



Lottery Transfers Continue to Increase; Options Remain to Enhance Transfers and Improve Efficiency

at a glance

Lottery transfers to the Educational Enhancement Trust Fund increased by \$71 million in Fiscal Year 2013-14 to \$1.495 billion. To increase sales during 2014, the Lottery continued to launch new products and enhance product distribution.

Several additional game and product distribution options are available to increase transfers to education. However, some of these options could represent expanded gambling.

The Lottery's operating expense rate continues to meet legislative performance standards and is the third lowest in the nation.

The Lottery could

- continue its efforts to expand the retailer network;
- continue its efforts to improve its data analysis and reporting capabilities for identifying and investigating potential ticket theft or brokering by retailers, as well as increase the number of retailer locations with player scanners; and
- develop a schedule to regularly assess its overall advertising return to the Educational Enhancement Trust Fund.

Scope

As directed by the Legislature, OPPAGA examined the Department of the Lottery and assessed options to enhance its earning capability and improve its efficiency.^{1, 2}

¹ Section 24.123, F.S., requires an annual financial audit of the Lottery, which is to include recommendations to enhance the Lottery's earning capability and efficiency. The Joint Legislative Auditing Committee directed OPPAGA to assess efficiency and the Auditor General to conduct the financial audit.

Background

The Department of the Lottery generates funds for education by selling draw and scratch-off games. Draw games allow players to select from a range of numbers on a play slip. Draw game tickets are printed by terminals that are connected to the Lottery's contracted terminal-based gaming system for a drawing at a later time. Scratch-off games are tickets with latex covering that players scratch off to determine instantly whether they have won.

The Lottery is self-supporting and receives no general revenue. For Fiscal Year 2014-15, the Legislature appropriated \$163.5 million from Lottery sales revenue and authorized 420 positions for Lottery operations. Prizes and retailer commissions are paid directly from sales revenues and do not appear in the department's appropriation. In Fiscal Year 2013-14, prizes totaled \$3.43 billion and retailer commissions totaled \$297.3 million.³ Total ticket sales for this time period were \$5.4 billion, ranking Florida the second highest among U.S. lotteries in total sales.⁴

² A complete list of prior OPPAGA reports that identify revenue enhancement and operational efficiency options for the Department of the Lottery is available on our [website](#).

³ To sell its products, the Lottery contracts with a wide range of retailers across the state, such as supermarkets, convenience stores, gas stations, and newsstands. Retailers receive commissions for selling Lottery products at a rate of 5% of the ticket price and/or 1% of the prize value for winning tickets they redeem up to \$599. Retailers also can receive bonuses for selling select winning tickets and performance incentive payments.

⁴ Also, Florida ranked ninth highest among U.S. lotteries in per capita sales for 2013-14.

Since its inception, the Lottery has outsourced its core functions to produce, advertise, and sell tickets. In Fiscal Year 2014-15, the Lottery allocated approximately 75%, or \$122.5 million, of its \$163.5 million appropriation to produce and advertise draw and scratch-off games. Vendor contracts include those listed below.

- A contract with St. John & Partners for general market advertising services. This contract expires in August 2015.
- A contract with GTECH Corporation to provide a terminal-based system for its draw games. The terminal-based gaming system provided by GTECH Corporation includes computer systems and retailer terminals, instant ticket vending machines and full-service vending machines, telecommunications, and technical support services. This contract expires in September 2015.
- A contract with Scientific Games International to print, market, and distribute scratch-off game tickets. This contract expires in September 2018.
- A contract with Machado Garcia-Serra for Spanish language advertising services. This contract expires October 2018.

Revenue Performance ———

In Fiscal Year 2013-14, the Lottery transferred \$1.495 billion to the Educational Enhancement Trust Fund, \$71 million more than the prior year. Transfers exceeded the legislative standard of \$1.206 billion, the Lottery’s internal objective of transferring at least \$1 billion annually to the Educational Enhancement Trust Fund, and the Revenue Estimating Conference forecast.⁵

Revenue Enhancement Options —————

The Lottery took steps in Fiscal Year 2013-14 to increase its sales and transfers to the Educational Enhancement Trust Fund, such as enhancing its

product mix by adding a second higher priced (\$25) scratch-off game (100X the Cash) in September 2013 following the success of the Millionaire (\$25) scratch-off game launched in September 2012. The Lottery estimates that the 100X the Cash game generated approximately \$74.7 million in transfers for 2013-14. To capitalize on the game’s popularity, the Lottery also expanded the variety of price points offered for the Cash game on February 4, 2014, including \$1 (5X the Cash), \$2 (10X the Cash), \$5 (20X the Cash), and \$10 (50X the Cash) versions. The Lottery estimates that these Cash games generated approximately \$51.9 million in transfers for 2013-14.

The Lottery also attributes some of its sales increase to enhancements to the Mega Millions game. In October 2013, the Multi-State Lottery Association enhanced the Mega Millions game. Enhancements included larger starting jackpots, faster growing jackpots, a million-dollar second prize, and better odds of winning any prize for a \$1 ticket. The Lottery reports that, for comparative sales periods, the Mega Millions game’s average jackpots are \$71 million compared to \$56 million for the previous game and average draw sales are approximately 19% higher. The Lottery estimates the Mega Millions game’s enhancements generated approximately \$6 million in transfers for 2013-14.

In addition, the Lottery attributes some of its sales increases to changes in how major corporate retailers re-stock scratch-off tickets. For example, in April 2014, after successful testing in select Publix grocery stores, Publix approved an automatic replenishment program for ordering scratch-off products in all its grocery stores. Formerly, the scratch-off ticket stocking process occurred in one of three ways: (1) telemarketers from the Lottery’s scratch-off ticket vendor (Scientific Games) contacted each store by phone to inquire whether the store needed to re-stock; (2) the retailer called Scientific Games to place an order; or (3) a Lottery representative noticed low inventory while on a sales call and called Scientific Games to place an order on behalf of the retailer. The Lottery reports that during April to June 2014, scratch-off sales were 11% higher in Publix compared to the same period a year earlier, generating \$11 million in additional scratch-off ticket sales.

⁵ The Lottery’s legislatively-approved performance standards are reported in its long-range program plan—*Long Range Program Plan Fiscal Years 2015-16 through 2019-20*, Florida Lottery, September 30, 2014.

The Lottery also reports that it launched two new draw games during Fiscal Year 2014-15. To avoid confusion with the Mega Millions game and stimulate new interest from players, the Lottery changed the name of Mega Money to Lucky Money and added an EZ Match enhancement with advertising support in July 2014.⁶ The Revenue Estimating Conference estimates this effort will earn an additional \$18 million in ticket sales (or about \$7.3 million in transfers) for this game in Fiscal Year 2014-15. The Lottery also launched the new Monopoly Millionaires' Club game in October 2014, along with 23 other states. Monopoly Millionaires' Club is a multi-state game like Powerball and Mega Millions, but has several features that distinguish it from these large jackpot games. However, according to Lottery officials, the game was discontinued nationally in December 2014 due to poor sales.

To further increase sales and transfers, the Lottery could implement additional games or expand product distribution by adopting new ways of selling lottery tickets. Some of these options are discussed in the sections below. For more information, Appendix A details additional new game options and Appendix B lists additional product distribution options, along with their advantages and disadvantages. The estimated values of the revenue enhancements presented in Appendices A and B are based on individual options; if multiple options were implemented concurrently, the fiscal impact of each would likely be smaller due to shifts in sales from one game to another. Fiscal impact estimates assume lottery customers and retailers would be educated and ready to play as soon as new games or product distribution options were made available. However, actual sales would likely begin at lower levels during a startup period. In addition, adding new lottery games or expanding distribution options could represent an expansion of legalized gambling and could produce negative social costs.^{7, 8}

⁶ For an additional \$1 per play, the EZ match gives players a chance to win cash instantly.

