efforts.