

BUILDING THE FUTURE
of the Minnesota State Lottery





July 26, 2004

The Honorable Tim Pawlenty
Governor
130 State Capitol
75 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155

Dear Governor Pawlenty:

On February 2, 2004, I accepted the position of Acting Director of the Minnesota State Lottery. Now, just five months later, I am pleased to report that much has been accomplished. Among the achievements outlined in this report:

- Following Director George Andersen's sudden death, I immediately assessed all functions. I can report with confidence the Lottery games are secure.
- Action on all 49 recommendations of the Office of the Legislative Auditor was completed by May 28, 2004.
- All Lottery departments carefully reviewed necessary expenditures and took action to reduce administrative expenses. These cost reductions average \$4.5 million in each of the next two fiscal years.
- The Lottery's first strategic plan and marketing strategies were developed to guide the short-term and long-term future of the business.
- Thirty-nine lottery states were surveyed to determine best practices for structure and governance.
- A survey of Minnesotans affirmed that public trust in the Lottery remains strong. An estimated 2.3 million adults purchased a Minnesota State Lottery ticket in fiscal year 2004, the highest number recorded since the Lottery began keeping statistics in 1994.
- The Lottery achieved fiscal year 2004 sales of \$387 million, an increase of 10 percent over last fiscal year.
- The Lottery transferred a record \$100 million to the State Treasury in fiscal year 2004.

With the major restructuring tasks accomplished, the Lottery is now poised to build its future. The long-term goal is to contribute \$250 million annually to the State Treasury by 2024. To reach this goal, policymakers need to address additional product offerings. This report contains several options for consideration.

Governor, as I prepare to leave my temporary post, I do so with the knowledge and confidence that the Lottery is now accountable and dedicated to its mission *"to offer fun, innovative and secure games that create excitement, reflect Minnesota values and maximize contributions to the State."* The professionalism and dedication demonstrated by staff members during this five-month period is a testimony to the integrity, accountability and resilience of the Lottery and its employees. The organization is in good hands and on solid ground.

Sincerely,

Michael M. Vekich
Acting Director

PART I – ACCOMPLISHMENTS

APPOINTMENT OF ACTING LOTTERY DIRECTOR

Governor Tim Pawlenty appointed Michael Vekich as Acting Lottery Director of the Minnesota State Lottery on February 2, 2004. He immediately assessed operations and found the Lottery games to be functioning with a very high level of security. Vekich directed the Lottery to continue plans to launch G3™ Games, a new category of instant-win tickets generated by the Lottery terminal, as scheduled on February 3. The popularity of the G3 games generated additional sales that helped contribute to the record transfer of Lottery funds to the State Treasury in fiscal year 2004.

LEGISLATIVE AUDIT

On February 19, 2004, the Minnesota Office of the Legislative Auditor (OLA) issued a report on Lottery operations.

The purpose of the evaluation was to examine the finances and business practices of the Lottery. During the 2003 legislative session, the Minnesota Center for Environmental Advocacy criticized Lottery operations, alleging operating expenses were too high. Because of these concerns, the Legislative Audit Commission asked the OLA for an in-depth study of the Lottery's expenses.

RECOMMENDATIONS & COST REDUCTIONS

The recommendations by the Office of the Legislative Auditor related to three areas of operations:

- Marketing and advertising
- Financial accountability
- Internal operations, including personnel and office space

The Lottery completed action on all 49 of the OLA audit recommendations and submitted its response to the OLA on May 28, 2004. (See Appendix II for recommendation details and subsequent report.)

As part of its strategic plan, the Lottery drafted comprehensive marketing strategies to address recommendations related to marketing and advertising. The acting director created a Blue Ribbon Task Force of marketing, advertising and communications professionals to provide critical analysis of the Lottery's marketing strategies.

Building the Future of the Minnesota State Lottery is a two-part report. The first part outlines accomplishments completed from February through June 2004; the second part discusses future actions necessary to increase annual Lottery transfers to the State of Minnesota to \$250 million by 2024.





The Lottery has completed action on all 49 recommendations of the Office of the Legislative Auditor.

The Lottery addressed additional recommendations relating to marketing by:

- Establishing procedures for review of sponsorships and use of promotional items
- Canceling its sponsorship of the Minnesota Pro-Am Bass Tour
- Discontinuing the *Environmental Journal* television and radio programs and the *Player Spotlight* radio program
- Terminating the lease for the Environmental Experience vehicle

To address finance-related recommendations, the Lottery reviewed its staffing and space needs. As a result, 15 positions were eliminated and office space was decreased by approximately 33,000 square feet, or about 30 percent. These reductions were in addition to the October 2003 cutback of 34 staff positions. The 49 positions accounted for 25 percent of the Lottery's workforce.

The following chart itemizes the major cost reductions resulting from the implementation of some of the audit recommendations:

COST REDUCTIONS PER YEAR:

	FY04	FY05	FY06
<i>Environmental Journal</i> TV	\$152,916	\$917,496	\$917,496
<i>Player Spotlight</i> Radio	44,016	264,096	264,096
<i>Environmental Journal</i> Radio	23,080	138,480	138,480
Environmental Experience Vehicle	0	48,000	48,000
Salary Reduction	900,000	2,600,000	2,808,466
Space Reduction (Estimate)		442,000	442,000
Total Annual Reductions	\$1,120,012	\$4,410,072	\$4,618,538

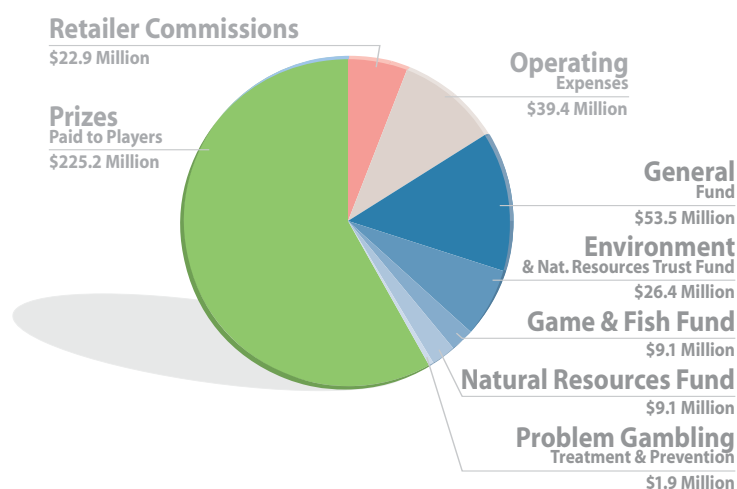
FINANCIAL REPORTING

The Lottery will voluntarily incorporate much of the Sarbanes-Oxley Act of 2002 as best practices for governance, internal controls and financial reporting. It has taken steps to ensure the accuracy, reliability and timeliness of its financial statements while working toward its core purpose – to raise money for the State of Minnesota. Steps taken include:

- Continued emphasis on internal controls
- Auditing the security and processing integrity of its computer systems (SysTrust system audits)
- Monthly review of budget and financial statements by the chief financial officer (CFO) and senior Lottery management
- Verification of internal controls by the CFO and the Lottery director
- Strict adherence and enforcement of both the State and Lottery codes of ethics
- Disclosure of any potential or actual conflicts of interest
- Whistleblower protection for employees
- Implementation of a requirement that the signatures of the CFO and lottery director be included on the financial statements and reports to verify that reports have been reviewed and statements fairly represent in all material respects the financial condition of the business.

The Lottery has been awarded the Government Finance Officers Certificate of Achievement for Excellence in Financial Reporting each of the past four years. This certificate signifies that the Lottery's financial reports "achieve the highest standards in government accounting and financial reporting." The Lottery continually works to meet these standards.

\$100 Million to the State of Minnesota in Fiscal Year 2004



RECORD \$100 MILLION STATE CONTRIBUTION

Lottery sales reached \$387 million in FY04, an increase of 10 percent from the last fiscal year. This sales increase, paired with administrative cost reductions, resulted in the transfer of a record \$100 million to the State in FY04, an increase of 26 percent or \$20 million from the previous fiscal year.

For every \$1 in sales, approximately 58 percent goes back to players in the form of prizes. Retailers are also big recipients. Approximately \$23 million, or about 6 percent of total lottery sales, was paid to the nearly 3,000 retailers across the state.

