



January 2016

Report No. 16-01

Lottery Sales Have Increased; Transfers to the Educational Enhancement Trust Fund Remain Stable

at a glance

Lottery transfers to the Educational Enhancement Trust Fund increased slightly in Fiscal Year 2014-15 to \$1.496 billion, or \$1 million more than the prior year. The leveling off in transfers is due to a combination of factors including lower overall draw game sales and fewer unclaimed prizes.

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 second lowest in the nation.

The Lottery should

- 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 ticket self-checkers for players;
- continue to regularly assess the effectiveness of its advertising, and if it plans to increase advertising expenditures, evaluate whether the increase will have a net positive effect on returns to the Educational Enhancement Trust Fund; and
- ensure that any future evaluations of advertising return control for additional factors that have a significant influence on sales, use multiple years of data, and separately evaluate returns from advertising draw games and scratch-off games.

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}

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 removable 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 2015-16, the Legislature appropriated \$169.5 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 2014-15, prizes totaled \$3.63 billion and retailer commissions

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.

² A complete list of prior OPPAGA reports that identify revenue enhancement and operational efficiency options for the Department of the Lottery is provided on page 19 of this report and available on our [website](#).

totaled \$312 million.³ Total ticket sales for this time period were \$5.6 billion, ranking Florida the second highest among U.S. lotteries in total sales.⁴

Since its inception, the Lottery has outsourced its core functions to produce, advertise, and sell tickets. The Lottery allocated approximately 76%, or \$128.8 million, of its Fiscal Year 2015-16 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 February 2016.⁵
- A contract with IGT (formerly named GTECH Corporation) to provide a terminal-based system for its draw games. The terminal-based gaming system provided by IGT includes computer systems and retailer terminals, instant ticket vending machines and full-service vending machines, telecommunications, and technical support services. This contract expires in March 2017.⁶

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 10th highest among U.S. lotteries in per capita sales for Fiscal Year 2014-15.

⁵ This contract originally expired in August 2015 after the department exercised all of its renewal terms, but the department has extended the contract for six months while it continues with the procurement process for a new contract. The extension expires on February 25, 2016, or when the department enters into a new contract, whichever occurs first.

⁶ This contract originally expired in March 2015 (after the department exercised both of its two-year renewal terms), but the department extended the contract for six months through September 2015 while it was undergoing the procurement process for a new contract. The department rejected all bids for the original invitation to negotiate (ITN) in January 2015 and issued a new ITN in February 2015. In June 2015, the department entered into an 18-month emergency contract extension with IGT (starting in September 2015). The emergency renewal states that the department does not anticipate that a contract pursuant to the ITN can be awarded and a new gaming system successfully implemented prior to the scheduled expiration date of its agreement with IGT. The emergency extension expires either on the date upon which the department successfully converts to a new gaming system or March 28, 2017, whichever date is sooner.

- 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, which was originally scheduled to expire in October 2018, but ended in December 2015 when the company went out of business.⁷

Revenue Performance

In Fiscal Year 2014-15, Lottery sales increased to \$5.583 billion compared to the prior year's sales of \$5.368 billion (an increase of \$215 million). The increase was primarily due to higher sales of scratch-off games. Draw game sales decreased by \$92 million, but scratch-off game sales increased by \$307 million.

However, during the same period, Lottery transfers to the Educational Enhancement Trust Fund increased to \$1.496 billion, or \$1 million (0.06%) more than the prior year. Transfers still exceeded the legislative standard of \$1.206 billion and the Lottery's internal objective of transferring at least \$1 billion annually to the Educational Enhancement Trust Fund.⁸

The leveling off of transfers is primarily due to three factors. First, overall draw game transfers decreased by \$55.8 million due to a decrease in sales of the large jackpot games (Lotto, Mega Millions, and Powerball). Lottery officials attribute this decline to jackpot fatigue, which is a national phenomenon affecting state lotteries whereby infrequent players only buy tickets when the jackpot is huge, and the size of the jackpot needed to incentivize players to buy tickets increases over time. Second, even though scratch-off sales increased substantially, the transfer rate (profit margin) for scratch-off

⁷ According to Lottery administrators, St. John and & Partners is currently administering remaining Spanish language media buys. The department plans to negotiate with the next qualifying company that responded to its original procurement for the Spanish language advertising contract. If this negotiation is not successful, they will start a new procurement for the contract.