⁷ For more information on the negative social costs, see *Lottery Profits Flat; Increasing Retailer Outlets is Critical to Increasing*

For purposes of this report, we did not evaluate whether new game or product distribution options could affect revenues from the gaming compact between the State of Florida and the Seminole Tribe of Florida.⁹ If the Lottery were to implement a new option, it would need to determine whether the implementation would have any potential impact on compact revenues.

New lottery games could generate substantial revenues, but could represent expanded gambling

Florida could consider adding lottery games such as fast keno or another type of monitor game that might attract new players and substantially increase state revenues. However, as mentioned previously, adding new games could represent expanded gambling.

Fast keno is a draw lottery game in which players choose from 10 to 12 numbers from a panel of 80 numbers with the hope of matching their choices to 20 numbers drawn by a central computer. Fast keno is similar in principle to other draw games but occurs more frequently (typically every four to five minutes).

As described in Appendix C, we identified 15 U.S. lotteries that offer fast keno.¹⁰ A wide variety of retailers in these states participate, such as convenience stores, grocery stores, liquor stores, tobacco stores, bars, restaurants, fraternal organizations, and bowling alleys. Participating retailers often have monitors in their establishments that display game results to players. However, some states also offer keno-to-go whereby players may purchase tickets from

Sales, OPPAGA [Report No. 10-16](#), January 2010; and [Gambling Impact Study](#), Spectrum Gaming Group, October 2013.

⁸ Fiscal impact estimates presented in this report do not account for negative social costs and shifts of other taxable economic activity. These factors could reduce the net revenue to the state.

⁹ A gaming compact between the State of Florida and the Seminole Tribe of Florida was approved by the Governor on April 7, 2010, ratified by Ch. [2010-29](#), *Laws of Florida*, and approved by the U.S. Department of the Interior on July 6, 2010. The gaming compact provides the Tribe with partial but substantial exclusivity with respect to the play of covered games in exchange for payments to the state derived from gaming proceeds.

¹⁰ The 15 U.S. lotteries that we identified as offering fast keno are in California, Delaware, the District of Columbia, Georgia, Kansas, Maryland, Massachusetts, Michigan, Missouri, New York, Ohio, Oregon, Rhode Island, the U.S. Virgin Islands, and West Virginia.

retailers, leave the establishment, and check for winning numbers on the Lottery’s website.

We estimated that implementing fast keno could generate approximately \$111 million in additional annual transfers to education.^{11, 12} To implement fast keno in Florida, the Legislature would need to grant budget authority for the Lottery to spend sales revenue to acquire or contract for a fast keno gaming system.¹³ Fast keno is reportedly more addictive than traditional lottery games due to its fast play style.

Some U.S. lotteries also offer other monitor games, which are computer simulations of poker, bingo, or horse racing.¹⁴ As with fast keno, retailers have monitors that display game results to players. Winning numbers are randomly drawn by a central computer, and draws occur frequently (typically every four to eight minutes). We estimated that implementing a monitor game could generate approximately \$20 million in additional transfers per year.¹⁵ As with fast keno,

monitor games may be more addictive than traditional lottery games.

Another option would be for the Lottery to offer the All or Nothing game with drawings held multiple times per day. Currently, Arizona, Georgia, Iowa, Minnesota, North Carolina, and Texas offer the All or Nothing game. Tickets are \$1 or \$2 per play, and players win prizes by matching none, some, or all of the numbers drawn. For example, in Texas, players select 12 numbers from 1 to 24 and win a top prize of \$250,000 by matching all 12 numbers drawn or by matching none of the numbers drawn; drawings are four times a day. According to the Florida Lottery’s market research vendor, the game tested well with players. We estimated that implementing the All or Nothing game could generate approximately \$18 million in additional transfers per year.¹⁶

New ticket-selling methods could also generate additional revenues

The Legislature and the Lottery could consider expanding product distribution, as described in Appendix B. For example, selling lottery products over the Internet could increase sales and provide more convenience to players. The U.S. Department of Justice released a legal opinion in December 2011 that found that state lotteries’ use of the Internet and out-of-state transaction processors to sell lottery tickets to adults within their states’ borders does not violate federal law.¹⁷

Currently, Illinois, Georgia, Minnesota, and Michigan sell lottery products online. In 2012, Illinois became the first state to sell individual draw game tickets over the Internet. The Illinois Lottery website allows players to purchase tickets for Lotto, Mega Millions, and Powerball using a personal

¹¹ We estimated a range of potential fast keno revenue (\$15 million to \$655 million, with a median of \$111 million) based on the highest and lowest per capita sales in states that offer fast keno, which we applied to Florida’s estimated population for 2016. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 30.38%, based on the average fast keno payout in other states of 60.62%, and an administrative expense rate of 9%, which was determined by the Florida Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

¹² Our estimate is based on the median per capita sales for states that offer fast keno. However, Florida Lottery administrators believe that Florida’s sales experience would take several years to build, depending on a factors associated with launching fast keno, such as needing to recruit new retailers, e.g., bars and other social establishments. In addition, Lottery administrators believe fast keno sales in Florida would more closely resemble that of Georgia, which would lower the estimate to \$104 million.

¹³ In addition, implementing fast keno may require legislative action to modify the requirement for a drawing to be witnessed by an accountant, given that electronic drawings could occur every five minutes (s. [24.105\(9\)\(d\)](#), F.S.).

¹⁴ We identified five U.S. lotteries that offer monitor games: Kansas, Maryland, Massachusetts, Rhode Island, and the District of Columbia.

¹⁵ We estimated a range of potential monitor game revenue (\$5 million to \$148 million, with a median of \$20 million) based on the highest and lowest per capita sales in states that offer monitor games, which we applied to Florida’s estimated population for 2016. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 30.38%, based on the average fast keno payout in other states of 60.62%, and an administrative expense rate of 9%, which was determined by the Florida Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

¹⁶ We estimated potential revenue from the All or Nothing game by applying per capita sales for this game in Texas to Florida’s estimated population for 2016. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 40.53%, based on the November 2014 Revenue Estimating Conference projected transfers for Fiscal Year 2016-17, and that 10% of the sales would be shifted from existing game sales.

¹⁷ Subsequent to this decision, Colorado and Maryland enacted laws that prohibit online lottery sales, while Delaware, Nevada, New Jersey, and the U.S. Virgin Islands enacted laws to permit online casino gaming.

computer or the official Illinois Lottery mobile device application. Individuals who register on the Georgia Lottery website are able to purchase Keno!, Mega Millions, Powerball, and Fantasy 5 tickets online. The Minnesota Lottery offers seven draw games for sale online, including Hot Lotto, Mega Millions, and Powerball. The Minnesota Lottery also offers over 20 e-scratch-off games online. Michigan offers an online version of keno and e-scratch-off games (called Instants Online) that can be accessed using a personal computer or a mobile device application. Michigan Lottery officials stated they expect to offer four draw games (Powerball, Mega Millions, Classic Lotto, and Fantasy 5) online by late summer 2015.

Lotteries that sell products online require that players be at least 18 years old and located within the state when making a lottery purchase. Potential revenue from implementing Internet sales in Florida is about \$8 million in additional transfers per year.¹⁸

Offering lottery products over the Internet would require statutory revisions. Florida law currently restricts the use of player-activated terminals and does not authorize the use of credit cards or other instruments issued by a bank for lottery purchases without a purchase of \$20 in other goods.¹⁹ In addition, the state would need to comply with federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state. As has happened in other states, retailers may oppose this option due to concerns that they would lose lottery sales commissions and revenues from sales of other in-store products, as players would no longer need to visit a retailer to make a lottery purchase.

¹⁸ We estimated a range of potential Internet sales revenue (\$2 million to \$8 million, with a median of \$8 million) based on the highest and lowest per capita sales in states that offer Internet sales, which we applied to Florida's estimated population for 2016. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 40.53%, based on the November 2014 Revenue Estimating Conference projected draw game transfer rate for Fiscal Year 2016-17. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

¹⁹ Section [24.105\(9\)\(a\)](#), *F.S.*, restricts the use of player-activated machines and s. [24.118\(1\)](#), *F.S.*, requires the purchase of no less than \$20 of other goods and services in order to use a credit card or other instrument issued by a bank to purchase lottery products.