The additional \$20 million transferred to the State is attributable to the following:

- \$13 million resulting from an additional \$35 million in sales
- \$3 million due to reductions in advertising and promotional sponsorships
- \$3 million due to reduced Online vendor costs
- \$1 million from other operating expense reductions



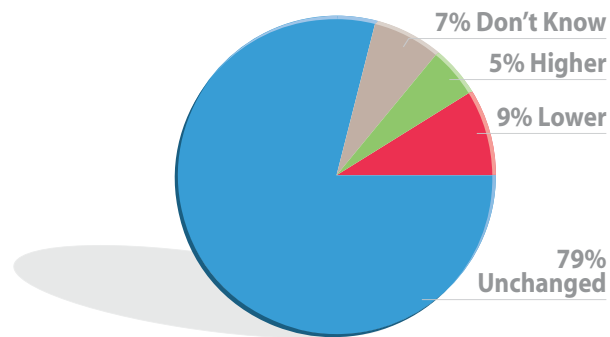
A recent survey shows that the public's opinion of the Lottery has not been adversely affected by the events of the past year. Only 9 percent of those surveyed stated that their opinion of the Lottery was lower than it was a year ago; 79 percent reported that their opinion was unchanged while 5 percent said it had increased. Sixteen percent of the state's adults disagreed that "the Lottery is a well-run organization," while only 13 percent believe that the Lottery is not run honestly.

The large number of people playing the Lottery ensures that the average lottery player, in many ways, resembles the average Minnesotan. Lottery retail outlets are located in over 600 Minnesota cities and in each of the state's 87 counties. Lottery players are found throughout the state and, despite often-repeated stereotypes, are represented in every segment of the population.

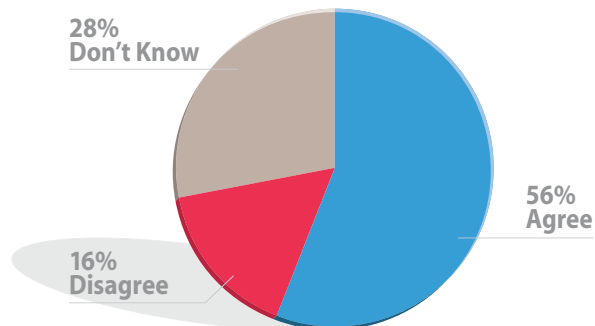
BROAD BASE OF PLAYER PARTICIPATION

Increased sales are one indicator of the Lottery's popularity with the public. An estimated 2.3 million Minnesota adults purchased lottery tickets in FY04, the highest number since the Lottery began keeping statistics in 1994. An April 2004 survey conducted by St. Cloud State University showed that 61 percent of Minnesota adults purchased a lottery ticket in the past year, compared to the 59 percent reported in an April 2003 survey. Seventy-two percent of Minnesota adults have purchased a Minnesota State Lottery ticket in their lifetime, making it the second most popular form of gambling after charitable raffles.

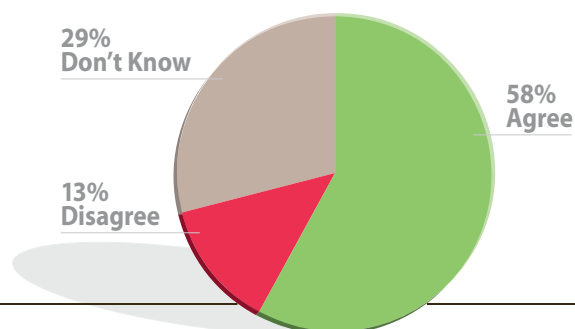
Is your opinion of the Minnesota State Lottery higher, lower or unchanged from a year ago?



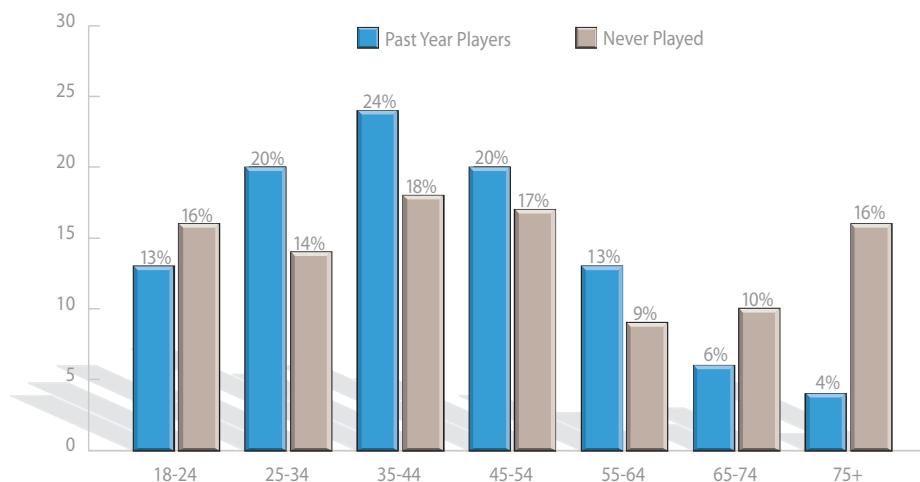
The Minnesota State Lottery is a well-run organization



The Minnesota State Lottery is operated honestly

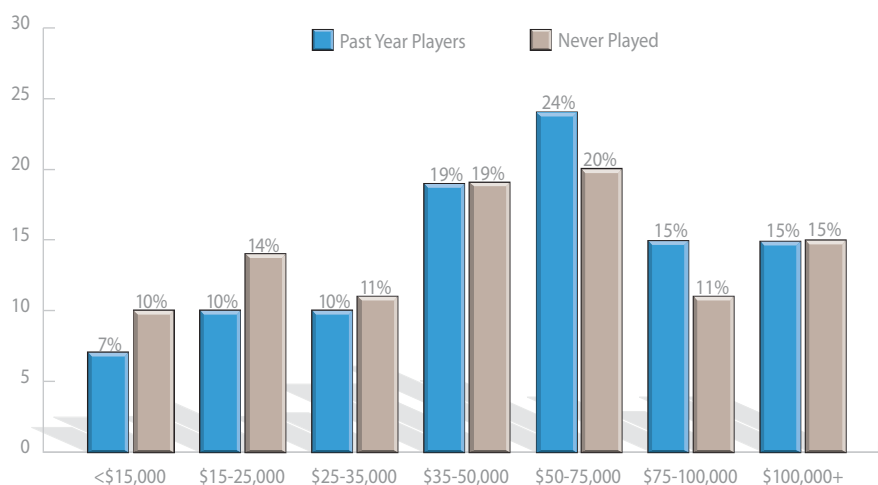


Lottery Market Share by Age Group



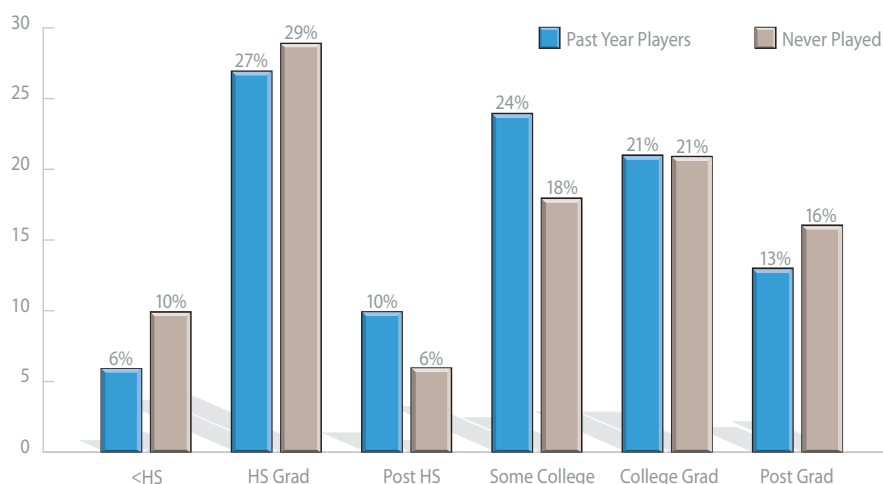
Minnesotans between the ages of 25 and 54 account for almost two-thirds of lottery players. Those above the age of 75 do not play as heavily, accounting for only 4 percent of players.

Lottery Market Share by Household Income



Only 7 percent of lottery players live in households with annual incomes less than \$15,000. Over 70 percent have household incomes of \$35,000 or more.

Lottery Market Share by Educational Attainment



More than half of all lottery players have completed some college coursework, are college graduates or have some post-graduate education.

Men are slightly more likely to play than women.

To operate as a business-focused entity, the Lottery created its first strategic plan to outline the future direction of the business and the steps needed to achieve the desired results. The strategic plan will drive the Lottery's business and hold it accountable.

STRATEGIC PLAN

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The Prouty Project, a management consulting firm specializing in strategic planning and team development, assisted in the facilitation of the Lottery's strategic planning efforts on a pro bono basis. All Lottery staff members were given the opportunity to identify strengths, weaknesses, opportunities and threats, and to assist with the development of mission and vision statements. Senior management used these staff contributions to formulate the strategic plan.

Key elements of the strategic plan include core purpose, vision, mission, long-term goal, values and key strategies.

LOTTERY'S CORE PURPOSE

To raise money for the State of Minnesota

VISION

The Lottery will be the gaming choice of Minnesota

To achieve this vision, the Lottery will, at a minimum, review and update its strategic plan annually, as well as invest in the most appropriate techniques (i.e., research, retailer and player incentives) to continue to grow the business.

