



**Strategic Plan/
Master List
September 2023**



Katie Hobbs
Governor

Alec Esteban Thomson
Executive Director

August 31, 2023

Ms. Sarah Brown, Director
Governor's Office of Strategic Planning and Budgeting
1700 W. Washington St., 6th Floor
Phoenix, Arizona 85007

Dear Ms. Brown:

Enclosed is the Arizona Lottery's Strategic Plan/Master List submittal, prepared in accordance with the OSPB planning guidelines.

Please feel free to contact me at (480) 921-4505 if you have any questions regarding this information.

Sincerely,

A handwritten signature in black ink that reads "Alec E. Thomson".

Alec E. Thomson
Executive Director

Enclosure

Agency Summary

Lottery

Alec E. Thomson, Executive Director

Phone: 480-921-4505

A.R.S. §§ 5-551 et seq.

Mission:

To support Arizona programs for the public benefit by maximizing net revenue in a responsible manner.

Description:

The Arizona Lottery maximizes revenue through the sale of products on behalf of Arizona taxpayers and in support of its beneficiaries as defined by statute. An advisory commission and executive director appointed by the Governor, oversee operations, including product development and product sales through licensed retailers, providing players with entertaining, rewarding games of chance that make a difference in Arizona.

Agency Summary: (\$ Thousands)

| Program | FY 2023 Actual | FY 2024 Estimate | FY 2025 Estimate |
|----------------------|--------------------|--------------------|--------------------|
| ▶ Lottery | 2,209,404.3 | 2,440,163.9 | 2,444,163.9 |
| Agency Total: | 2,209,404.3 | 2,440,163.9 | 2,444,163.9 |

Funding:

| | FY 2023 Actual | FY 2024 Estimate | FY 2025 Estimate |
|------------------------------|--------------------|--------------------|--------------------|
| Other Appropriated Funds | 171,835.8 | 188,761.9 | 192,761.9 |
| Other Non-Appropriated Funds | 2,037,568.5 | 2,251,402.0 | 2,251,402.0 |
| Total Funding | 2,209,404.3 | 2,440,163.9 | 2,444,163.9 |

| | | | |
|----------------------|-------------|-------------|-------------|
| FTE Positions | 64.0 | 98.8 | 98.8 |
|----------------------|-------------|-------------|-------------|

5 Year Plan

Issue 1 People Development

Description: Prior strategic plans focused on increasing employee engagement scores, increasing alignment with AMS practices.

FY23 employee engagement survey showed continued high overall engagement (85%) and minimal growth compared with FY22, efforts in process to address lower areas.

Employee feedback indicated certain AMS practices require refinement to achieve engagement goals.

Solutions:

- Perform skip-level meetings with all employees to identify priority areas for improved employee engagement..
- Align Lottery operations and culture to the Arizona Operational Excellence (OpEx) continuous improvement practices; include key vendor partners.
- Strengthen supervisor/employee relations through a series of communication and engagement strategies and policy updates.
- Build a program to improve employee recruitment and retention rates (including internal and contractor positions).

Issue 2 Economic Impact to Retailers

Description: Retailer satisfaction study in FY23 showed high overall retailer satisfaction (93%) with opportunities for improvement, particularly for vending machines.

Engaged vending machine operator, Scientific Games, to create a vending machine task force to improve performance.

Operational improvements have not yet achieved performance targets for successful ticket dispensing.

Record FY23 sales generated ~\$100M in retailer commissions.

Solutions:

- Engage Scientific Games to improve vending machine performance issues.
- Retailer penetration and execution of in-lane, Scratch and Scan and Quick Card products.
- Increase distribution of available vending machines and other Lottery sales equipment.
- Leverage retail and merchandising efforts to educate players.
- Engage chain retailers in development of consumer/product journey mapping to identify opportunities for improvement.

Issue 3 Player Engagement & Innovative Games

Description: Recent efforts focused on implementing new products and platforms to increase player engagement.

Successful launches of new products in FY22-23, including Quick Draw, Lucky Lounge, Ultimate Playlist, Scratch & Scan.

Initial revenue from new products has fallen short of expectations, indicating the need for product enhancements, reconsideration, and increased focus on core products.