Subscription sales is another product distribution method that could increase sales. Other states permit subscription sales for certain draw games through the mail or via the Internet.²⁰ Typically, players purchase subscriptions for three months' to a year's worth of drawings for numbers they select or request as quick picks. Players make purchases by filling in forms and submitting them on the lottery's website or downloading forms and mailing them in with a payment. For instance, New Hampshire sells Hot Lotto, Mega Millions, Powerball, and Tri-State Megabucks subscriptions over the Internet. Players must be 18 years of age or older and have a New Hampshire mailing address. We estimated that annual sales through subscriptions could generate an additional \$4 million in transfers to education.²¹ As with Internet sales, retailers may oppose this option due to concerns that they would lose lottery sales commissions and revenues from sales of other in-store products.

Operational Efficiency Options

The Lottery continues to keep its expenses as a percentage of sales low and below the legislative standard. In addition, the Lottery could make the following improvements:

- continue its efforts to improve its data analysis and reporting capabilities for identifying and investigating potential ticket theft or brokering by retailers, as well as increase the number of retailer locations with player scanners; and

²⁰ We identified 11 U.S. lotteries that offer subscription sales for draw games: Illinois, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, New York, North Carolina, North Dakota, Vermont, and Virginia.

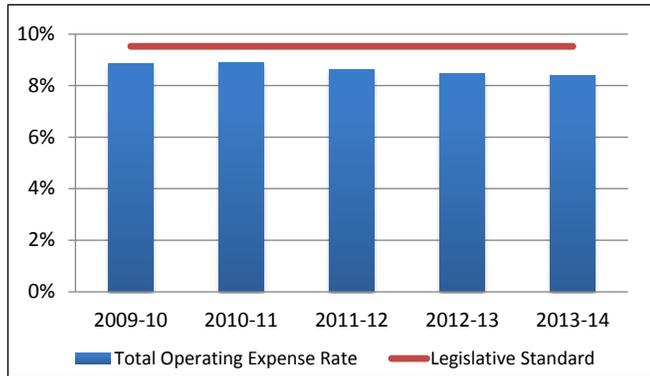
²¹ We estimated a range of potential subscription sales revenue (\$1 million to \$11 million, with a median of \$4 million) based on the highest and lowest per capita sales in states that offer subscription sales, which we applied to Florida's estimated population for 2015. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 40.54%, based on the November 2013 Revenue Estimating Conference projected draw game transfer rate for Fiscal Year 2015-16. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

- develop a schedule to regularly assess its overall advertising return to the Educational Enhancement Trust Fund.

The Lottery’s operating expense rate is lower than the legislative standard

The Lottery’s operating expenses in relation to its ticket sales continue to be lower than the legislative standard, as shown in Exhibit 1.²² Compared to other U.S. lotteries, the Florida Lottery had the third lowest operating expense rate in Fiscal Year 2012-13, behind Massachusetts and New Jersey.²³

Exhibit 1
The Lottery’s Operating Expense Rate Continues to Be Below the Legislative Standard



Source: Department of the Lottery long range program plans.

The Lottery continues to implement initiatives to improve its operational efficiency. For example, the Lottery reports that it established new district office leases in Fiscal Year 2013-14 at improved rates for its Tampa and Miami-Dade district office.²⁴ The Lottery contracted with a tenant broker to survey the real estate market to identify the best facility options available at the best lease rates. By remaining at the same location in Tampa,

the Lottery reports that it was able to reduce its lease rate from \$15.27 per square foot at the end of its prior five-year lease to \$13.75 per square foot at the beginning of its new seven-year lease.²⁵ These lease rates also included improvements to the facility such as new floor covering and re-painting throughout the suite; new counter tops within the lobby and general office area; re-cabling of the data infrastructure; purchase of four security cameras for the front and back entrances, warehouse, and the lobby area; and new exterior storefront and roadside marquee signage. The Lottery moved its Miami-Dade district office approximately 12 miles north to be more convenient for players and staff in Broward and Miami-Dade counties. The Lottery reports that it was able to reduce its lease rate in Miami-Dade from \$21.69 per square foot at the end of its prior 5-year lease to \$19.50 per square foot at the beginning of its new 10-year lease.

Lottery administrators outlined a reasonable process for protecting players against ticket theft by retailers

All lotteries face the challenge of ensuring public confidence in the integrity of their operations. One significant threat to this confidence occurs when retailers steal winning tickets from players. This can happen if players with winning tickets visit a retailer location and ask the retailer (or the retailer’s employee) to scan their tickets to determine if they have won, and dishonest retailers/clerks then tell the customers their tickets are not winners and keep the tickets for their own gain. Lotteries also face the potential for ticket brokers to buy winning tickets from players for less than the amount won to help people avoid paying state-owed debt or child support, losing eligibility for public assistance, being identified as a retailer who is stealing winning tickets, etc.²⁶

²² Operating expenses include payments to gaming vendors and retailer commissions.

²³ Florida Lottery’s ranking is based on the latest fiscal year data available from La Fleur’s *2014 World Lottery Almanac*, excluding eight state lotteries that offer video lottery terminals and one state lottery for which data to derive an operating expense rate was not available in La Fleur’s almanac.

²⁴ The Lottery has nine district offices that serve the dual role of providing field support services to retailers and acting as prize redemption and payment centers. The offices also sell and redeem tickets.

²⁵ The Lottery’s lease agreements in Tampa and Miami-Dade provide for escalating rates over the term of the contracts.

²⁶ If a lottery winner owes money to the state, such as for taxes or fees, or owes child support, the department withholds the amount owed from the player’s winnings if the amount won is \$600 or more.

Theft of winning tickets and ticket brokering are crimes.^{27, 28} These actions also violate the terms of the Lottery's contracts with retailers, which provide that the Lottery may suspend or terminate the contract of a retailer for reasons such as engaging in conduct prejudicial to public confidence in the Lottery.

We compared how the Lottery reports that it is addressing the potential for retailers to steal or broker tickets to actions used by or recommended for other North American lotteries and concluded that the Lottery has taken reasonable steps to address this issue.²⁹ According to the Lottery, it has implemented a Retailer Integrity Program that includes several components intended to address potential illegal retailer behavior. These components include following up on customer complaints, conducting operations to identify retailers/clerks who steal winning tickets, and providing scanners at approximately half of its retailer locations so that players can determine for themselves whether a ticket is a winner and how much they have won.³⁰

The Lottery reports that it has recently enhanced its Retailer Integrity Program to better identify retailers or their employees who might be stealing players' tickets or acting as ticket brokers.³¹ The

²⁷ The criminal penalty for stealing a winning ticket depends on the amount of the prize. All lottery tickets with a prize of \$600 or more must be redeemed at a district office or at Florida Lottery headquarters in Tallahassee. Theft of a ticket worth \$300 or more but less than \$20,000 is grand theft of the third degree (a third degree felony) and punishable by up to five years in prison. If a stolen ticket is worth \$20,000 or more but less than \$100,000, this is grand theft of the second degree (a second degree felony) and punishable by up to 15 years in prison. Theft of a ticket worth \$100,000 or more is first degree grand theft (a first degree felony) and punishable by up to 30 years in prison. For more information, see ss. [812.014](#) and [775.082](#), *F.S.*

²⁸ Ticket brokering violates s. [24.118\(2\)](#), *F.S.*, and is a first degree misdemeanor.

²⁹ To examine processes used by or recommended for other North American lotteries, we reviewed audit or ombudsman reports for lotteries in Arizona, British Columbia, Iowa, Massachusetts, Michigan, and Ontario.

³⁰ Lottery staff identify retailers for these operations based on customer complaints and also select some at random.

³¹ The department conducts background checks prior to approving an application to become a lottery retailer. The background checks include determining whether any listed owners, officers, or major shareholders have a criminal history; checking Department of Revenue data to determine whether the retailer owes money to the state, such as for sales taxes; and researching the retailer's credit history.