MISSION

The Lottery offers fun, innovative and secure games that create excitement, reflect Minnesota values and maximize contributions to the State.

The mission outlines how the Lottery will accomplish its vision. This statement will be reviewed and changed periodically.

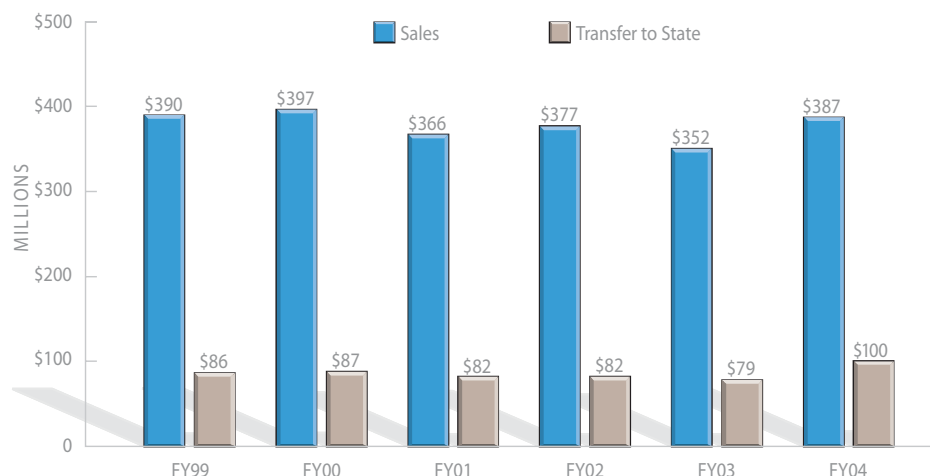


LONG-TERM GOAL

Contribute \$250 million annually to the State by the year 2024

The Lottery's long-term goal is to contribute \$250 million annually to the State by the year 2024. For FY04, the Lottery transferred a record \$100 million to the State. Prior to this, the largest transfer was \$89.1 million in FY97. This long-term goal will focus the business and staff toward the vision of being the gaming choice of Minnesota.

Lottery Sales & Transfers to State of Minnesota



LOTTERY VALUES

How the Lottery operates and makes decisions is reflected in its core values: integrity, service, imagination and fun. All are an integral part of the Lottery and how it is viewed by its key stakeholders – its players, retailers, the governor, legislators, the general public and the media.

Integrity – We will meet the highest ethical and professional standards in an effort to ensure public confidence in the integrity and security of the Lottery's games.

Service – We will meet and exceed the gaming and entertainment needs of our customers.

Imagination – We will not be limited by “the way we’ve always done it.”

Fun – We will create a work culture for employees that instills creativity and leads to the development of fun and exciting Lottery games for players.

These core values are the Lottery's guiding principles – they will be reflected in all Lottery decisions.

The core values of integrity, service, imagination and fun will be the Lottery's guiding principles.



The Lottery's key strategies will help lay the foundation for sales growth in FY05 and continued success in years to come.



KEY STRATEGIES

The strategic plan includes six key initiatives to move the Lottery toward its long-term goal of contributing \$250 million a year to the State by 2024. These strategies and goals are the first steps in the Lottery's quest to reach its long-term goal.

Strategy #1: Develop new products and enhance existing products to expand the marketplace

Goals to achieve strategy:

- Develop and promote new \$5 and \$10 Scratch Games
- Create an extended play Scratch Game category, including Bingo and Crossword games.
- Expand the G3™ Games product category
- Explore a new Gopher 5® matrix
- Explore brand partnerships
- Explore other industry games and innovations

Strategy #2: Develop a coordinated program to improve brand awareness

Goals to achieve strategy:

- Complete a brand anatomy
- Measure key stakeholder beliefs and expectations about the Lottery
- Establish conversations with all stakeholders
- Increase target audience interest in the Lottery
- Ensure the Lottery's beneficiary message is relevant
- Promote beneficiary and winner stories throughout the state
- Assess the ability of communications to enhance brand image and player behavior
- Begin benchmarking consumer awareness and preference for the Lottery

Strategy #3: Increase the size and diversity of product distribution

Goals to achieve strategy:

- Explore new dispenser technology and invest in new dispenser equipment
- Provide periodic retailer incentives
- Implement a winning ticket bonus system
- Equip sales representatives and corporate account representatives with sales promotion tools
- Improve the minimum sales policy and the retailer contract requirements to increase the retailer base
- Provide effective and customized point-of-purchase materials to retailers

Strategy #4: Develop a cost conscious culture to improve profitability

Goals to achieve strategy:

- Improve the profitability of Lottery operations
- Increase staff awareness of the need for cost controls
- Design and implement a new automated financial reporting system

Strategy #5: Create a participatory and results-oriented culture

Goals to achieve strategy:

- Provide agency-wide staff training opportunities and training tailored to specific job needs
- Increase retailer communication and feedback efforts
- Increase retailer training opportunities
- Increase the number and frequency of staff comments, suggestions and questions
- Increase player communication efforts

Strategy #6: Strengthen key stakeholder relationships

Goals to achieve strategy:

- Develop a proactive communication strategy
- Form strategic alliances and partnerships with key stakeholders
- Develop a coalition of key/strategic supporters

MARKETING STRATEGIES

Although the Lottery has been frequently recognized within the industry for its innovative games, creative promotions and advertising direction, there were no formal, written marketing strategies to guide these sales efforts.

To position the business for future growth, Lottery management prepared comprehensive marketing strategies as part of the strategic planning process. These strategies provide a blueprint for moving toward a profit-making business model. Key highlights include:

Mature Customer

The Lottery's customers are aging — new entry-level young adult players are attracted to more visually exciting casino-style gaming products. The Lottery has a more difficult time each year simply trying to maintain existing sales with its standard product mix of Scratch and Online Games. In order to grow the business in a significant way, the Lottery must introduce new gaming products to appeal to more players.

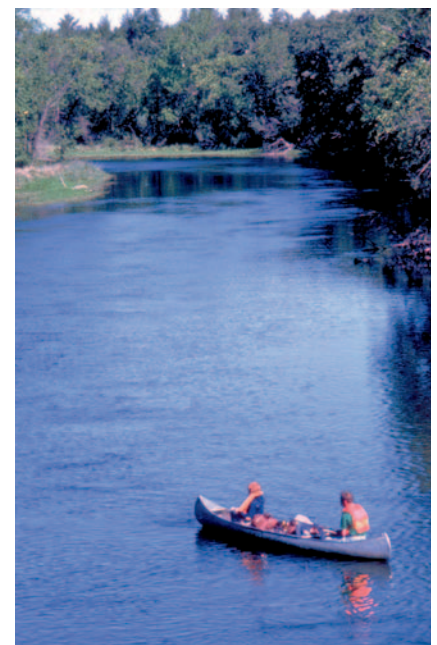
Selling Tools

The Lottery needs to invest in selling tools, such as new dispenser equipment, promotional items and tickets, to aid both retailers and sales representatives. A number of initiatives outlined in the marketing strategies can increase the Lottery's product mix at its retail locations, enhance product visibility and build greater product sales.

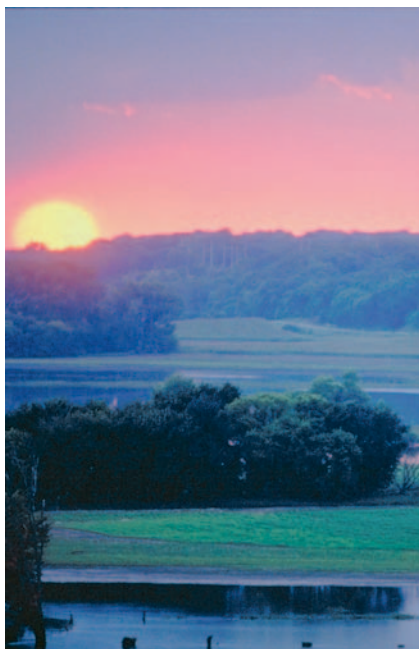
Promotional Activity

After a thorough analysis, the Lottery determined that some promotional activity, which had been reduced during the audit, should be reinstated. The marketing strategies establish a thorough review process for determining potential sponsorships, events, consumer promotions and retailer incentives. In addition, the Lottery now has a coordinated calendar of promotions to generate incremental sales.

The Lottery prepared its first formal marketing strategies.



With direction from a Blue Ribbon Task Force, the Lottery refined its decision-making process for more cost effective marketing results.



Market Research

The Lottery needs to gain a better understanding of who its players are, their preferences and motivation for purchasing a ticket. A greater emphasis on research is critical for both product development and effective marketing. In addition, a more thorough effort needs to be initiated in quantitatively evaluating its advertising and promotional activities and their impact on the return on investment. The Lottery has prioritized additional research spending in its new marketing strategies.