⁸ The Lottery's legislatively-approved performance standards are reported in its long-range program plan—*Long Range Program Plan Fiscal Years 2016-17 through 2020-21*, Florida Lottery, September 30, 2015.

games is about half of the rate for draw games.⁹ Third, the amount transferred from unclaimed prize funds decreased by \$9.8 million. Lottery officials attribute this decline to the increase in sales of higher priced scratch-off tickets with larger prizes, which are less likely to go unclaimed.

Revenue Enhancement Options

The Lottery took steps during Fiscal Year 2014-15 to increase its sales and transfers to the Educational Enhancement Trust Fund. To further increase sales and transfers, the Lottery could implement new games, but these could be considered an expansion of gambling. The Lottery could also implement new ways of selling tickets to further enhance its revenues.

The Lottery took steps to increase sales from existing types of games

The Lottery increased its sales by adding additional higher priced (\$20 and \$25) scratch-off games, following the success of \$25 scratch-off games launched in September 2012 and September 2013. The Lottery launched the \$600,000,000 Gold Rush (\$20) game in September 2014 and its third \$25 game, \$10,000,000 Florida Cash, in February 2015. According to industry data collected by La Fleur's Magazine, the \$600,000,000 Gold Rush game was the top selling \$20 game and the \$10,000,000 Florida Cash game was the top selling \$25/\$30 game among U.S. lotteries during Fiscal Year 2014-15.

To capitalize on the Gold Rush game's popularity, the Lottery also expanded the variety of price points offered for the game in January 2015, including \$1, \$2, \$5, and \$10 versions. The Lottery estimates that the \$600,000,000 Gold Rush game generated approximately \$81.3 million and the lower price point Gold Rush games generated \$56.4 million in transfers for Fiscal Year 2014-15, while the \$10,000,000 Florida Cash game

generated approximately \$52.1 million in transfers.

In addition, the Lottery launched the Jackpot family of scratch-off games in July 2014. The Jackpot family included \$1, \$2, \$5, and \$10 price points. The Lottery estimates that the Jackpot family of games generated approximately \$47.5 million in transfers for Fiscal Year 2014-15.

The Lottery also made changes to the Mega Money, PLAY4, and CASH3 draw games. In July 2014, the Lottery changed the name of Mega Money to Lucky Money and added an EZmatch feature to give players a chance to win up to \$500 instantly. The Lottery reports that sales of the Mega Money/Lucky Money game in Fiscal Year 2014-15 exceeded the prior year's sales by \$23.7 million, resulting in an additional \$9.6 million in transfers for Fiscal Year 2014-15. Also, in March 2015, the Lottery added a 1-OFF option to the PLAY4 game and enhanced the 1-OFF feature on the CASH3 game. With 1-OFF, players can win by either matching their numbers or if their numbers are one digit off. The Lottery reports that sales of both the PLAY4 and CASH3 games are up 15% since adding or enhancing the 1-OFF feature.

In addition, the Lottery tasked its district offices with encouraging retailers to increase the number of facings of scratch-off tickets in their counter displays (i.e., add more space so that additional scratch-off tickets are displayed). The Lottery estimates that this effort resulted in approximately 100,000 additional scratch-off ticket facings across the state, which department officials believe contributed to an increase in scratch-off ticket sales during Fiscal Year 2014-15.

The Lottery also estimates additional transfers as a result of adding LED jackpot signs at 2,012 retailer locations in March 2015. The signs show the amount of the jackpot for the next drawing of the Lotto, Mega Millions, and Powerball games. The Lottery purchased the machines using funds from liquidated damages from one of its vendor contracts. The Lottery compared sales at these retailer locations between 2014 and 2015, and estimates that use of the signs resulted in up to a 5% increase in sales in the stores with the signs compared to stores without the signs.

⁹ However, according to Lottery officials, without the increase in scratch-off game sales, the amount transferred to the trust fund would have been lower than the prior year.

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, adding new lottery games or expanding distribution options could represent an expansion of legalized gambling and could produce negative social costs.^{10, 11}

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.¹² 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 additional revenues, but could represent expanded gambling

Florida could consider adding lottery games such as draw games that offer different play styles or prize payment structures than are currently offered. However, as mentioned previously, adding new games could represent expanded gambling.