Lottery has also made changes to the program to better protect consumers. Recent changes to the Retailer Integrity Program include

- analyzing data to identify retailers for further investigation because they are abnormally frequent winners and there are indicators that they may be stealing or brokering tickets;
- enhancing agreements with other state law enforcement agencies to share information, identify criminal activity, and investigate retailers;
- publicizing when the Lottery has terminated a retailer's contract for conduct prejudicial to public confidence or arrested a retailer for stealing tickets;
- configuring retailer terminals to play a winning sound so that players know that the ticket a clerk scanned for them is a winner; and
- conducting a Sign your Ticket campaign to alert players that signing their tickets at the time of purchase provides an added safeguard to avoid having someone else claim their winnings.

Lottery administrators told us that they periodically generate a list of the top 500 most frequent winners over a three-year period. Using information from the list, they analyze additional data to identify suspicious retailer activity that requires further investigation. For example, as of June 2014, administrators said that the Lottery was investigating 94 retailers who were frequent winners. This represents less than 1% of the approximately 13,000 lottery retailers.

If the Lottery's investigation indicates a retailer is likely stealing or brokering tickets, lottery administrators said they would suspend the retailer's ability to sell lottery tickets while they conduct further investigation if needed. Depending on investigation results, the Lottery may then terminate the retailers' contracts. Between April 2 and October 15, 2014, the Lottery terminated the contracts of 35 retailers for conduct prejudicial to public confidence.

According to Lottery administrators, if they substantiate that a retailer/clerk is stealing winning tickets, they pursue an arrest. The

Lottery reports that during 2014, its law enforcement officers made 11 arrests and assisted other law enforcement agencies with 11 additional arrests of lottery retailers.³² Administrators told us that while they terminate the contract of a lottery retailer who is ticket brokering, they would likely not pursue a criminal charge unless they find sufficient probable cause.³³ Retailers might be able to keep their contracts to sell lottery tickets if one of their clerks was stealing tickets or acting as a broker without the retailer’s knowledge, and the retailer fired the clerk and took steps to prevent further criminal behavior.

According to Lottery administrators, they are also upgrading their investigations case management system to more efficiently handle an increase in the investigation caseload and improve their analytical capabilities. The Lottery reports that its investigations workload increased from 816 in 2013 to 884 as of December 9, 2014. Administrators anticipate that they will have opened approximately 900 investigations by the end of 2014. They believe that the new system will help with allocating investigation resources, strengthening their collaboration with other law enforcement agencies by making it more efficient to share information on cases, and improving their analytical capabilities by making it easier to identify whether a particular person or household is the subject of another investigation.

In addition, department administrators believe that their current procurement to replace the gaming system vendor contract will further enhance the Retailer Integrity Program. The Lottery’s invitation to negotiate (ITN) includes a requirement for the vendor to provide two on-site analysts/programmers

to improve the Lottery’s ability to analyze data and generate reports from its data system. Lottery administrators expect that these staff will reduce the need for Lottery personnel to make multiple data queries when analyzing data to identify potential problems in retailer behavior.³⁴ The new vendor also will be required to provide additional ticket scanners for retailer locations so that players can determine for themselves if their tickets are winners. The gaming system vendor ITN also includes an option for vendors to propose a fraud detection and monitoring system. The Lottery’s current contract with its gaming system vendor expires in September 2015, so these additional resources will not be available until the new contract takes effect.

The Lottery should continue its efforts to improve its data analysis and reporting capabilities for identifying and investigating potential ticket theft or brokering by retailers, as well as increase the number of retailer locations with player scanners.

Revenue and sales goals determine game selection, enhancement, and termination

To enhance sales, the Florida Lottery regularly changes its product mix by adding new games, enhancing existing games, and retiring games. We examined the Lottery’s management of its product mix to describe how the Lottery makes decisions to introduce new games, enhance existing games, and retire games. Lottery administrators told us that their primary goal when making decisions about the product mix is to achieve internal sales goals and the Revenue Estimating Conference forecast for transfers to the Educational Enhancement Trust Fund.

The Lottery reports that it considers a variety of factors when deciding the mix of games, including

- the balance of game price points to ensure that the department does not compete with itself for the same core players;

³² The department has assisted other law enforcement agencies with investigations that involve lottery retailers or their employees who may have stolen lottery tickets or committed other offenses.

³³ Lottery officials report that although ticket brokering is a first degree misdemeanor, prosecuting this violation requires witnesses to the exchange of the ticket. However, the department seeks to identify and terminate the contracts of retailers who are ticket brokering due to the potential loss of state revenues or increase in state costs for programs such as child support enforcement or public assistance. The amount of state revenue lost or the increase in state costs due to ticket brokering is unknown.

³⁴ For instance, department employees currently conduct individual data queries to identify frequent winners and determine whether these winners are retailers. Staff also separately check whether retailers they are investigating have been the subject of customer complaints.

- seasonality—maximizing sales during the summer tourist season, specific sports seasons, and the Christmas holiday season;
- consumer buying habits and efforts to attract new players;
- uniqueness of a game to appeal to a variety of players; and
- changing technologies and play styles, e.g., electronic and/or automated play.

The Lottery uses vendor recommendations, research, and game performance in other states to select new games. The Lottery routinely adds new scratch-off games to its product mix throughout the year. It introduces new draw games less frequently because they generally have a much longer lifecycle.

The Lottery reports that its Product Development unit develops the overall product strategy and oversees lifecycle management for scratch-off and draw games and related add-on features. This includes game creation, production, launch, monitoring, and closeout.

According to the Lottery's scratch-off and draw game procedures, creating new games is a continuous process. Product Development researches game concepts from primary and secondary game printing vendors, other licensed property companies, and/or successful games in other lottery states.³⁵ While the Lottery's graphics department may internally develop new scratch-off games, most new games come to the department through vendor recommendations and/or research. Lottery procedures state that Product Development stays abreast of industry trends related to draw games and continuously researches draw game concepts. In addition to adding the occasional draw game, the Lottery may enter into agreements that include other states for the operation and promotion of multistate lottery games and promotions.

According to Lottery officials, the Lottery uses a variety of methods to test new games

before including them in the product mix. Administrators report that, based on experience, they know what kinds of scratch-off games are likely to perform well and, as a result, research needs are minimal. If, however, a new scratch-off game represents a new concept, the Lottery may conduct player testing in focus groups, player panels, or conjoint analysis to determine its marketability.³⁶ Based on its analysis, Product Development submits a four to six month scratch-off game concepts launch schedule to the Secretary for approval.

Lottery officials report that new draw game concepts undergo a series of qualitative and/or quantitative research analyses similar to those used for new scratch-off game concepts. The Lottery also uses internal business analysis based on industry reports from gaming vendors, gaming associations, and other lottery states to identify draw games with the greatest sales potential in the Florida market. The Secretary makes the final approval of all new game concepts.

The Lottery enhances draw games to maintain and/or increase lagging sales. Because scratch-off games have a shorter lifecycle, administrators report that they only enhance draw games. Enhancements may include add-ons like second chance draws and EZ match in an effort to extend the lifecycle among core players and attract new players. For multi-state games, all participating states must agree to game enhancements and the Florida Lottery does not have sole discretion to implement game enhancements.

Game termination decisions are primarily based on sales. According to Lottery procedures, scratch-off games have a finite lifecycle based on the quantity of tickets printed and sales rate. The Lottery closes games at the end of their lifecycle and replaces them with more profitable games. According to Lottery administrators, they typically close 12 to 15 scratch-off games each quarter. The Product Development unit reports that it uses the following criteria to determine when to end games:

³⁵ Licensed property companies buy the rights to use national brands/logos, e.g., the National Football League or Major League Baseball, and sell use of the brand/logo for use on scratch-off tickets.

³⁶ A conjoint analysis is a market research technique that is used to measure the value of different product features and predict the value of combinations of features.