Brand Anatomy

To develop effective advertising and public relations messages that increase sales, senior management and the Lottery's advertising agency developed a brand anatomy for the organization. Brand anatomy examines organizational values, reputation, brand personality, positioning and brand messaging. (See Appendix III for a detailed discussion of brand anatomy.)

Minnesota State Lottery Brand Message

Based on market research, the marketing strategies, Blue Ribbon Task Force review and the brand anatomy process, the Lottery developed its brand message:

"Get In the Game"

This brand message underscores the long-term goal and lays the foundation for the future growth of the Lottery.

BLUE RIBBON TASK FORCE

The acting lottery director established a Blue Ribbon Task Force to assess the Lottery's strategic plan and marketing strategies. The task force was comprised of select local businesspeople whose executive experience in marketing, sales management, advertising, promotions and communications spanned many years. The task force members were:

- Greg Heinemann, CEO, Blackwatch LLC
- Gary Hokkanen, COO, Carlson Marketing Group
- Richard Marklund, CEO, Phoenix Newcastle, Inc.
- Paul Ridgeway, Sr., CEO, Ridgeway International, Inc.
- Will Sullivan, CEO, ASI Marketing Solutions

Task force members thoroughly examined the Lottery's advertising strategy, most recent advertising concepts and marketing strategies. After numerous meetings and consultations, the task force identified the following areas as needing further development:

Winning

The task force stressed that winning is an integral part of playing the Lottery and is the most motivating factor in maintaining and increasing play. Accordingly, the Lottery has already revised point-of-purchase materials to emphasize winning, and plans to include more winning references in radio advertising and on signage at events.

Research

The task force recommended the Lottery conduct more player research to better understand the market. In response, the Lottery increased its research budget and is pursuing new forms of research to gain better player information.

Advertising Strategy

The task force determined that beneficiary advertising – which explains how Lottery proceeds help the State – was appropriate considering the Legislative Auditor's report. However, the task force recommended the Lottery emphasize brand advertising to increase sales.

Logo and Tagline

The task force understood the Lottery's strong equity in the oval loon logo, but did not believe the tagline, *Proceeds Benefit Our Natural and Economic Environments*, is a powerful phrase to encourage lottery purchases. As a result, the Lottery is assessing alternative taglines.

Public Relations

Task force members endorsed plans to generate more publicity about local benefits of the Lottery and local winners. They recommended an immediate action plan to strengthen this area.

Reaching Players

The task force suggested using direct mail and the Internet as additional ways to reach players. As a result, the Lottery is developing a program to allow players to voluntarily receive information via e-mail and is investigating direct mail methods to contact players who participated in past promotions.

Sales Force Compensation

The task force believed that the Lottery's sales force should be motivated by an incentive system. The Lottery is researching the best way to offer incremental pay for performance.

The acting lottery director established a Blue Ribbon Task Force to assess the Lottery's strategic plan and marketing strategies.



Governing a profit-oriented state agency requires a different approach from other state entities. The Lottery should have the flexibility required to produce maximum revenue for the State, while maintaining accountability to its stakeholders.



SECTION 2 – FUTURE ACTIONS

KEY PUBLIC POLICY ISSUES

In order to increase profitability to reach the Lottery's long-term goal of contributing \$250 million annually to the State by 2024, policymakers must consider several policy issues. These key issues are governance, future revenues and problem gambling.

1. GOVERNANCE

How the Lottery is governed and regulated can affect its performance. The Lottery is currently an independent state agency with a director appointed by and serving at the pleasure of the governor with the advice and consent of the Senate. For FY05 the Lottery is subject to a fixed budget cap and, beginning in FY06, must present a biennial spending plan to the Legislature and the Department of Finance.

The Legislative Auditor recommended the Legislature consider changes to the governance structure of the Lottery, including the establishment of a lottery board or making the Lottery a division of another state agency. In response, the 2004 Legislature established a nine-member commission to study the governance structure and make recommendations to the governor and the Legislature by February 1, 2005. The commission will consist of four legislative appointees (two each by the speaker of the House and the majority leader of the Senate), two appointees of the governor, the lottery director and the commissioners of Finance and Natural Resources.

Lottery Best Practices – 39 State Survey

In preparation for this commission, the Lottery conducted a survey of the governance structures of the other 39 lottery states. Thirty-four states responded to the survey. A summary of findings is outlined below.

Trends – Most lotteries established in recent years have structures designed to allow them to operate in a manner similar to publicly-held corporations. Several states, such as Iowa and Connecticut, have moved from a state agency to a structure with greater independence. Only one state in recent years (Illinois) has gone from being a separate organization to become part of a larger state agency.

Structure – In 14 of the states surveyed, the lottery is an independent agency separate from the executive branch. The next most common model, found in 12 states, makes the lottery a division of another executive branch agency. Eight states established their lottery as an executive branch agency. Of the states that house their lottery in another agency, five make it part of the Department of Revenue; two place it under the State Treasurer; and one each makes it part of the Department of Finance, Taxation and Finance; Revenue and Regulation; Finance; Administration; or the Office of Attorney General.

However, the degree of independence of lotteries in these states is greater than this structure would make it appear. Of the 12 states where the lottery is part of another department, only two report that the parent agency makes major strategic decisions regarding the lottery. Seven report sharing some administrative functions with their parent agency but making most decisions independently, while the remaining three say that the relationship with the parent agency exists only on paper.

Budget – The process of setting the lottery’s budget varies from state to state. Half of the states report receiving a line item appropriation similar to other state agencies, though the line item is not the lottery’s entire budget. Three states have fixed expense caps but give the lottery some flexibility to spend within the cap as it sees fit. In eight states the lottery’s budget is capped at a percentage of sales. Two states have no restrictions on their operating budget. In all, 24 states require legislative approval of at least part of their operating budgets, while 10 do not.

Board – Twenty-six states report some type of lottery board. Ten of the boards are advisory only, similar to the board in Minnesota prior to its abolition in 1995. Fourteen are policy-making boards, while the remaining two have policy-making authority in limited areas.

Director – The lottery director is appointed by the governor without restriction in 16 states, though legislative confirmation is commonly required. The governor makes the appointment in six other states as well, but the director must meet certain qualifications established in law. The board makes the appointment in eight states, while another official is responsible for the appointment in the remaining states.

Audit Committee

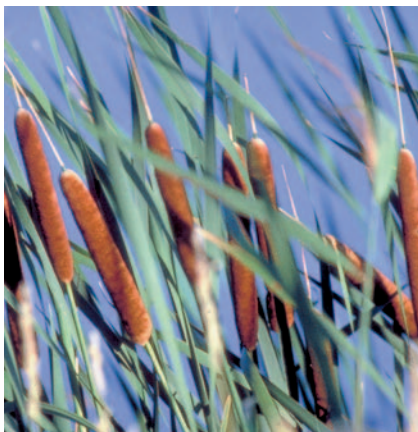
Independent audit committees are recommended in the Sarbanes-Oxley Act of 2002. Although to the Lottery’s knowledge these committees are not used by any U.S. lottery, the governance review commission should consider this option.

Such a committee would be composed of individuals from outside the Lottery who possess financial expertise and who would be given the authority to hire, terminate and review the work of the Lottery’s independent outside auditor. They should also have responsibility for review and approval of internal controls, conflict of interest and ethics policies and other (non-audit) services performed by the independent auditor. Legislative action would be needed to establish this committee.



How the Lottery is governed and regulated can have a significant effect on its performance.

The opportunities for substantial growth of Lottery sales are limited without introducing new forms of gaming.



2. FUTURE REVENUES

The second major public policy issue is planning for a continuing stream of Lottery revenue.

Since its inception in 1990, the Lottery has offered the same basic products in traditional venues: Scratch Games and Online Games, where a ticket is generated from a computer terminal at the retail outlet. While new games have been developed under these categories, G3™ Games is the only new product line introduced in 14 years.

The most significant growth in lottery revenues has been in states that have expanded their product line beyond these traditional games. While the Minnesota market for traditional lottery games is not yet saturated, the opportunities for substantial growth are limited without introducing new forms of gaming, new ways to distribute and sell existing products, or both. Many of the initiatives would require legislative action, and most are at least somewhat controversial. Among options to increase revenues are:

Keno

Fast draw keno is most commonly a casino game, but in recent years it has been offered as a lottery product in several states. In these states, it is typically played in licensed beverage establishments, with drawings held every four or five minutes. Rhode Island recently introduced a variation on keno where the outcome is determined by an electronically simulated auto race rather than by simply drawing numbers. Eleven states and the District of Columbia currently offer keno. Per capita sales in these states range from \$2 to \$79. (States with low per capita sales usually have a limited number of establishments where the game is offered.) This suggests that Minnesota sales could approach \$158 million a year, with resulting revenues to the State of \$39 million a year.