One example is the All or Nothing game with drawings held multiple times per day. We identified six state lotteries that currently offer the All or Nothing game—Arizona, Georgia, Iowa, Minnesota, North Carolina, and Texas. 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. However, based on experience with similar games, Lottery administrators believe that such a game may have a limited life cycle with initial sales increases that later decline, and some sales would likely shift from existing lottery games. We estimate that implementing the All or Nothing game could generate approximately \$8 million in additional transfers during the first full year of implementation.¹³

Another option is to participate in one of the two multi-state draw games that provide lifetime payments to top prize winners. Currently, 17 U.S. lotteries are participating in the Lucky for Life game and 5 U.S. lotteries are participating in the Cash4Life

¹⁰ For more information on the negative social costs, see *Lottery Profits Flat; Increasing Retailer Outlets is Critical to Increasing Sales*, OPPAGA [Report No. 10-16](#), January 2010; and [Gambling Impact Study](#), Spectrum Gaming Group, October 2013.

¹¹ 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.

¹² 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.

¹³ We estimated a range of potential All or Nothing sales revenue (\$2 million to \$19 million, with a median of \$8 million) based on the highest and lowest per capita sales in states that offer All or Nothing sales, which we applied to Florida’s estimated population for 2017. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 40.6%, based on the December 2015 Revenue Estimating Conference projected transfers for Fiscal Year 2017-18 and that 10% of the sales would be shifted from existing game sales.

game.¹⁴ Lucky for Life tickets are \$2 and players choose five numbers between 1 and 48 and one Lucky Ball number between 1 and 18. Cash4Life tickets are also \$2, and players choose five numbers between 1 and 60 and also a Cash Ball number between 1 and 4. Both of these games have drawings twice a week (Monday and Thursday) and offer a top prize of \$1,000 a day for life.

Lottery administrators reported that the advantages of participating in a multi-state lifetime payment game include that these games provide an opportunity for bigger prizes and that lifetime payment games have favorable brand recognition. However, as with All or Nothing, this type of game may have a limited life cycle after which sales decline, and may shift sales from the Lottery's for life scratch-off games or other draw games. The department estimated that participating in a multi-state lifetime payment draw game could generate approximately \$25 million to \$50 million in additional transfers in the first full year of implementation.

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.¹⁵

Currently, Illinois, Georgia, 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 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. 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. Although the Minnesota Lottery previously sold lottery tickets online, the Minnesota Legislature passed legislation in 2015 that prohibited the lottery from selling instant tickets over the Internet (formerly called eScratch tickets) and selling tickets at gas pumps and ATMs. The Minnesota Lottery discontinued all online sales as of August 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 \$5 million in additional transfers per year.¹⁶

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.¹⁷ 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.

¹⁴ The Arkansas, Connecticut, Delaware, District of Columbia, Idaho, Kentucky, Maine, Massachusetts, Michigan, Minnesota, Missouri, Montana, New Hampshire, Ohio, Rhode Island, South Carolina, and Vermont lotteries participate in Lucky for Life, and the New Jersey, New York, Pennsylvania, Tennessee, and Virginia lotteries participate in Cash4Life.

¹⁵ Subsequent to this decision, Delaware, Nevada, New Jersey, and the U.S. Virgin Islands enacted laws to permit online casino gaming.

¹⁶ We estimated a range of potential Internet sales revenue (\$440,000 to \$8 million, with a median of \$5 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 2017. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 40.6%, based on the December 2015 Revenue Estimating Conference projected draw game transfer rate for Fiscal Year 2017-18. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

¹⁷ 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.¹⁸ 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 \$5 million in transfers to education.¹⁹ 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.

Another option to increase sales is for the Lottery to expand its retailer network. In Fiscal Year 2014-15, the top eight U.S. lotteries ranked by per capita sales had an average of 1,170 residents per retailer. During that period, the Florida Lottery averaged 1,500 residents per retailer. Adding 3,750 new retailers to Florida's retailer network would meet the top-performing lotteries' market penetration and has the potential to generate about \$90 million annually in additional transfers to the Educational Enhancement Trust Fund. More modest growth of 200 retailers would generate about \$5 million annually in transfers.