- no remaining top prizes;
- no orderable inventory; and/or
- factors such as current sales levels, low inventory levels, contract requirements, seasonality, and other unforeseen circumstances such as changing market conditions or print defects.

As noted earlier, the Lottery launches most draw games as a permanent offering in the product mix. However, occasionally the Lottery determines that a draw game is no longer meeting sales expectations and the Secretary approves its termination. The Lottery reports that it usually replaces the game with a new game with better sales potential.

The Lottery has a comprehensive process for making decisions about advertising

We examined the Lottery’s advertising activities to describe how the Lottery makes advertising decisions and evaluates the effectiveness of those decisions. The Lottery has a comprehensive process for advertising decision-making that includes numerous steps and considers a variety of relevant factors. However, while the department monitors and assesses its advertising efforts using sales performance data as well as data from its research vendor about the public resonance of advertising campaigns, it has only recently contracted for an evaluation of the return from its advertising expenditures.

The Lottery allocates its advertising budget based on an annual product calendar. The Lottery produces a product planning calendar that establishes when it will launch the year’s new games, product enhancements, and related advertising. Executive staff report that the product planning calendar is an evolving document that is used in marketing planning meetings to determine which games will receive promotional support.

Using the product planning calendar, the Lottery’s Brand Management Division allocates advertising funds across games that will receive advertising for the year and produces a statewide flowchart outlining advertising campaign timelines per game by geographic market as well as specific media such as television, radio, and traffic drive-time radio ads. The division uses the market/media flowchart, in conjunction with the product-planning calendar, to

monitor advertising and game launch schedules. Administrators report that the process is intentionally fluid so the Lottery can shift game roll-outs and related advertising in response to factors such as changing market conditions, delays in game production, and/or varying media costs and availability. Lottery administrators report that this allows them to make budget adjustments as needed, get the best prices for media air-time, and achieve the maximum exposure in the intended market.

The Lottery uses historic sales and expected transfers to decide which games to advertise. Lottery administrators report that they place priority for advertising dollars on games they expect to yield the highest return to the Educational Enhancement Trust Fund and game types with historically high sales. Brand Management administrators report that the department can develop reliable forecast sales estimates based on a game’s performance in other states and sales history of similar games in Florida.

Player styles, game specifics, and retailer density determine which media markets and methods the Lottery will use. Rather than target specific populations or demographics with advertising campaigns, Lottery administrators report that player styles and game specifics determine where they will air or place advertising. They said that certain types of games are more likely to appeal to frequent/core players, while other games are likely to attract the more infrequent/casual player. Likewise, third-party partnerships may dictate specific geographic markets for advertising.

Retailer density is also a factor in the Lottery’s advertising decisions. The Lottery targets advertising to areas with higher concentrations of retailers to maximize exposure and ticket sales. Lottery administrators decide which form of advertising to use (e.g., billboards, radio, television) based on the advertising budget and input from its contracted advertising agencies.

The Lottery analyzes sales, public awareness, and market performance to determine the success of advertising campaigns. The Lottery monitors market performance and advertising impact across the state. According to internal procedures, the department monitors the sales

performance of all new terminal and scratch-off games on a daily, weekly, and annual basis including reviewing sales reports, sales trends, weekly sales summaries, and progress toward Revenue Estimating Conference sales forecasts. Also, the Lottery's contracted research firm, Ipsos Reid, conducts quarterly online tracking to examine Lottery marketplace performance and public awareness of advertising.³⁷

In addition to ensuring each contract deliverable is received, the Lottery also examines advertising rate of return and overall dollar value of media campaigns using a quarterly post-media buy analysis and buy effectiveness report from its advertising vendor, St. John & Partners. This report illustrates market performance per market area by comparing exposure rates (the number of times an advertising spot airs) to industry standards and provides details on any under- or over-performing districts.^{38, 39} The report itemizes added values and their dollar equivalent in cases where the Lottery received advertising time in excess of contractual requirements.

The Lottery recently contracted for an evaluation of the return from its advertising expenditures. In our 2014 report, we found that although advertising increases lottery ticket sales, most (approximately 80%) of the variation in sales was explained by other factors.^{40, 41} Lottery administrators told us that the department has recently contracted for a study of the return from its advertising expenditures and anticipates completion soon. The department should develop a schedule to regularly assess its overall advertising return to the Educational Enhancement Trust Fund.

³⁷ As part of this process, Ipsos Reid may look at participation rates in other forms of gambling, promotion awareness, product evaluation, media habits, shopping behavior, and leisure habits.

³⁸ In some cases, contractees provide more media exposure than required by the contract. This can be the result of issues like filling unsold air time.

³⁹ For example, one quarterly report found the Tallahassee market under-performing, but the explanation revealed a glitch in Nielsen sampling techniques. The Jacksonville market over-delivered in another quarter as a result of almost all radio stations over-delivering on the number of times ads were aired.

⁴⁰ *Lottery Transfers Have Recovered; Options Remain to Enhance Transfers*, OPPAGA [Report No. 14-06](#), January 2014.

⁴¹ These factors were jackpot size, time of the year, market area, retailer density, general economic conditions, and the introduction of Powerball in Florida in 2009.

The Lottery generally met the typical state procurement standards when contracting for Spanish language advertising services

In November 2013, the Lottery issued a solicitation for contractual services (an invitation to negotiate or ITN) to provide Spanish language advertising to Florida Spanish language markets to promote Lottery games and raise funds for public education. The selected company would advise the Lottery and provide strategic planning to help achieve its Spanish language marketing objectives; provide creation and production services for distribution in the Spanish-speaking communities; host a Spanish language website for the Lottery; and provide public relations and translation services while supporting community outreach and market expansion for Spanish language retailer recruitment and products.⁴²

To acquire similar services, state agencies generally follow the procurement procedures required by Ch. 287, *Florida Statutes*, and the administrative rules developed by the Department of Management Services to implement those requirements.⁴³ However, s. 24.105, *Florida Statutes*, authorizes the Lottery to adopt alternate procedures if it determines by rule that operating under Ch. 287, *Florida Statutes*, would impede the effective or efficient operation of the lottery.⁴⁴ In 2007, the Lottery used its statutory authority to adopt emergency rule 53ER07-55, *Florida Administrative Code*, which authorizes some procedures that vary from state agency procurement requirements.^{45, 46} Lottery administrators reported

⁴² In October 2014, the department executed a four-year contract with Machado/Garcia-Sierra LLC of Miami, Florida for Spanish language market advertising services. The agreement also provides the department with two additional two-year renewal periods at its sole option. Machado/Garcia-Sierra LLC is the same provider the department selected in the previous competitive procurement for the same services in 2007.

⁴³ DMS has promulgated rules [60A-1.001 to 60A-1.048](#), *F.A.C.*, to address state procurement requirements.

⁴⁴ As required by s. [24.105\(13\)](#), *F.S.*, the department must still evaluate competing proposals; achieve the greatest long-term benefit to the state in service quality, integrity and dependability; and maximize gross revenues and net proceeds during the contract term.

⁴⁵ Rule [53ER07-55](#), *F.A.C.*

⁴⁶ For example, s. [287.057\(1\)](#), *F.S.*, requires agencies to use a competitive solicitation process for procurement of commodities or contractual services that exceed \$35,000, but rule [53ER07-55](#), *F.A.C.*, authorizes a bid threshold of \$65,000 for the Department of the Lottery.

that the emergency rule provides added efficiencies in the department’s procurement processes primarily for purchases falling below the bid threshold for competitive procurement.

We evaluated the extent to which the Lottery’s actions during its recent procurement of Spanish language market advertising services followed the typical state agency procurement process, as established in Ch. 287, *Florida Statutes*, and the related administrative rules. We concluded that the Lottery generally met the typical state procurement standards, with the exception of extending the prior services contract beyond the time authorized in Ch. 287, *Florida Statutes*, to enable the Lottery to complete the procurement process.