In Minnesota, the introduction of keno into licensed establishments would directly compete with charitable gambling currently offered in these locations. The Lottery currently has the legal authority to introduce keno. However, likely objections from the charitable gambling industry and from those who would see it as an expansion of gambling have led us not to proceed without explicit direction.

Ticket vending machines

The Lottery currently uses vending machines to sell tickets at the Minneapolis-St. Paul International Airport. Lotteries in 25 other states, however, make extensive use of these machines at a variety of retail outlets. Wider use of these machines would allow lottery sales in some retail outlets that do not currently offer lottery products, and would result in increased sales in some existing outlets such as supermarkets. The greatest concern over more widespread use has been the potential of sales to minors. This concern is somewhat mitigated by the continued necessity of redeeming winning tickets with store personnel, thus requiring one point of contact where the age of the player can be checked.

The Lottery plans a limited trial of these machines at select retailers this fiscal year. The machines will be equipped with remote controls that will allow store employees to deactivate a machine if they see someone who appears to be under age attempt to purchase a ticket, and the Lottery will require that machines be placed in clear view of store personnel. The Lottery will monitor the introduction of these machines for both revenue potential and evidence of purchase by minors.

Credit card sales

By law, lottery tickets cannot be purchased with credit cards (though debit cards are permitted). This prohibition is designed to prevent those with gambling problems from gambling on credit and to prevent large, inappropriate, impulsive purchases by those who might not be able to afford it. It does, however, result in lost revenues by inconveniencing those who gamble without problems and who are paying for other items in their shopping baskets with a credit card. Some states have considered restricting credit card purchases of lottery products to occasions when a certain amount in other goods or services is also being purchased with the credit card. In an increasingly cashless society, this restriction may soon need to be revisited.

Internet lottery play

Sales of lottery tickets through the Internet is controversial and is the subject of pending federal legislation. However, some states are experimenting with lottery games that would be purchased at retail outlets but played either over the Internet or by installing a disk on the player's personal computer. Prizes are redeemed at retail outlets (as are traditional lottery tickets). These games feature animated graphics and enhanced entertainment value while preserving the random nature of the games. Sales of these products in other states are too recent to permit a reliable revenue estimate. The Lottery will closely monitor sales and public reaction in these states.

New technologies

Technology currently under development could significantly change the current distribution method for lottery tickets. Machines that would allow the purchase of lottery products at the gas pump may help regain those customers who now pay at the pump rather than going into the store. The sale of tickets through automated teller machines (as is now being done with postage stamps) would open up a new distribution channel. The introduction of prepaid cards would add to customer convenience in an increasingly cashless society.

Holiday-themed games

Minnesota law prohibits the Lottery from offering games with a religious symbol in conjunction with a holiday. While such a restriction appears reasonable on the surface, the effect is to seriously limit the games that can be offered, particularly during the winter holidays. The list of holiday themes that have origins as religious symbols is long, and includes such seemingly secular

Many of the initiatives to increase Lottery revenue would require legislative action.



Each of these future revenue sources offers possibilities to increase Lottery revenue and meet the Lottery's core purpose of raising money for the State of Minnesota.

items as candy canes, holly, Christmas trees and ornaments. Minnesota is the only state faced with such a restriction. Every other state offers games with these themes and has done so without criticism. They do not offer games with overt religious symbols, nor would Minnesota. This restriction is estimated to cost the state up to \$1 million a year.

State Fair

The State Fair Board does not allow the sale of Lottery products on the fairgrounds. Lotteries in many other states have a major sales and educational presence at their state fairs. Not being able to sell lottery tickets during the Minnesota State Fair means a loss of incremental sales revenue and player relationship-building activity.

Racino

Bills calling for a "racino" have been considered by the Legislature the past few years. Under these proposals, the Lottery would install and operate video lottery terminals or slot machines at a horse racing facility. The machines would be linked to a central control system at Lottery headquarters where play would be recorded and the amount due to the state calculated. The racino operator would be responsible for the physical facility and routine day-to-day operation and would work with the Lottery on security. Racinos are operated by lotteries in Delaware, New York, Rhode Island and West Virginia, and the Minnesota State Lottery has been in contact with these states to learn about their operating procedures. Estimates are that a racino would return \$50 million annually to the State, though the actual amount is very dependent on the revenue distribution formula of each particular proposal.

Cooperative casino

A proposal considered by the Legislature in 2004 called for the Lottery to partner with Native American governments to operate a casino in the Twin Cities area. As with the racino proposal, the Lottery would be responsible for operating gaming machines at the facility, while the tribes would be responsible for the facility and the card games conducted there. From the Lottery's standpoint, there is little difference in the operation of this proposal and the racino. Estimated state revenues from this proposed legislation are \$97 million annually.

State-owned and operated casino

It is possible for the State to own and operate a casino without entering into a partnership with another entity. There are no states in the U.S. where such an operation currently exists, but provincial lotteries in Quebec, Ontario and British Columbia do operate casinos. Revenues would heavily depend on location and the types of games offered, but a revenue estimate prepared for a legislative proposal several years ago suggests potential state revenues of \$115 million annually.

One legislative proposal is the establishment of a casino at the Minneapolis-St. Paul International Airport, which would require presentation of a boarding pass to enter. Revenue estimates from this type of facility are \$27 million a year.



Gaming machines in licensed beverage establishments

Lotteries in Oregon, South Dakota and several Canadian provinces have placed electronic gaming machines (video lottery terminals or VLTs) in licensed beverage establishments. These have proven to be the most lucrative way to increase lottery revenues; in Oregon, they accounted for 58 percent of lottery sales in fiscal year 2003 and in South Dakota 95 percent of sales. Estimates for Minnesota exceed \$400 million a year in state revenues.

3. PROBLEM GAMBLING

Problem gambling is the third major public policy issue that has an impact on the Lottery.

The Lottery is currently the sole source of revenue for the Department of Human Services' problem gambling treatment program, contributing approximately \$1.9 million a year to fund treatment for problem gamblers, a statewide problem gambling helpline and various efforts at public awareness and prevention. Problematic lottery gambling, however, is relatively rare. Statistics from Minnesota and elsewhere consistently show fewer than 5 percent of those seeking assistance cite lottery games as the primary source of their problem.

Other forms of gambling have not contributed funds directly to state programs, though in some cases they have made contributions to non-government organizations. The question of requiring contributions from the sponsors of other state-sanctioned gambling has been raised in the Legislature from time to time, and also could be discussed with the state's Indian tribes. The Lottery has advocated, however, that any funding from these sources be used to supplement Lottery funding rather than replace it.

In addition to the financial contributions required by law, the Lottery has been, and will continue to be, heavily involved with organizations that work on behalf of the problem gambler. The Lottery is a corporate member of both the National Council on Problem Gambling and its Minnesota affiliate, the Northstar Problem Gambling Alliance. Lottery staff serve on the boards of both organizations. In addition, the Lottery has committed staff time and expertise to help both organizations and the Department of Human Services where possible. The Lottery also has trained staff and retailers in this important area.

Problem gambling among lottery players is relatively rare. Statistics from Minnesota and elsewhere show fewer than 5 percent of those seeking assistance cite lottery games as the primary source of their problem.



“Some of Minnesota’s greatest treasures are our lakes, rivers, streams, prairies, forests and other natural resources,” said Governor Tim Pawlenty. “No single organization helps preserve and protect Minnesota’s environment more than the Minnesota State Lottery.”

CONCLUSION

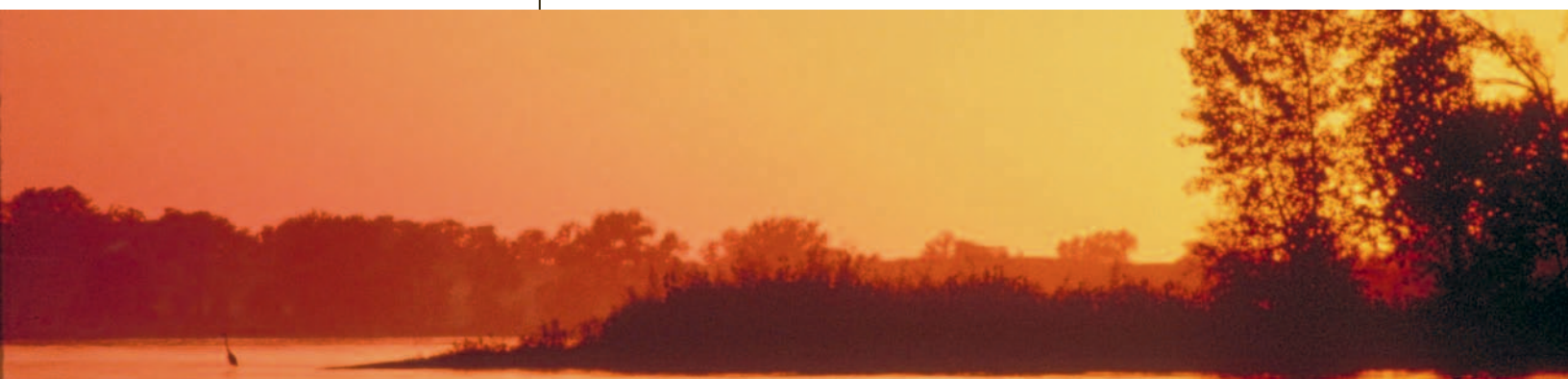
From February to June 2004, the Lottery participated in an extensive review of current operations; responded to 49 recommendations by the Minnesota Office of the Legislative Auditor; made significant cost-cutting decisions that realized cost reductions of approximately \$4.5 million in each of the next two fiscal years; created the Lottery’s first strategic plan; contributed a record \$100 million to the State Treasury; and set a long-term goal of transferring \$250 million annually to the State by 2024.