Solutions:

- Provide greater relevance to players through traditional game development and innovation.
- Develop growth and revenue goals for emerging product lines (Quick Draw, Ultimate Playlist, Lucky Lounge).
- Build strategy to monetize Players Club with data.
- Build process for leveraging Players Club segmentation..
- Provide Arizona Lottery's player base with promotions that surprise and delight.
- Secure intellectual property rights for Lottery products.

Issue 4 Lottery's Game Management Systems and Back-Office Modernization

Description: 100% of 2026 Request for Proposal (RFP) tasks completed on time per the project schedule thru EOY FY23.

Issued Request for Information (RFI), received responses from 14 different vendors; continuing RFP development.

Completed current state documentation for existing business processes tied to gaming & back office systems.

Solutions:

- Conduct 2026 game management & back-office system RFP and system conversion project (breakthrough).
- Develop plan to implement State Data Governance policies.
- Continue implementing IT cloud computing initiatives.
- Support the implementation and user training for AZ360.
- Improve collaborative processes and communication with Arizona Lottery vendors.

Issue 5 Impact to Arizona

Description: FY23 produced record sales of over \$1.5B, thanks to several large jackpots in multi-state Powerball & Mega Millions games.

Beneficiary transfers expected to top \$300M for FY23.

FY24 projections expect declining revenue due to random nature of large jackpots and increased gaming competition.

Solutions:

- Grow funds delivered to Lottery beneficiaries (breakthrough).
- Grow Lottery sales across existing product lines.
- Identify new sources of revenue that increase revenue and support the resilience of the Arizona Lottery.
- Expand collective impact efforts with beneficiaries.
- Increase public's awareness of Arizona Lottery's mission.

Resource Assumptions

| | FY 2026 Estimate | FY 2027 Estimate | FY 2028 Estimate |
|---------------------------------------|-------------------------|-------------------------|-------------------------|
| Full-Time Equivalent Positions | 98.8 | 98.8 | 98.8 |
| General Fund | - | - | - |
| Other Appropriated Funds | 191,338,000.0 | 195,948,000.0 | 200,687,000.0 |
| Non-Appropriated Funds | 2,059,459,000.0 | 2,116,848,000.0 | 2,175,879,000.0 |
| Federal Funds | - | - | - |

◆ **Goal 1** To improve employee engagement.

| Performance Measures | FY 2022 Actual | FY 2023 Estimate | FY 2023 Actual | FY 2024 Estimate | FY 2025 Estimate |
|---|-----------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| Average monthly agency on-site work hours (percent) | 41.0% | 45.0% | 36.4% | 45.0% | 45.0% |
| Number of professional development opportunities completed | 1,392 | 900 | 1,395 | 900 | 1,000 |
| Percentage of Game Changer (employee innovation) program implemented per plan | - | - | - | 100% | 100% |
| Percentage of new employee onboarding bootcamp program developed per project plan | N/A | 100% | 100% | - | - |

◆ **Goal 2** To improve Lottery back office operations

| Performance Measures | FY 2022 Actual | FY 2023 Estimate | FY 2023 Actual | FY 2024 Estimate | FY 2025 Estimate |
|---|-----------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| Percentage of 2026 Request for Proposal (RFP) action items completed on time per project plan | N/A | 100% | 100% | 100% | 100% |
| Percent improvement in public facing vendor incidents (year-over-year) | - | - | - | 30% | 27% |
| Number of vendor incident reports submitted | N/A | 36 | 21 | - | - |

| | | | | | |
|--|-----|-----|----|---|---|
| Percentage of vendor key performance indicators (KPIs) trending in green | N/A | 100 | 90 | - | - |
|--|-----|-----|----|---|---|

◆ **Goal 3** To improve the retailer experience.

| Performance Measures | FY 2022 Actual | FY 2023 Estimate | FY 2023 Actual | FY 2024 Estimate | FY 2025 Estimate |
|---|-----------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| Percentage of corporate retailers activating new games within 5 days of launch (12-month average) | N/A | 70.5% | 65.1% | 80.0% | 85.0% |
| Percentage of product vending machines deployed | 189% | 99% | 68% | 100% | 100% |
| Number of Route Sales Specialist (RSS) service calls placed to Scientific Games hotline | 750 | 528 | 621 | - | - |
| Total number of retailer compliance inspections | 1,832 | 1,800 | 1,825 | - | - |