Section 287.057(12), *Florida Statutes*, authorizes only one six-month extension of an existing contract, but the Lottery extended its 2007 Spanish language market advertising services contract twice for a total of 12 months before executing a new contract to replace it.⁴⁷ The Lottery’s emergency rule does not address additional contract extensions and provides that the requirements in Ch. 287, *Florida Statutes*, will govern its actions in the absence of rule provisions to the contrary.⁴⁸

Lottery administrators report that they delayed completing the procurement due to other priorities, including preparing for the solicitation to replace the Lottery gaming system vendor contract. They also said that the Spanish language market advertising services were critical to the operation of the Lottery and that they therefore did not want a lapse in advertising to occur.

Recommendations

While the department and the Legislature have increased transfers to education, additional

⁴⁷ Rule 60A-1.048(2), *F.A.C.*, states in part, “An agency may only extend a services contract once, unless events beyond the control of the contractor cause the contractor’s failure to meet the criteria for contract completion.”

⁴⁸ The department reports that it relied upon rule 53ER07-55, *F.A.C.*, during the Spanish language advertising services procurement only to alter the Invitation to Negotiate wording regarding potential protests to conform to the department’s authority in s. 24.109(1), *F.S.*, to require a formal written protest within 72 hours instead of 10 days as provided in s. 120.57(3), *F.S.*

actions could increase sales and efficiency and ultimately increase transfers to education.

Department Options

We recommend that the Department of the Lottery

- continue its efforts to expand the retailer network;
- continue its efforts to improve its data analysis and reporting capabilities for identifying and investigating potential ticket theft or brokering by retailers, as well as increase the number of retailer locations with player scanners; and
- develop a schedule to regularly assess its overall advertising return to the Educational Enhancement Trust Fund.

Legislative Options

The Legislature could consider authorizing the Lottery to expand its current games and product distribution methods to enhance revenues, as described in Appendices A and B. If the Legislature is interested in a particular option, it could direct the Department of the Lottery to provide a more detailed analysis that includes advantages and disadvantages, potential revenues and costs, timeframes for implementation, needed statutory changes, and any impacts on the gaming compact with the Seminole Tribe of Florida.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of the Lottery for review and response. The Secretary’s written response to this report is in Appendix D.

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses that assist legislative budget and policy deliberations. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

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Appendix A

New Lottery Game Options

New games that attract new players have the potential to substantially increase revenues to education. Exhibit A-1 lists new game options, their advantages and disadvantages, and estimated revenues where we were able to develop reasonable estimates. The estimated revenues are based on individual options; if multiple options were implemented concurrently, the fiscal impact of each would likely be smaller due to shifts in sales from one game to another. Some new games that could generate significant revenue, such as fast keno, could increase the negative social costs of gambling. Estimates of annual revenue assume full implementation by July 1, 2015. However, some options would require additional time to implement, such as launching a keno or monitor game. For purposes of this report, we did not evaluate whether new game options could affect revenues from the gaming compact between the State of Florida and the Seminole Tribe of Florida.⁴⁹ If the Lottery were to implement a new option, it would need to determine whether the implementation would have any potential impact on compact revenues.

Exhibit A-1

New Games Have the Potential to Increase Revenues to Education

Option	Advantages	Disadvantages
<p>Fast Keno Players choose from 10 to 12 numbers from a panel of 80 numbers in the hope of matching their choices to 20 numbers drawn by the central computer at Lottery headquarters; may be played frequently (e.g., every four to five minutes). Players watch a monitor at a retailer location to determine if they have won, or leave the premises and check the lottery's website for the winning numbers.</p> <p>Implementing this option may require legislative action to modify the requirement for a drawing to be witnessed by an accountant, given that electronic drawings could occur every four to five minutes (s. 24.105(9)(d), <i>F.S.</i>).</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$111 million per year in additional recurring transfers to education¹ ▪ Can be limited to social settings such as bars, restaurants, and fraternal organizations, although other U.S. lotteries allow traditional lottery retailers to participate. Some state lotteries also offer Keno-to-Go at traditional lottery retailer sites whereby players purchase tickets, leave the premises, and check the lottery website to see if they have won. See Appendix C for more information on U.S. lotteries that offer fast keno. ▪ Would help the Lottery recruit new retailers in social venues 	<ul style="list-style-type: none"> ▪ Fast keno is reportedly more addictive than traditional lottery games ▪ Could be considered an expansion of gambling ▪ Requires legislative budget approval for a fast keno gaming system ▪ Sales are dependent on new retailer participation ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor²
<p>Daily Keno Players choose as many as 10 numbers from a panel of 80 numbers in the hope of matching their choices to 20 to 22 numbers drawn by the central computer at Lottery headquarters. The game may be played more than once per day.</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$10 million per year in additional recurring transfers to education³ 	<ul style="list-style-type: none"> ▪ Could be considered an expansion of gambling ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor²

⁴⁹ A gaming compact between the State of Florida and the Seminole Tribe of Florida was approved by the Governor on April 7, 2010, ratified by Ch. [2010-29, Laws of Florida](#), and approved by the U.S. Department of the Interior on July 6, 2010. The gaming compact provides the Tribe with partial but substantial exclusivity with respect to the play of covered games in exchange for payments to the state derived from gaming proceeds.

Option	Advantages	Disadvantages
<p>All or Nothing For \$1 or \$2, players select 10 to 12 numbers from up to 24 numbers and win the top prize by matching all numbers drawn or by matching none of the numbers drawn; drawings are held multiple times per day</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$18 million per year in additional recurring transfers to education⁴ 	<ul style="list-style-type: none"> ▪ May have a limited life cycle after which sales decline ▪ Could produce shift in sales from other Lottery products ▪ Could be considered an expansion of gambling
<p>Monitor Games Computer animated games, such as simulated horse racing, poker, and bingo, that are played on in-store monitors similar to the way fast keno is played Implementing this option may require legislative action to modify the requirement for a drawing to be witnessed by an accountant, given that electronic drawings could occur frequently (s. 24.105(9)(d), F.S.).</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$20 million per year in additional recurring transfers to education⁵ ▪ Could appeal to emerging markets of Lottery players that have grown up playing computer games ▪ Allows the Lottery to recruit new retailers in social venues such as bars and restaurants ▪ Could be limited to pari-mutuel facilities or social settings, such as bars and restaurants 	<ul style="list-style-type: none"> ▪ Because of its rapid play style, it could be more addictive than traditional lottery games ▪ Could be considered an expansion of gambling ▪ Requires legislative budget approval for a new gaming system ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor²
<p>Expand Higher Priced Scratch-Off Games Standard scratch-off games offered at prices of \$25 or more, with higher prizes and prize payout percentages</p>	<ul style="list-style-type: none"> ▪ Could generate significant revenues ▪ The Lottery's recent \$25 scratch-off game (100X the Cash) generated significant sales. The Lottery estimates that the 100X the Cash game generated approximately \$74.7 million in transfers for Fiscal Year 2013-14. 	<ul style="list-style-type: none"> ▪ Florida's previous introduction of \$30 tickets generated lower than expected sales, but this may have been due to the play style of the ticket and the state of the economy at the time ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor²

¹ We estimated a range of potential fast keno revenue (\$15 million to \$655 million, with a median of \$111 million) based on the highest and lowest per capita sales in states that offer fast keno, which we applied to Florida's estimated population for 2016. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 30.38%, based on the average fast keno payout in other states of 60.62%, and an administrative expense rate of 9%, which was determined by the Florida Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

² Proceeds from Lottery Revenue Bonds have been used to finance the cost of constructing, acquiring, reconstructing, or renovating educational facilities at various locations throughout the state. The term bond rate floor is one the Lottery uses to describe and monitor the lowest Educational Enhancement Trust Fund transfer rate allowed in order to ensure the Lottery remains in compliance with the covenants established with each bond issuance. Therefore, the Lottery would need to ensure that prize payouts and expenses for new games enable it to meet or exceed the minimum transfer rate needed to remain in compliance with bond covenants.