The Lottery's Long-Range Program Plan for Fiscal Years 2016-17 through 2020-21 includes a goal to

aggressively grow the retailer network over the next five years. The number of retailers in the network varies daily, but point-in-time data shows that it has declined, from 13,195 as of June 30, 2014, to 13,061 as of June 30, 2015, or a net loss of 134 retailers. Lottery administrators attribute some of the decline to corporate chain retailers being bought out by other corporate chain retailers, which then closed unprofitable stores, as well as retailers going out of business for other reasons. In addition, the Lottery reports that it terminated 75 retailer contracts during Fiscal Year 2014-15 as part of the Retailer Integrity Program.

Lottery administrators believe that one way to expand the retailer network is to use more full-service vending machines (FSVMs), which dispense both draw game and scratch-off tickets. Currently, the department leases 1,500 instant ticket vending machines (ITVMs), which only dispense scratch-off tickets, and 500 FSVMs. In an effort to attract more retailers and thus increase the size of the network, the department included a requirement to provide FSVMs at 39% of lottery retailer locations (approximately 5,100 FSVMs) in the invitation to negotiate (ITN) to replace its gaming system vendor contract. Lottery administrators report that they are planning to phase out the ITVMs in favor of FSVMs. They also report that they have had requests from corporate retailer chains for FSVMs that exceed the current number of available machines, including both current lottery retailers and those not currently selling lottery products.

Operational Efficiency Options

The Lottery continues to keep its expenses as a percentage of sales low and below the legislative standard. However, the Lottery could make three 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 ticket self-checkers for players.

¹⁸ 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.

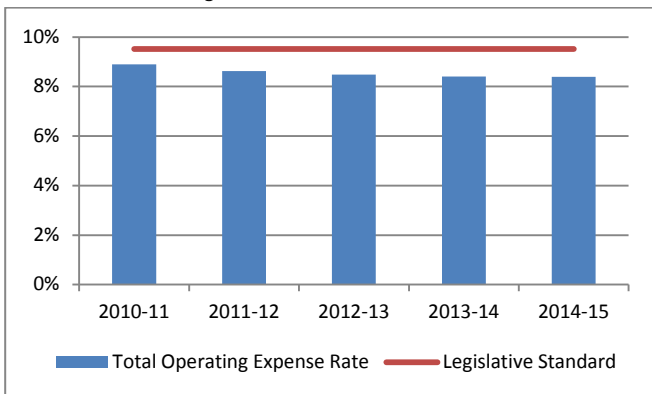
¹⁹ We estimated a range of potential subscription sales revenue (\$1 million to \$11 million, with a median of \$5 million) based on the highest and lowest per capita sales in states that offer subscription sales, which we applied to Florida's estimated population for 2017. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 40.6%, based on the December 2015 Revenue Estimating Conference projected draw game transfer rate for Fiscal Year 2017-18. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

- Continue to regularly assess the effectiveness of its advertising, and if it plans to increase advertising expenditures, evaluate whether the increase will have a net positive effect on returns to the Educational Enhancement Trust Fund.
- Ensure that any future evaluations of advertising returns control for additional factors that have a significant influence on sales, use multiple years of data, and separately evaluate returns from advertising draw games and scratch-off games.

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 1.²⁰ Compared to other U.S. lotteries, the Florida Lottery had the second lowest operating expense rate in Fiscal Year 2013-14, behind Massachusetts.²¹

**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 recently upgraded its website servers to better handle the volume of traffic, improve security, and enable it to expand

²⁰ Operating expenses include payments to gaming vendors and retailer commissions.

²¹ Florida Lottery’s ranking is based on the latest fiscal year data available from La Fleur’s *2015 World Lottery Almanac*.

offerings on the website such as video content. According to Lottery administrators, they paid for the upgrade using liquidated damages related to contracted items a vendor did not deliver.

Lottery administrators continue to enhance processes for protecting players against ticket theft by retailers

As we noted in our 2015 report, all lotteries face the challenge of ensuring public confidence in the integrity of their operations.²² One significant threat to this confidence occurs when retailers or their employees steal winning tickets from players. 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.²³

Theft of winning tickets and ticket brokering are crimes. 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.

The Lottery has continued to implement its 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 ticket self-checkers for players 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.^{24, 25} In 2015, the Lottery further enhanced the program by adding a random retailer inspection component.

²² *Lottery Transfers Continue to Increase; Options Remain to Enhance Revenues and Improve Efficiency*, OPPAGA [Report No. 15-03](#), January 2015.