◆ **Goal 4** To strengthen and retain the player base.

| Performance Measures | FY 2022 Actual | FY 2023 Estimate | FY 2023 Actual | FY 2024 Estimate | FY 2025 Estimate |
|--|-----------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| Average monthly Players Clubs engagement rates (percent) | 20.0% | 20.0% | 18.5% | 14.8% | 15.0% |
| Dollar amount of Quick Draw sales (in millions) | \$1.7 | \$4.4 | \$2.6 | - | - |

◆ **Goal 5** To increase Lottery impact in the State of Arizona

| Performance Measures | FY 2022 Actual | FY 2023 Estimate | FY 2023 Actual | FY 2024 Estimate | FY 2025 Estimate |
|---|-----------------------|-------------------------|-----------------------|-------------------------|-------------------------|
| Beneficiary transfer dollars (in millions) | \$233.3 | \$270.0 | \$235.8 | \$277.7 | \$277.7 |
| Dollar amount of draw game sales (in millions) | \$311.2 | \$281.5 | \$438.3 | \$318.6 | \$318.6 |
| Dollar amount of instant ticket sales (in millions) | \$1,043.2 | \$1,104.4 | \$1,078.4 | \$1,131.4 | \$1,131.4 |
| Total Lottery sales (in millions) | - | - | \$1,516.7 | \$1,450.0 | \$1,450.0 |
| Number of speaking engagements | 36 | 34 | 59 | - | - |

Vision: Recognized as the first choice for gaming entertainment, while serving the State of Arizona.

Mission: To support Arizona programs for the public benefit by maximizing net revenue in a responsible manner.

Agency Description: The Arizona Lottery maximizes revenue through the sale of its products on behalf of Arizona taxpayers and in support of its beneficiaries as defined by statute. An advisory commission and executive director appointed by the Governor oversee operations, including product development and product sales through licensed retailers, providing players with entertaining, rewarding games of chance that make a difference in Arizona.

Executive Summary: In support of our vision to be Arizona’s first choice for gaming entertainment, five strategic priorities have been identified to maximize beneficiary transfers and long-term impact:

- 1. People Development:** The agency’s most important resource is its employees. Investing in our a culture of continuous improvement is paramount.
- 2. Retailer Impact:** Strengthening partnerships with Lottery retailers and vendors will be critical to driving sales and maximizing returns to beneficiaries.
- 3. Player Engagement:** An increasingly competitive gaming industry in Arizona will require continuous innovation and investment in product development and promotion to engage current and future players.
- 4. System Modernization:** The Arizona Lottery’s vendor contracts are scheduled to expire in 2026, preparation for the upcoming conversion and modernization process is currently underway and will continue to be a top priority.
- 5. Impact to Arizona:** The Arizona Lottery has contributed over \$5 Billion in support of public services since inception, maximizing revenue will remain fundamental to our success.

Summary of Multi-Year Strategic Priorities

| # | Five Year Strategy | Start Year | Progress / Successes |
|---|---|------------|--|
| 1 | People Development | 2024 | <ul style="list-style-type: none"> Prior strategic plans focused on increasing employee engagement scores, increasing alignment with AMS practices FY23 employee engagement survey showed continued high overall engagement (85%) and minimal growth compared with FY22, efforts in process to address lower areas Employee feedback indicated certain AMS practices require refinement to achieve engagement goals |
| 2 | Economical Impact to Retailers | 2024 | <ul style="list-style-type: none"> Retailer satisfaction study in FY23 showed high overall retailer satisfaction (93%) with opportunities for improvement, particularly for vending machines Engaged vending machine operator, Scientific Games, to create a vending machine task force to improve performance Operational improvements have not yet achieved performance targets for successful ticket dispensing Record FY23 sales generated ~\$100M in retailer commissions |
| 3 | Player Engagement & Innovative Games | 2024 | <ul style="list-style-type: none"> Recent efforts focused on implementing new products and platforms to increase player engagement Successful launches of new products in FY22-23, including Quick Draw, Lucky Lounge, Ultimate Playlist, Scratch & Scan Initial revenue from new products has fallen short of expectations, indicating the need for product enhancements, reconsideration, and increased focus on core products |
| 4 | Lottery’s Game Management Systems and Back-office Modernization | 2023 | <ul style="list-style-type: none"> 100% of 2026 Request for Proposal (RFP) tasks completed on time per the project schedule thru EOY FY23 Issued Request for Information (RFI), received responses from 14 different vendors; continuing RFP development Completed current state documentation for existing business processes tied to gaming & back office systems |
| 5 | Impact to Arizona | 2024 | <ul style="list-style-type: none"> FY23 produced record sales of over \$1.5B, thanks to several large jackpots in multi-state Powerball & Mega Millions games Beneficiary transfers expected to top \$300M for FY23 FY24 projections expect declining revenue due to random nature of large jackpots and increased gaming competition |