³ We estimated a range of daily keno revenue (\$6 million to \$24 million, with a median of \$10 million) based on the highest and lowest per capita sales in states that offer daily keno, which we applied to Florida's estimated population for 2016. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 40.53%, based on the November 2014 Revenue Estimating Conference projected transfers for Fiscal Year 2016-17, and that 5% of the sales would be shifted from existing game sales.

⁴ We estimated potential revenue from the All or Nothing game by applying per capita sales for this game in Texas to Florida's estimated population for 2016. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 40.53%, based on the November 2014 Revenue Estimating Conference projected transfers for Fiscal Year 2016-17, and that 10% of the sales would be shifted from existing game sales.

⁵ We estimated a range of potential monitor game revenue (\$5 million to \$148 million, with a median of \$20 million) based on the highest and lowest per capita sales in states that offer monitor games, which we applied to Florida's estimated population for 2016. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 30.38%, based on the average fast keno payout in other states of 60.62%, and an administrative expense rate of 9%, which was determined by the Florida Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

Source: OPPAGA analysis of lottery industry and Department of the Lottery information.

Appendix B

Product Distribution Options

Making lottery products more accessible and convenient for players by expanding product distribution has the potential to substantially increase revenues to education. Authorizing product distribution through the Internet, increasing the number of retailers, and expanding the use of full-service vending machines have the potential to increase revenues by making lottery products more readily available to residents and tourists. Exhibit B-1 lists these and other product distribution options that could increase Lottery sales and education transfers, their advantages and disadvantages, and estimated revenues where we were able to develop reasonable estimates. The estimated revenues are based on individual options; if multiple options were implemented concurrently, the fiscal impact of each would likely be smaller due to shifts in sales from one point of sale to another. Estimates of annual revenue assume full implementation by July 1, 2015. However, some options would likely require additional time to implement. For purposes of this report, we did not evaluate whether new product distribution options could affect revenues from the gaming compact between the State of Florida and the Seminole Tribe of Florida.⁵⁰ If the Lottery were to implement a new option, it would need to determine whether the implementation would have any potential impact on compact revenues.

Exhibit B-1

Expanding Product Distribution Has the Potential to Increase Revenues to Education

Option	Advantages	Disadvantages
<p>Authorize Internet Sales</p> <p>The Legislature would enact laws to authorize intrastate Internet sales of lottery products.</p> <p>Implementing this option would require statutory changes to allow player-activated terminals (s. 24.105, <i>F.S.</i>) and use of credit cards or other instruments issued by a bank for lottery purchases without requiring purchase of \$20 in other goods (s. 24.118, <i>F.S.</i>).</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$8 million per year in additional recurring transfers to education¹ ▪ Provides more convenience to players who prefer to purchase their lottery products from their personal computer or cellular device 	<ul style="list-style-type: none"> ▪ Must comply with federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state ▪ Requires legislative budget approval for enhanced systems and technology ▪ Could be considered an expansion of gambling ▪ As has happened in other states, retailers may oppose this option due to concerns that they would lose lottery sales commissions and revenues from sales of other in-store products, as players would no longer need to visit a retailer to make a lottery purchase
<p>Subscription Play</p> <p>The state would allow players to subscribe to game drawings for up to one year in advance on the Florida Lottery website. For prizes under a specified amount (e.g., \$600), players would receive automatic credit or the Lottery would mail them a check.</p> <p>Implementing this option may require statutory changes to allow player-activated terminals (s. 24.105, <i>F.S.</i>) and use of credit cards or other instruments issued by a bank for lottery purchases without requiring purchase of \$20 in other goods (s. 24.118, <i>F.S.</i>).</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$4 million per year in additional recurring transfers to education² ▪ Internet technology has made subscription services much easier and more cost-effective for lotteries to manage ▪ Key benefits for the consumers are no missed draws, no waiting in lines, and ease of prize claims ▪ Provides the ability for people to play who may not be able to otherwise, such as seasonal residents and physically challenged residents 	<ul style="list-style-type: none"> ▪ Must comply with federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state ▪ Game changes require communication with players and possibly a replacement ticket ▪ Could reduce unclaimed prize funds, as prizes may be automatically credited to players ▪ Could be considered an expansion of gambling ▪ As has happened in other states, retailers may oppose this option due to concerns that they would lose lottery sales commissions and revenues from sales of other in-store products, as players would no longer need to visit a retailer to make a lottery purchase

⁵⁰ A gaming compact between the State of Florida and the Seminole Tribe of Florida was approved by the Governor on April 7, 2010, ratified by Ch. [2010-29, Laws of Florida](#), and approved by the U.S. Department of the Interior on July 6, 2010. The gaming compact provides the Tribe with partial but substantial exclusivity with respect to the play of covered games in exchange for payments to the state derived from gaming proceeds.

Option	Advantages	Disadvantages
<p>Paying at the Pump for Lottery Products (Play at the Pump)</p> <p>Players would be able to purchase lottery products as part of the transaction involved in purchasing gasoline at the pump or using an ATM.³</p> <p>Implementing this option may require statutory changes to allow player-activated terminals (s. 24.105, <i>F.S.</i>), allow use of credit cards or other instruments issued by a bank for lottery purchases without requiring purchase of \$20 in other goods (s. 24.118, <i>F.S.</i>), modify the definition of and requirements for lottery retailers (ss. 24.103 and 24.112, <i>F.S.</i>), modify the definition of and requirements for lottery vending machines (s. 24.112, <i>F.S.</i>), address the prohibition against selling lottery tickets at anything other than the price set by the Lottery (s. 24.117, <i>F.S.</i>), and address the prohibition against taking compensation for claiming a lottery prize on behalf of someone else (s. 24.118 <i>F.S.</i>).</p>	<ul style="list-style-type: none"> ▪ The ability to purchase tickets at the pump would increase convenience and avoid the loss of sales from players who have no need to walk into the store to pay for gas. Ideally, the consumer would be able to combine their gas and lottery purchase. ▪ Offering this option at ATMs may help expand the retailer network to non-traditional locations 	<ul style="list-style-type: none"> ▪ Could be considered an expansion of gambling ▪ Paying at the pump eliminates the need for many consumers to go inside stores, which might affect the sale of other products retailers sell. However, Minnesota Lottery officials found that to date, in-store sales have not been negatively affected.
<p>Expand Retailer Network</p> <p>Add additional corporate and independent Lottery retailers in both traditional locations, such as convenience and grocery stores, and non-traditional locations, such as chain drug stores, mass merchandisers, home improvement centers, bars, and restaurants</p>	<ul style="list-style-type: none"> ▪ Adding 200 new retailers has the potential to generate approximately \$5 million per year in additional recurring transfers to education.⁴ ▪ Florida has been below average in terminal density compared to other successful Lottery states, so expanding its network could improve per capita sales. ▪ Could increase product distribution and awareness, making products available to new players who do not shop where products are currently being sold 	<ul style="list-style-type: none"> ▪ Requires legislative budget approval for more terminals ▪ The non-traditional lottery business model may require the development of different products, compensation frameworks, and distribution strategies ▪ May require additional lottery staff to service new accounts
<p>Expand Full-Service Vending Machines</p> <p>Increase the number of full-service vending machines that dispense both scratch-off and draw game tickets</p>	<ul style="list-style-type: none"> ▪ A 2011 impact conference predicted net education funding gains of \$21 million in the first full year of deploying 350 full-service vending machines. Subsequently, a March 2014 impact conference predicted net education funding gains of \$3 million in the first full year of deploying an additional 300 machines. ▪ Allows additional product access at high volume Lottery retailers ▪ Provides more convenience to players who do not want to stand in line to purchase tickets ▪ May attract large corporate retailers currently not selling lottery products because the vending machines minimize the need for on-site operators and increase player choice and the potential for larger sales ▪ Allows retailer network expansion into non-traditional retailer locations, such as airports, because the vending machines minimize the need for on-site operators 	<ul style="list-style-type: none"> ▪ Requires monitoring of underage play ▪ Some criticize the potential ease of access by problem gamblers