²³ 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.

²⁴ Lottery staff identify retailers for these operations based on customer complaints and other audit selection criteria.

²⁵ For additional information about the Retailer Integrity Program, see OPPAGA [Report No. 15-03](#), January 2015.

As of December 2015, Lottery administrators reported that they were currently investigating 136 retailers. This represents about 1% of the approximately 13,000 lottery retailers. Between October 15, 2014, and December 9, 2015, the Lottery reported that it terminated the contracts of 60 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 2015, its law enforcement officers made 16 arrests as of December 2015, of which 6 were retailers and 6 were clerks working in a retail location (the 4 non-retailer related arrests included situations such as someone who had stolen a winning ticket from a family member). Also, lottery law enforcement officers assisted other law enforcement agencies with 36 additional arrests that included situations such as burglary, robbery, or internal theft at lottery retailer locations and someone who was impersonating a Lottery sales representative in an effort to steal lottery tickets.²⁶

According to Lottery administrators, they are also continuing to upgrade 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 workload has almost doubled, from 816 investigations in 2013 to 1,594 in 2015.²⁷ Lottery administrators 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. Lottery administrators report that they expect to move to the new case management system in early 2016.

In addition, Lottery administrators believe that their current procurement to replace the gaming system vendor contract will enhance the Retailer Integrity

²⁶ 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.

²⁷ As of December 10, 2015.

Program. The Lottery's 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 enhancements will improve the Lottery's capabilities for identifying and investigating potential ticket theft or brokering by retailers.²⁸ The new vendor also will be required to provide ticket self-checkers for players at additional 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 March 2017, 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 ticket self-checkers for players.

The Lottery has taken steps to analyze returns from advertising but needs additional information to periodically measure net return

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.^{29,30} After controlling for the other factors, advertising explained less than 1% of the variation in Lottery sales. We estimated that the range of the net return to education for an additional \$1.00 of advertising is between \$0.29 and \$1.60; the midpoint is \$0.94. We noted that

²⁸ 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.

²⁹ *Lottery Transfers Have Recovered; Options Remain to Enhance Transfers*, OPPAGA [Report No. 14-06](#), January 2014.

³⁰ 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. To assess Lottery advertising effectiveness, we analyzed the relationship between advertising expenditures and sales over seven years (from July 2006 to June 2013) using department data for its 10 market areas.

experiences in other states suggest that major reductions in Lottery advertising expenditures may result in substantial reductions in sales, and thus may reduce net transfers to the trust fund. In our 2015 report, we recommended that the department develop a schedule to regularly assess its overall advertising return to the Educational Enhancement Trust Fund.³¹

Although the department has taken steps to evaluate its advertising returns, the resulting studies have some limitations. Lottery administrators contracted for a study of the return from advertising expenditures, which they received from their consultants in December 2014. The study estimated that one dollar in advertising generated \$3.72 in transfers to the Educational Enhancement Trust Fund for frequent purchasers and \$4.77 for infrequent purchasers. The consultant's study also included recommendations about approaches that may increase sales among infrequent lottery players.

However, the study did not control for some factors that our previous research found have a significant influence on lottery sales. These factors include retailer density, jackpot size, and seasonality (time of year). In addition, the study was based on only one year of advertising and sales data. Therefore, we would have concerns if the department were to use the study's conclusions to demonstrate that an increase in the Lottery's expenditures for advertising would result in a net increase in returns to the trust fund.

Lottery administrators also told us that they are evaluating returns from advertising by directing their advertising agencies, as of September 1, 2015, to provide a monthly comparison of the advertising spend (expenditures for media buys) and sales of advertised products. Department staff also conduct their own analyses that compare the cost of media buys to sales of the advertised game eight weeks after the beginning of each advertising campaign. Lottery administrators told us that these comparisons are used for management purposes and not intended to account for the factors other than advertising that affect sales, such as jackpot size and retailer density, nor are they intended to calculate the net return to the trust fund after

accounting for all costs, including prize payouts, retailer commissions, advertising production costs, and advertising agency fees.

In addition, Lottery administrators told us that the Lottery's Brand Management Department will meet semi-annually, starting in January 2016, to review advertising returns and effectiveness in the marketplace. To aid in this discussion, they will use the reports produced by the advertising agencies, their internal analyses of advertising campaigns, and studies produced by a contracted research firm, Ipsos Reid, which conducts monthly online tracking surveys to examine Lottery marketplace performance and public awareness of advertising.