Arizona Lottery

Fiscal Year 2024 Strategic Plan

Current Annual Focus

| Strategy # | FY24 Annual Objectives | Objective Metrics | Annual Initiatives |
|------------|---|---|---|
| 1 | People Development | <ul style="list-style-type: none"> Number of employee skip-level meetings conducted Number of efforts supporting increased communication and collaboration between supervisors and direct reports Number of professional development opportunities completed Increase to annual employee engagement survey results Annual employee retention rate (internal and contractor) Percentage of vacant positions filled within 60 days | <ul style="list-style-type: none"> Perform skip-level meetings with all employees to identify priority areas for improved employee engagement Align Lottery operations and culture to the Arizona Operational Excellence (OpEx) continuous improvement practices; include key vendor partners Strengthen supervisor/employee relations through a series of communication and engagement strategies and policy updates Build a program to improve employee recruitment and retention rates (including internal and contractor positions) |
| 2 | Economic Impact to Retailers | <ul style="list-style-type: none"> Number of vending machine failed burster events Percentage of available retailers who are offering an in-lane sales solution Percentage of available vending machines and other Lottery equipment installed at a retailer location Percentage of Lottery-In-Motion (LIM) effectiveness research study completed according to plan | <ul style="list-style-type: none"> Engage Scientific Games to improve vending machine performance issues Retailer penetration and execution of in-lane, Scratch and Scan and Quick Card products Increase distribution of available vending machines and other Lottery sales equipment Leverage retail and merchandising efforts to educate players Engage chain retailers in development of consumer/product journey mapping to identify opportunities for improvement |
| 3 | Player Engagement & Innovative Games | <ul style="list-style-type: none"> Year-over-year increase in promotional campaign sales Year-over-year increase in players club special promotions engagement rates Engagement and conversion rates of Lucky Lounge new users Number of patents and/or trademarks registered Number of non-traditional retailers licensed and actively selling Lottery products | <ul style="list-style-type: none"> Provide greater relevance to players through traditional game development and innovation Develop growth and revenue goals for emerging product lines (Quick Draw, Ultimate Playlist, Lucky Lounge) Build strategy to monetize Players Club with data Build process for leveraging Players Club segmentation Provide Arizona Lottery's player base with promotions that surprise and delight Secure intellectual property rights for Lottery products |
| 4 | Lottery's Game Management Systems and Back Office Modernization | <ul style="list-style-type: none"> Percentage of 2026 Request for Proposal (RFP) action items completed on time per the project schedule (breakthrough) Percentage of Data Management Roadmap action items completed on time per the project schedule Percentage of IT cloud objectives completed on time per the project schedule Percentage of Lottery AZ360 users trained according to plan Number of vendor KPIs trending in green (SG & Pollard) | <ul style="list-style-type: none"> Conduct 2026 game management & back-office system RFP and system conversion project (breakthrough) Develop plan to implement State Data Governance policies Continue implementing IT cloud computing initiatives Support the implementation and user training for AZ360 Improve collaborative processes and communication with Arizona Lottery vendors |
| 5 | Impact to Arizona | <ul style="list-style-type: none"> Total beneficiary transfer dollars (breakthrough) Growth rate of Lottery product sales Percentage of beneficiary and community engagement objectives completed according to project plan Monthly earned media value | <ul style="list-style-type: none"> Grow funds delivered to Lottery beneficiaries (breakthrough) Grow Lottery sales across existing product lines Identify new sources of revenue that increase revenue and support the resilience of the Arizona Lottery Expand collective impact efforts with beneficiaries Increase public's awareness of Arizona Lottery's mission |