Option	Advantages	Disadvantages
<p>Electronic Instant Ticket Vending Machines</p> <p>Players touch a video screen and receive the image of the instant ticket on the screen to reveal the outcome of the ticket.</p> <p>Implementing this option may require modifying the definition of and requirements for lottery vending machines (s. 24.112, <i>F.S.</i>).</p>	<ul style="list-style-type: none"> ▪ The Department of the Lottery projected potential recurring transfers to education ranging from \$33 million to \$114 million per year depending on how implemented. ▪ Provides a business model allowing retailer network expansion into non-traditional retailer locations, such as bars and restaurants 	<ul style="list-style-type: none"> ▪ Requires legislative budget authority to purchase or lease electronic instant ticket vending machines ▪ Requires monitoring of underage play ▪ Some stakeholders criticize the potential ease of access by problem gamblers

¹ We estimated a range of potential Internet sales revenue (\$2 million to \$8 million, with a median of \$8 million) based on the highest and lowest per capita sales in states that offer Internet sales, which we applied to Florida’s estimated population for 2016. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 40.53%, based on the November 2014 Revenue Estimating Conference projected draw game transfer rate for Fiscal Year 2016-17. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

² We estimated a range of potential subscription sales revenue (\$1 million to \$11 million, with a median of \$4 million) based on the highest and lowest per capita sales in states that offer subscription sales, which we applied to Florida’s estimated population for 2015. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 40.54%, based on the November 2013 Revenue Estimating Conference projected draw game transfer rate for Fiscal Year 2015-16. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

³ The Minnesota Lottery has developed the technology and payment processes needed to implement this option, and began to offer lottery purchases at gas stations and ATMs in 2012. After pilot testing the system, the Minnesota Lottery expanded its distribution points. As of December 2014, Play at the Pump is offered at 53 gas locations, with 452 pump screens and 131 ATM locations. Minnesota’s total sales through these distribution points were \$20,000 in Fiscal Year 2013-14. To make purchases, players use a debit card and select the option to purchase lottery tickets as part of the transaction for purchasing gas or using an ATM. The lottery purchase shows on the receipt, and players may also choose to receive a text message and/or register on the lottery website to track their purchases. The lottery automatically credits the bank account associated with the debit card for prizes under \$600. The Missouri Lottery began offering Play at the Pump and ATM sales in fall 2013 in select locations, followed by the California Lottery in fall 2014. California’s Play at the Pump sales are limited to participating gas stations in Sacramento and Los Angeles counties.

⁴ We estimated potential revenues from expanding the retailer network by assuming that the 200 retailers would achieve at least the average weekly gross sales new retailers achieved in Fiscal Year 2013-14. The estimate assumes all 200 terminals being active for a full year and that 20% of their sales would be shifted from existing retailers.

Source: OPPAGA analysis of lottery industry and Department of the Lottery information.

Appendix C

Other U.S. Lotteries Offer Fast Keno

We identified 15 U.S. lotteries that offer fast keno. As shown in Exhibit C-1, a wide variety of retailers participate, such as bars, bowling alleys, convenience stores, fraternal organizations, grocery stores, liquor stores, restaurants, and tobacco stores.

Exhibit C-1
Fifteen U.S. Lotteries Offer Fast Keno at a Wide Variety of Venues

U.S. Lottery ¹	Name of Fast Keno Game	Examples of Retailers and Venues
California	Hot Spot	Bars, bowling alleys, casinos, convenience stores, fraternal organizations, grocery stores, and restaurants
Delaware	Keno	Bars, casinos, convenience stores, liquor stores, restaurants, and tobacco stores
District of Columbia	D.C. Keno	Convenience stores, grocery stores, liquor stores, and restaurants
Georgia	Keno!	Bars, convenience stores, fraternal organizations, grocery stores, and restaurants
Kansas	Keno	Bars, convenience stores, fraternal organizations, grocery stores, and restaurants
Maryland	Keno	Bars, bowling alleys, convenience stores, grocery stores, restaurants, and tobacco stores
Massachusetts ²	Keno	Keno: Bars, convenience stores, fraternal organizations, grocery stores, restaurants, and tobacco stores Keno-to-Go: Convenience stores, grocery stores, liquor stores, pharmacies, and tobacco stores
Michigan ²	Club Keno	Keno: Bars, bowling alleys, fraternal organizations, and restaurants Keno-to-Go: Convenience stores, grocery stores, pharmacies, and tobacco stores
Missouri ²	Club Keno	Keno: Bars, bowling alleys, fraternal organizations, and restaurants Keno-to-Go: Bars, bowling alleys, convenience stores, fraternal organizations, grocery stores, liquor stores, pharmacies, restaurants, and tobacco stores
New York	Quick Draw	Bars, convenience stores, grocery stores, pharmacies, and restaurants
Ohio ²	Keno	Keno: Bars, fraternal organizations, liquor stores, restaurants, and tobacco stores Keno-to-Go: Bars, convenience stores, fraternal organizations, grocery stores, liquor stores, pharmacies, restaurants, and tobacco stores
Oregon ²	Keno	Bars, bowling alleys, convenience stores, fraternal organizations, grocery stores, liquor stores, restaurants, and tobacco stores
Rhode Island ²	Keno	Keno: Bars, bowling alleys, convenience stores, fraternal organizations, grocery stores, liquor stores, and restaurants Keno-on-the-Go: Convenience stores, grocery stores, liquor stores, pharmacies, and restaurants
U.S. Virgin Islands	Caribbean Keno	Bars, convenience stores, grocery stores, pharmacies, and restaurants
West Virginia	Keno Bonus	Bars, bowling alleys, convenience stores, fraternal organizations, liquor stores, and restaurants
TOTAL U.S. LOTTERIES	15	

¹ Six states (Alabama, Alaska, Hawaii, Mississippi, Nevada, and Utah) do not operate a lottery.

² The Massachusetts, Michigan, Missouri, Ohio, Oregon, and Rhode Island lotteries offer Keno-to-Go whereby players can purchase tickets for keno drawings, leave the retailer’s premises, and check for winning numbers on the Lottery website.

Source: OPPAGA analysis of information from U.S. lottery websites.

Appendix D

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

January 28, 2015

Mr. R. Philip Twogood
Coordinator
The Florida Legislature's Office of Program
Policy Analysis and Government Accountability
111 West Madison Street, Room 312
Tallahassee, Florida 32399-1475

Dear Mr. Twogood:

Thank you for the opportunity to respond formally to your office's draft report: *"Lottery Transfers Continue to Increase; Options Remain to Enhance Transfers and Improve Efficiency."* We appreciate the diligence of your staff to thoroughly analyze the Lottery's performance over the years to help identify opportunities to increase our revenues and efficiencies, and we will take your recommendations under consideration.

1. Recommendation No. 1: We recommend that the Department of the Lottery continue efforts to expand the retailer network.

Response: The Department agrees with the recommendation and will continue its efforts to expand the retailer network.

2. Recommendation No. 2: We also recommend that the Department:
 - continue its efforts to improve its data analysis and reporting capabilities for identifying and investigating potential ticket theft or brokering by retailers, as well as increase the number of retailer locations with player scanners; and
 - develop a schedule to regularly assess its overall advertising return.

Response: The Department agrees with the recommendations and will continue its efforts to improve its data analysis and reporting capabilities, and to increase the availability of scanners, as part of the Department's efforts to protect consumers and the integrity of the games. The Department will also

Mr. R. Phillip Twogood
January 28, 2015
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continue its efforts to assess its overall advertising return as part of the Department's overall mission to increase transfers to the Educational Enhancement Trust Fund.

Again, we would like to thank you and your staff for your diligent efforts to help us increase our revenues and efficiencies and offering us the opportunity to provide additional information to express our views.

Sincerely,



Cynthia F. O'Connell
Secretary

cc: J. Bruce Hoffmann, Chief of Staff
Ellyn Hutson, Chief Financial Officer
Tom Delacenserie, Deputy Secretary
Layne Smith, General Counsel
Andy Mompeller, Inspector General