We recommend that the Lottery continue to regularly assess the effectiveness of its advertising. In addition, if the Lottery plans to increase advertising expenditures, it should evaluate whether the increase will have a net positive effect on returns to the Educational Enhancement Trust Fund. Any future evaluations should control for additional factors that have a significant influence on sales (including retailer density, jackpot size, seasonality, and market area variation) and be based on multiple years of data on advertising and sales. Also, given that transfer rates are higher for draw games but the Lottery's sales are shifting to the lower profit scratch-off games, any evaluations should separately examine the return from advertising for each of these types of games.

Recommendations

While the department and the Legislature have increased transfers to education, additional 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 ticket self-checkers for players;

³¹ OPPAGA [Report No. 15-03](#), January 2015.

- continue to regularly assess the effectiveness of its advertising, and if it plans to increase advertising expenditures, evaluate whether the increase will have a net positive effect on returns to the Educational Enhancement Trust Fund; and
- ensure that any future evaluations of advertising returns control for additional factors that have a significant influence on sales, use multiple years of data, and separately evaluate returns from advertising draw games and scratch-off games.

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 business analysis that includes 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 C.

Appendix A

New Lottery Game Options

New games that attract new players have the potential to substantially increase revenues to education but could be considered an expansion of gambling. 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, 2016. 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.³² 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>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 \$8 million in transfers to education during the first full year of implementation¹ 	<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
<p>Multi-state Draw Game with a Lifetime Payment Top Prize For \$2, players select 5 numbers from up to 60 and a number for a cash ball or lucky ball, for a top prize that winners can choose to receive in installments over their lifetime</p>	<ul style="list-style-type: none"> ▪ The Lottery estimates this option could generate approximately \$25 million to \$50 million in transfers to education during the first full year of implementation ▪ Multi-state games provide an opportunity for bigger top prizes 	<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, including for life scratch-off games
<p>Expand Daily Numbers Games (Pick 2 and/or Pick 5) Add additional \$1 daily numbers games that provide a variety of odds and prizes</p>	<ul style="list-style-type: none"> ▪ The Lottery estimates this option could generate approximately \$4.2 million in transfers to education during the first full year of implementation ▪ The ease of playing a Pick 2 game might bring in new players who normally do not consider trying a daily game ▪ May create more consistent daily game sales; Lottery administrators report that daily games are not reliant on large jackpots to drive sales 	<ul style="list-style-type: none"> ▪ Could produce shift in sales from other Lottery games, particularly the Cash 3 and Play 4 daily games, as well as Fantasy 5
<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 has experienced significant revenues from higher priced scratch-off tickets; the \$10,000,000 Florida Cash game generated approximately \$52.1 million in transfers for Fiscal Year 2014-15 	<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

³² 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>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 \$107 million per year in additional recurring transfers to education³ ▪ 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.⁴ ▪ Would help the Lottery recruit new retailers in social venues 	<ul style="list-style-type: none"> ▪ May be addictive due to its rapid play style ▪ 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 \$8 million per year in additional recurring transfers to education⁵ 	<ul style="list-style-type: none"> ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor²
<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</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 frequently (s. 24.105(9)(d), <i>F.S.</i>)</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$6 million per year in additional recurring transfers to education⁶ ▪ 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"> ▪ May be addictive due to its rapid play style ▪ Requires legislative budget approval for a new gaming system ▪ Requires careful analysis of impacts on Lottery Revenue Bond rate floor²

¹ We estimated a range of potential All or Nothing transfer revenue (\$2 million to \$19 million, with a median of \$8 million) based on the highest and lowest per capita sales in states that offer All or Nothing sales, which we applied to Florida’s estimated population for 2017. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 40.6%, based on the December 2015 Revenue Estimating Conference projected transfers for Fiscal Year 2017-18 and that 10% of the 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 potential Fast Keno revenue (\$15 million to \$672 million, with a median of \$107 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 2017. 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.

⁴ We identified 16 U.S. lotteries that offer fast keno—California, Delaware, District of Columbia, Georgia, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New York, Ohio, Oregon, Rhode Island, U.S. Virgin Islands, and West Virginia.