The Lottery conducted market research and learned recent events did not affect public trust in the Lottery. In fact, an estimated 2.3 million Minnesota adults purchased a Minnesota lottery ticket in FY04, the highest number recorded since the Lottery began keeping statistics in 1994. Finally, the Lottery surveyed 39 other lottery states to learn best governance practices and reviewed options to expand games and increase contributions to the State.

The Lottery is a business draped in government clothing. Unlike other government agencies, it is subject to intense competitive pressures and must react quickly to a changing marketplace. No consumer has to buy a lottery ticket and no retailer is required to sell the product. Therefore:

- The Lottery should be allowed maximum flexibility to operate as a business and to produce maximum revenue for the State.
- The Lottery is a mature industry. For it to continue to be a significant source of revenue in a competitive gaming market, policymakers need to consider allowing new gaming opportunities.

Today, the Lottery is a solid source of income for the State. The games are secure. To build a strong, profitable future for the Lottery and, thus, the State, bold and innovative steps must be taken. The goal of an annual \$250 million contribution to the State can be achieved, but only if opportunities are seized.



APPENDIX I – LETTER FROM THE LEGISLATIVE AUDITOR

July 23, 2004

Members of the Legislative Audit Commission
Governor Tim Pawlenty

In February 2004, the Office of the Legislative Auditor (OLA) issued a highly critical report on the Minnesota State Lottery. We cited numerous examples of questionable spending, particularly on promotions. Some of the spending appeared to be unproductive, and some was simply inappropriate. We also found that Minnesota's Lottery was less profitable than other comparable state lotteries due to higher levels of administrative spending. We called for better business practices at the Lottery and more oversight by state officials.

Under the leadership of Acting Director Michael Vekich, the Lottery has made a thoughtful and positive response to our concerns and the 49 recommendations we directed at the Lottery. As indicated in this report, Building the Future of the Minnesota State Lottery, the Lottery discontinued production of the Environmental Journal television shows, the Environmental Journal radio programs, and the Player Spotlight radio series. It also terminated its sponsorship of the Minnesota Pro/Am Bass Tour and lease of the Environmental Experience trailer. In addition, the Lottery is working to cut its rental costs by more than 30 percent (by closing two regional offices, subletting unneeded space, and renegotiating rental rates). Finally, the Lottery reduced personnel expenses in fiscal year 2004 by eliminating 25 percent of its permanent full-time staff positions.

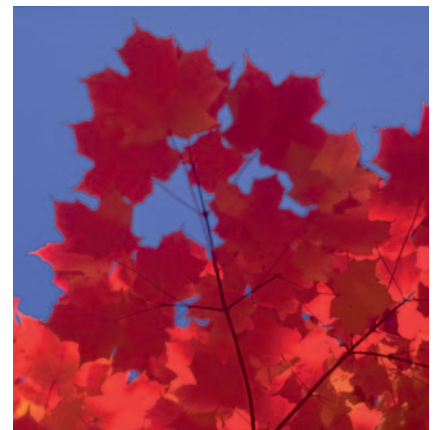
The report points out that the Lottery's annual contribution to the state is expected to rise to slightly more than \$100 million in fiscal years 2004 and 2005, from \$79 million in fiscal year 2003. It should be kept in mind that this increase is due not only to the Lottery's cost cutting, but also because the 2003 Legislature imposed spending caps on the Lottery. Stronger sales are also contributing to the higher proceeds. Preliminary figures indicate that sales increased by about 10 percent in fiscal year 2004, and Lottery officials expect a modest increase of 3 percent in 2005.

We applaud and appreciate Mr. Vekich's service and accomplishments at the Lottery. He took the reigns of leadership under extraordinarily difficult circumstances, and has worked hard to institute sound business practices at the Lottery. His contributions are important not only to the Lottery but also to the people of Minnesota. We will encourage the next director of the Lottery to maintain a commitment to controlling costs and enhancing profitability.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota
James Nobles, Legislative Auditor





To help ensure that the Lottery stays on course, we will also continue to encourage state executive and legislative officials to increase their oversight of the Lottery. Inadequate oversight and accountability contributed to the problems we found at the Lottery. Legislation enacted in response to our report requires the Lottery to present a budget for executive and legislative review. Careful consideration of the proposed budget will strengthen oversight of the Lottery and enhance accountability to elected officials.

Because it is a business that operates in a competitive market, the Lottery needs more flexibility and discretion than a traditional state agency. But the Lottery is a special kind of business—one that operates on a public charter, for a public purpose, and with public money. It should be accountable to elected state officials. Moreover, thoughtful oversight by key legislative committees and executive officials will help maintain the kind of cost controls and strategic spending Mr. Vekich has instituted at the Lottery.

We again thank Mr. Vekich for his positive response to our concerns and recommendations.

Sincerely,

A handwritten signature in blue ink that reads "James Nobles". The signature is fluid and cursive, with the first name "James" and the last name "Nobles" clearly visible.

James Nobles
Legislative Auditor



APPENDIX II – AUDIT RECOMMENDATIONS

I. ADVERTISING, SPONSORSHIPS & PROMOTIONS

1. The Minnesota State Lottery should rethink its advertising strategy, particularly for television. While humorous or entertaining ads are worth considering, the Lottery should also consider increased mention of the environmental and other public benefits of lottery sales.

Completed – The Lottery set up a Blue Ribbon Task Force to analyze this issue and conducted a brand audit with its ad agency in order to develop a longer-term strategy. The Lottery has reviewed its FY04 media plan and has given the ad agency direction on a Scratch Game radio campaign and environmental television campaign to improve its media plan. The Lottery developed comprehensive marketing strategies for FY05 after review and comment from the Blue Ribbon Task Force.

2. The Minnesota State Lottery should consider whether additional research on customer demand or advertising effectiveness would help the Lottery in improving its advertising strategy.

Completed – The Lottery set up a Blue Ribbon Task Force to analyze this issue. The Lottery's research department examined methods to track advertising awareness in order to provide additional decision-making data relating to ad campaigns and messages. This included questions in the Lottery's annual survey relating to advertising awareness and included extensive research as a part of the FY05 marketing strategies.

3. The Minnesota State Lottery, with assistance from its research director and its chief accounting officer, should develop a more accurate method of estimating the value and measuring the costs of Lottery sponsorships.

Completed – The Lottery will create a Return on Investment checklist to ensure that all major components are taken into consideration while evaluating sponsorships.

4. The Minnesota State Lottery should have detailed documentation on how it estimates the value of sponsorship benefits such as signage, dasher boards and media mentions.

Completed – The Lottery will utilize the International Events Group (IEG) valuation methodology in evaluating tangible and intangible benefits of sponsorships.

5. The Minnesota State Lottery, with assistance from its research director, should attempt to measure the effectiveness of retail promotions. The Lottery should attempt not only to measure the overall effectiveness but also to identify the types of retail promotions that have greater potential to increase sales.

Completed – The Lottery is modifying sales promotion efforts to ensure approved promotions are cost effective.



6. The Minnesota State Lottery should not permit anyone to take or requisition merchandise from its warehouse without an assigned promotion number.

Completed – Procedures have been changed and implemented so that merchandise may not be taken from the warehouse without an assigned promotion number.

7. The Lottery should reduce its use of merchandise for questionable and low-priority purposes.

Completed – The Lottery has developed procedures to review requests for Lottery merchandise to assure they are appropriate and effective and not given for questionable and low-priority purposes.

8. If the Lottery insists on continuing the current practice, the Lottery should at least require those requisitioning merchandise to state the destination of the item and the purpose of the request. To the extent possible, the Lottery should require that the cost of items being used in connection with a sponsorship or promotion be included in their costs when their benefits and costs are being evaluated.

Completed – Procedures have been changed and implemented so that merchandise may not be taken from the warehouse without stating the destination of the item and the purpose of the request. Further, procedures are in place so that the cost of any item used in connection with a sponsorship or promotion is included when its benefits and costs are evaluated.