⁵ We estimated a range of potential Daily Keno revenue (\$7 million to \$12 million, with a median of \$8 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 2017. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 40.6%, based on the December 2015 Revenue Estimating Conference projected transfers for Fiscal Year 2017-18 and that 5% of the sales would be shifted from existing game sales.

⁶ We estimated a range of potential monitor game revenue (\$5 million to \$147 million, with a median of \$6 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 2017. 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, 2016. 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.³³ 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>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 \$5 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 \$5 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 	<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

³³ 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; players pay a \$1.00 flat fee for each transaction^{3,4}</p> <p>Implementing this option may require statutory changes to</p> <ul style="list-style-type: none"> ▪ 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>) 	<ul style="list-style-type: none"> ▪ A November 2015 impact conference adopted a positive, indeterminate impact estimate for lottery point-of-sale terminals⁵ ▪ 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 ▪ Offering this option at ATMs may help expand the retailer network to non-traditional locations ▪ Purchases can be limited to a certain amount per week⁶ ▪ Can be configured to require verification of age⁷ 	<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 in-store sales were not 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 education⁸ ▪ 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"> ▪ May require legislative budget approval for more terminals, depending on the extent of growth ▪ 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

- ¹ We estimated a range of potential Internet sales revenue (\$440,000 to \$8 million, with a median of \$5 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 2017. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 40.6%, based on the December 2015 Revenue Estimating Conference projected draw game transfer rate for Fiscal Year 2017-18. 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 \$5 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 2017. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 40.6%, based on the December 2015 Revenue Estimating Conference projected draw game transfer rate for Fiscal Year 2017-18. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.
- ³ The Minnesota Lottery originally developed the technology and payment processes needed to implement this option in 2012, but the Minnesota Legislature passed legislation in 2015 to prohibit it. 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. The North Carolina Education Lottery began offering Play at the Pump in 2015 at a limited number of retailers.
- ⁴ To make purchases, players use a debit or credit card and select the option to purchase lottery tickets as part of the transaction for purchasing gas or using an ATM. (The Missouri and North Carolina lotteries only allow use of debit cards but the California Lottery allows either a debit or credit card.) Players pay a flat fee of \$1.00 for each transaction. The lottery purchase shows on the receipt. The lottery automatically credits the account associated with the debit or credit card for prizes under a certain amount (e.g., \$600).
- ⁵ A Florida impact conference in November 2015 considered fiscal impact estimates for lottery point-of-sale terminals ranging from \$500,000 to \$3.2 million in recurring transfers based on the sales experience of North Carolina's use of gas pump point-of-sale terminals in 2015.
- ⁶ The California Lottery limits weekly purchases to \$50, while the North Carolina Education Lottery's weekly limit is \$70 and the Missouri Lottery's weekly limit is \$100.
- ⁷ To verify that a player is at least 18 years of age, the California Lottery requires players to swipe a driver's license or state-issued identification card to make a Play at the Pump purchase. The North Carolina Education Lottery requires players to enter the year of their birth, which the system cross references to the birth date linked to the debit card used for purchase. The Missouri Lottery requires players to enter the last four digits of their social security number and their zip code, which is then verified by a third party provider.
- ⁸ 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 2014-15. 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

RICK SCOTT
Governor



TOM DELACENSERIE
Secretary

January 26, 2016

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

Dear Mr. Twogood:

Thank you for the opportunity to respond formally to your office's draft report: *"Lottery Sales Have Increased; Transfers to the Educational Enhancement Trust Fund Remain Stable."* 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:** We recommend that the Department of the Lottery continue its efforts to expand the retailer network.

Response: The Department agrees with the recommendation and will continue its efforts to expand the retailer network. Planned initiatives will include a net increase in ticket vending machines of approximately 3,000, in order to provide consistent equipment throughout the network and include potential new retailers who require vending machines to accommodate their trade styles.

2. **Recommendation:** We recommend that the Department of the Lottery 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 ticket self-checkers for players.

Response: The Department agrees with the recommendation and, as part of the efforts to protect consumers and the integrity of the games, will continue to improve its data analysis and reporting capabilities, as well as increase the availability of ticket self-checkers for players.