9. The Minnesota State Lottery should reexamine its practice of providing free tickets to various groups. Promotional tickets should be reserved for Lottery customer promotions and for media giveaways.

Completed – The Lottery has reviewed its practice of providing free tickets at certain events or speaking engagements and has determined that in some instances the practice is appropriate and effective. Procedures have been implemented that will provide a review process for each event.

II. BASS TOUR

10. The Minnesota State Lottery should discontinue its sponsorship of the Minnesota Pro/Am Bass Tour.

Completed – The Lottery will not be renewing its sponsorship with the Bass Tour for 2004.

11. If the Minnesota State Lottery continues its sponsorship of the Minnesota Pro/Am Bass Tour, it should discontinue providing operational support for the tour using Lottery resources and staff time. The Lottery should substantially reduce the number of employees it sends to tour events and discontinue paying for the salary, travel, lodging and meal expenses of any employee fishing in tour events.

Completed – The Lottery will not be renewing its sponsorship with the Bass Tour for 2004.

12. The Lottery should also discontinue the practice of providing free lottery tickets to Bass Tour participants and substantially reduce the amount of merchandise provided to tour participants.

Completed – The Lottery will not be renewing its sponsorship with the Bass Tour for 2004.

13. The Lottery should also insist that it receive all of the sponsorship benefits that are detailed in its contract with the Bass Tour.

Completed – The Lottery will not be renewing its sponsorship with the Bass Tour for 2004.

14. The Minnesota State Lottery should cease negotiating with any parties on behalf of the Minnesota Pro/Am Bass Tour.

Completed – The Lottery will not be renewing its sponsorship with the Bass Tour for 2004.

III. ENVIRONMENTAL JOURNAL TELEVISION & RADIO PROGRAMS

15. The Minnesota State Lottery should consider whether the benefits of the *Environmental Journal* television program are sufficient to justify its continuation.

Completed – The show was discontinued on April 27, 2004.

16. If the Lottery decides to continue the program [Env. Journal TV], it should provide the Legislature with estimates of the value of the *Environmental Journal* television program. The Lottery should provide accurate information on the stations airing these items and the annual number of program airings, as well as a detailed methodology of how the value of each airing was estimated. Particular attention should be paid to estimating the value of airings of the *Environmental Journal* on public access channels on cable television.

Completed – The show was discontinued on April 27, 2004.

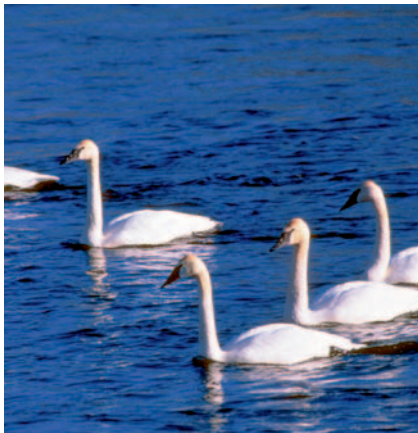
17. The Minnesota State Lottery should recover the \$76,000 in past unauthorized charges for closed captioning the *Environmental Journal* television program from Media Rare.

Completed – After review of the applicable law and consultation with the Attorney General's Office and the Legislative Auditor, it was determined that it would not be cost-effective to attempt to recover these funds from Media Rare.

18. The Minnesota State Lottery should consider the benefits of the *Environmental Journal* radio program and the *Player Spotlight* series are sufficient to justify their continuation.

Completed – The show was discontinued on April 27, 2004.





19. If the Lottery decides to continue the programs, it should provide the Legislature with estimates of the value of the *Environmental Journal* radio program and *Player Spotlight* series. The Lottery should provide accurate information on the stations airing these items and the annual number of program airings, as well as a detailed methodology of how the value of each airing was estimated.

Completed – The show was discontinued on April 27, 2004.

20. The Lottery should conduct an open and competitive bid process on the work done by Media Rare.

Completed – Any future contract will be awarded through an open and competitive process.

21. During its upcoming solicitation of proposals for advertising services, the Lottery should sever the work done by Media Rare from the request for proposals for advertising services and separately conduct an open and competitive procurement process for the services now provided by Media Rare.

Completed – The Lottery has determined that it will not continue with any of the services provided by Media Rare.

22. The Lottery should give the Legislature and the Governor sufficient opportunity to review the expenses and value of the *Environmental Journal* television and radio shows and the *Player Spotlight* before soliciting competitive proposals for these services.

Completed – The Lottery has determined that these shows will be discontinued as of April 27, 2004.

IV. ENVIRONMENTAL EXPERIENCE VEHICLE

23. The Minnesota State Lottery should seek recapture of the \$5,000 in unauthorized management fees that were paid to Media Rare for the portable kiosks.

Completed – After review of the applicable law and consultation with the Attorney General's Office and the Legislative Auditor, it was determined that it would not be cost-effective to attempt to recover these funds from Media Rare.

24. The Minnesota State Lottery should also recapture \$24,518 in additional overpayments to Media Rare. These overpayments occurred because the Lottery permitted Media Rare to exceed the payment limits set in certain amendments to the letter of agreement.

Completed – After review of the applicable law and consultation with the Attorney General's Office and the Legislative Auditor, it was determined that it would not be cost-effective to attempt to recover these funds from Media Rare.

25. If the Lottery decides to continue leasing the Environmental Experience vehicle, the Lottery should renegotiate the lease agreement with Media Rare so that the tractor—as well as the trailer—can be purchased by the Lottery for \$1 at the end of the lease period. Given that the Lottery is making lease payments that are equivalent to the cost of both the tractor and the trailer, the Lottery should be entitled to the vehicle for a nominal amount of compensation at the end of the lease agreement.

Completed – The lease for the Environmental Experience vehicle was cancelled on June 28, 2004.

26. The Minnesota State Lottery should consider whether the promotional benefits of the Environmental Experience vehicle are sufficient to justify the continued lease of the vehicle.

Completed – The Lottery has reviewed whether it would be cost effective to continue the lease on the Environmental Experience vehicle. The lease for the Environmental Experience vehicle was cancelled on June 28, 2004.

27. If the Lottery continues to lease the Environmental Experience vehicle, it needs to develop additional opportunities to use the vehicle to promote the Lottery's image. The Lottery also needs to look for additional uses for the portable kiosks. The additional costs of using the vehicle and kiosks should, however, be considered in assessing the benefits and costs of promotional opportunities.

Completed – The lease for the Environmental Experience vehicle was cancelled on June 28, 2004.

28. If any substantial repair work needs to be done on the Environmental Experience vehicle, the Minnesota State Lottery should solicit competitive bids.

Completed – The lease for the Environmental Experience vehicle was cancelled on June 28, 2004.

29. The Lottery should consider less costly alternatives to paying Media Rare to arrange for maintenance work on the Environmental Experience vehicle.

Completed – The lease for the Environmental Experience vehicle was cancelled on June 28, 2004.

V. FINANCIAL

30. In the spirit of cooperation, after receiving the draft of this report, the Minnesota State Lottery should not commit additional monies from the pool of accumulated unclaimed prize money to any other lottery games until the 2004 Legislature has adjourned.

Completed – No additional prize monies have been committed.





31. The Minnesota State Lottery should stop using department head expenses for items that lack a clear public purpose.

Completed – The Lottery discontinued using department head expenses until legislation was passed (Laws 2004, Chapter 233). The Lottery will only use department head expenses for public purposes authorized by law.

32. If the Lottery wishes to continue incurring department head expenses, the Lottery should seek clarification of its authority to incur such expenses from the Legislature.

Completed – The Lottery requested legislative clarification. Legislation authorizing the Lottery to use department head expense was enacted (Laws 2004, Chapter 233).

33. The Minnesota State Lottery should stop incurring special (or business meeting) expenses, since it does not have the authority to incur such expenses.

Completed – The Lottery stopped incurring special expenses until it had adopted procedures in compliance with DOER regulations. Special expense procedures were adopted on March 12, 2004.

34. The Minnesota State Lottery should report expenses for premium items and promotional tickets under promotions as it did prior to FY 2003. The Lottery should only report these expenses under prizes to the extent that the Lottery can demonstrate that these items are given away in connection with sales of lottery tickets.

Completed – The Lottery's current financial statements have been changed so that premium items and promotional tickets are not reported as prizes.

35. The Minnesota State Lottery should purchase bonds, or reserve funds, sufficient to cover the liabilities created by the decision to switch life expectancy tables.

Completed – The Lottery has purchased necessary annuities from a life insurance company to fully cover the liability.

36. The Department of Finance and the Minnesota State Lottery should jointly study the ways in which the Lottery's accounting data, particularly expense information, can best be shared with the department. The agencies should report back to the Legislature and the Governor on advantages and disadvantages of alternative approaches.

Completed – The Department of Finance is now receiving the accounting/expense information from the Lottery that is necessary to properly monitor activities of the Lottery.

VI. MAJOR PROCUREMENTS

37. In 2004, when the Minnesota State Lottery solicits new bids for the production of Scratch tickets, the Lottery should give more weight to price than it has in the past.

Completed – After review of other states, it has been determined that cost should account for at least 35 percent of the scoring (previously it had been 30 percent). The exact weight will be determined when the RFP for Scratch ticket production will be finalized in the fall of 2004.

38. If the Minnesota State Lottery wishes to add more services or costs to the current contract for Online services, the Lottery should consult in advance with appropriate legislative committees and the Department of Finance.

Completed – The Lottery will consult with the Department of Finance and the appropriate legislative committees prior to adding any services or costs to the current contract for Online services.

39. The Minnesota State Lottery should consult with appropriate legislative committees and the Department of Finance if it decides to extend the contract for Online services beyond 2008.

Completed – The Lottery will consult with the appropriate legislative committees and the Department of Finance prior to extending its contract for Online services beyond 2008.

VII. PERSONNEL, VEHICLE & SPACE ISSUES

40. The Minnesota State Lottery should compare its staff size and composition with similar lotteries and consider further reductions in staff as appropriate.

Completed – The Lottery reviewed the size of its staff, determined that further reduction was warranted and again reduced the number of employees.

41. The Minnesota State Lottery should consider reducing the number of assistant directors and assistants to the director, as well as the number of managers and supervisors.

Completed – The Lottery eliminated an assistant director position and a number of management and supervisory positions.

42. The Minnesota State Lottery should assess how many vehicles it needs for efficient operations. The Lottery should sell any excess vehicles through the State's surplus property program.

Completed – The Lottery has assessed the number of vehicles it needs for efficient operations and reduced the number of vehicles and sold excess vehicles. The Lottery will continue to review the use of the rest of the fleet.





43. Following assessment of the Lottery's space needs and options, the Department of Administration and the Minnesota State Lottery should report back to the Legislature on options for reducing the amount of leased space. The Lottery should examine the potential for consolidating the Roseville headquarters and the Eagan regional office and eliminating one of the regional offices outside the Twin Cities area.

Completed – The Lottery has reduced the amount of leased space by:

- Closing the Brainerd regional office;
- Closing the Eagan regional office and consolidating it with the Roseville headquarters;
- Reducing the amount of space leased at the Eagan warehouse;
- Subleasing space at the Detroit Lakes regional office to MSRS;
- Subleasing space in the Roseville headquarters to GTECH Corporation;
- Reducing the rent at the Owatonna and Marshall regional offices;
- Negotiating with the landlord at the Virginia regional office for a reduction in space.

44. The Minnesota State Lottery should periodically review employee requests for mileage reimbursement to see if a Lottery vehicle could have been used instead of the employee's vehicle. Employees should be reimbursed at the lower of the two rates if it would have been more efficient to use a Lottery vehicle. The Minnesota State Lottery should clearly communicate this policy regarding vehicle mileage reimbursements to its employees.

Completed – Procedures have been drafted and implemented to assure that employees are reimbursed at the proper rate.

45. In issuing travel advances, the Minnesota State Lottery should use the State's payroll system. A Lottery checking account should not be used for this purpose.

Completed – Procedures have been changed so that travel advances will only be allowed through the State payroll system.

VIII. MISCELLANEOUS

46. The Lottery should review its use of cell phones. The Lottery may be able to eliminate some cell phones—particularly for staff at the Roseville headquarters office—or reduce the number of minutes in their plans.

Completed – All cell phones have been reviewed to assure that they are on the right plan. Three have been disconnected and 23 have been moved to a less expensive plan that matches its use.

47. Similarly, the Lottery should review whether employees with a pager need one. If a pager is rarely used, it could be eliminated. There are probably other ways to reach employees in the event of an emergency.

Completed – Employee pager use has been evaluated and some have been eliminated.

48. The Minnesota State Lottery should ensure that any newly acquired fixed asset receives an identification number. The Lottery should identify the location of that asset and periodically update the location of fixed assets.

Completed – New procedures have been implemented that will ensure that all new fixed assets receive an I.D. number and that the location of all fixed assets is periodically updated.

49. The Minnesota State Lottery should reassess the need for some of its employees to have home Internet service and for its director to have three computers. Lottery policy should clearly state that home Internet service is not for personal use and should not be for the purpose of operating, or assisting in the operation or organization of the Minnesota Pro/Am Bass Tour.

Completed – All home Internet service provided to Lottery employees has been eliminated and all Winternet accounts (accounts outside the State system) have been eliminated except for an e-mail only account that is a “Lottery” account which is used by players and others when they respond to the Lottery’s Web site. Having an account outside the state System permits a Lottery employee to send a response back to the person from their home or from another location if they are out of town (any response made in this manner is also sent to the Lottery’s internal server and archived). Also, there may be a need from time to time for a temporary account to access e-mail from out of town. All computer equipment previously provided to the Lottery director for use in his home has been returned.

The Lottery's senior management team developed a brand anatomy for the organization.

A brand anatomy checkup provides the starting point for achieving balance between a company and its stakeholders.

APPENDIX III – BRAND ANATOMY

Brand anatomy provides a comprehensive review of the Minnesota State Lottery's brand architecture and reputation. The Lottery's senior management team worked together to develop brand anatomy for the organization. Brand anatomy examines organizational values, reputation, brand personality, positioning and brand messaging.

Minnesota State Lottery Values – These values will be communicated to help all Lottery employees understand what to do, how to do it and why it's important.

Integrity – We will meet the highest ethical and professional standards in an effort to ensure public confidence in the integrity and security of the Lottery's games.

Service – We will meet and exceed the gaming and entertainment needs of our customers.

Imagination – We will not be limited by “the way we’ve always done it.”

Fun – We will create a work culture for employees that instills creativity and leads to the development of fun and exciting Lottery games for players.

LOTTERY REPUTATION

The Lottery's reputation is built over time, more through actions than through words. Perceptions of reputations are created through personal interaction or the opinion of others. After the Lottery's management team established how they wanted stakeholders to perceive the organization, reputation building activities were included as part of the marketing strategies.

Minnesota State Lottery Reputation

Creative people who continually provide fun and exciting games of chance so that the proceeds can improve Minnesota's environment and quality of life.

BRAND PERSONALITY

Brand personality provides the other dimension to how audiences perceive the Lottery. The goal of developing a brand personality is to help players in the community better understand what kind of an organization the Minnesota State Lottery is. By personifying its image, the Lottery becomes more accessible and appealing to the target audience. The personality of the Lottery must reflect its values as well as how the Lottery is going to affect the players' experience.

Minnesota State Lottery Personality

Fun – The Lottery offers adults fun and exciting games.

Creative – Lottery games and promotions are imaginative and uniquely Minnesotan.

Secure – The Lottery operation is committed to instilling public trust.

Inviting – Lottery staff are always helpful and informative.

POSITIONING

In its simplest form, positioning is sorting. Busy customers tend to group products and services by whether or not they are relevant and if they fit the current aspirations and personal values of the audience.

As we learn about new products or services, we tend to quickly sort them into mental “short lists” for future purchase consideration. Where a brand ends up on our list – at the beginning or the end – is helped along by the work of marketers. Differentiating the Lottery’s products from other forms of entertainment and gaming is how the Lottery competes. Positioning must ultimately answer the question, “What kind of person am I because I choose to play the Lottery?”

Minnesota State Lottery Positioning

Playing the Lottery gives you a chance to win, which puts a little fun in your day.

BRAND MESSAGE

The Lottery’s brand message is shorthand for the essence of the product and experience. Great brand messages are memorable, relevant and sustainable.

Building an effective brand message requires distilling many complex messages and attributes into one simple idea. All of these brand messages share one thing in common – they tell you exactly what the product and organization stands for. So by distilling the Lottery’s values, reputation, product or service attributes into a brand message, we help all stakeholders understand the experience of purchasing a Lottery product.

The Lottery’s brand message is “**Get In the Game.**”

It’s helpful to think of your company as a person when you’re creating a brand personality. When you think of well known brands, it’s easy to understand their brand personalities.

Consumers aspire to be admired, and as the center of their purchasing world, they tend to automatically assume that their overall value system is shared by the company. Positioning is a company’s ability to deliver differentiated products and services that meet consumer aspirations.

Your brand message is shorthand for who you are. Great brand messages are memorable, relevant and sustainable.

The Lottery’s brand message is:

“Get In the Game”



The goal is to have both a strong brand and strong reputation.

“Some of Minnesota’s greatest treasures are our lakes, rivers, streams, prairies, forests and other natural resources. No single organization helps preserve and protect Minnesota’s environment more than the Minnesota State Lottery.”

— GOVERNOR TIM PAWLENTY

July 19, 2004