3. **Recommendation:** We recommend that the Department of the Lottery:
 - Continue to regularly assess the effectiveness of its advertising, and if it plans to increase advertising expenditures, evaluate whether the increase will have a net positive effect on returns to the Educational Enhancement Trust Fund; and

Phillip Twogood, Coordinator
Office of Program Policy Analysis and Government Accountability
January 26, 2016
Page 2 of 2

- Ensure that any future evaluations of advertising returns control for additional factors that have a significant influence on sales, use multiple years of data, and separately evaluate returns from advertising draw games and scratch-off games.

Response: The Department will 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. We are proud of our successful initiatives to increase scratch-off game sales, which continue to grow in popularity, industry-wide, as interest in draw games wane. These efforts ensure the amount transferred to the Educational Enhancement Trust Fund is increased and prevent a decline which would otherwise occur.

Sincerely,



Thomas R. Delacenserie
Secretary

TRD/ms

cc: Dan Olson, Chief of Staff
Joan Schoubert, Deputy Secretary – Administration
Tim Hsieh, Chief Financial Officer
Josie Tamayo, General Counsel
Andy Mompeller, Inspector General

This page intentionally left blank

The Florida Legislature
Office of Program Policy Analysis
and Government Accountability



What other OPPAGA-related materials are available?

- [Report No. 15-03](#) *Lottery Transfers Continue to Increase; Options Remain to Enhance Transfers and Improve Efficiency* (January 2015)
- [Report No. 14-06](#) *Lottery Transfers Have Recovered; Options Remain to Enhance Transfers* (January 2014)
- [Report No. 13-02](#) *Lottery Revenue Has Increased Over the Past Year; Options Remain to Enhance Transfers* (January 2013)
- [Report No. 12-05](#) *Recovery Expected in Lottery Revenue; Options Remain to Enhance Transfers* (February 2012)
- [Report No. 11-12](#) *Lottery Profits Decline; Options Available to Enhance Transfers to Education* (March 2011)
- [Report No. 10-17](#) *Lottery Jackpots, Retailer Density, and Advertising Drive Transfers to Education* (January 2010)
- [Report No. 10-16](#) *Lottery Profits Flat; Increasing Retailer Outlets Is Critical to Increasing Sales* (January 2010)
- [Report No. 09-14](#) *Lottery Profits Are Slowing with Economic Downturn; Advertising Services and Retailer Commission Rates Need to Be Addressed* (March 2009)
- [Report No. 08-19](#) *Lottery Profits Continue to Increase; Options Available to Enhance Transfers to Education* (April 2008)
- [Report No. 07-09](#) *Lottery Scratch-Off Sales Increase; Options Available to Enhance Transfers to Education* (February 2007)
- [Report No. 06-04](#) *Florida's Lottery Responding to Revenue, Efficiency, and Minority Retailer Challenges* (January 2006)
- [Report No. 04-80](#) *Lottery Faces Challenges Meeting Future Revenue Demands, Continues Work to Improve Efficiency* (December 2004)
- [Report No. 04-01](#) *Progress Report: Florida Lottery Makes Progress by Implementing Many Justification Review Recommendations* (January 2004)
- [Report No. 02-11](#) *Justification Review: Sale of Lottery Products Program, Department of the Lottery* (February 2002)
- [Report No. 12134](#) *Performance Audit of the Selection of Instant Ticket Retailers Program Administered by the Department of the Lottery* (June 1993)
- [Report No. 12133](#) *Performance Audit of the Selection of On-Line Retailers Administered by the Department of the Lottery* (June 1993)
- [Report No. 11933](#) *Performance Audit of the Personnel Program Administered by the Department of Lottery* (August 1992)
-

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



OPPAGA provides performance and accountability information about Florida government in several ways.

- [Reports](#) deliver program evaluation and policy analysis to assist the Legislature in overseeing government operations, developing policy choices, and making Florida government more efficient and effective.
- [PolicyCasts](#), short narrated slide presentations, provide bottom-line briefings of findings and recommendations for select reports.
- Government Program Summaries (GPS), an online encyclopedia, www.oppaga.state.fl.us/government, provides descriptive, evaluative, and performance information on more than 200 Florida state government programs.
- [PolicyNotes](#), an electronic newsletter, delivers brief announcements of research reports, conferences, and other resources of interest for Florida's policy research and program evaluation community.
- Visit OPPAGA's website at www.oppaga.state.fl.us

OPPAGA supports the Florida Legislature by providing data, 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.

OPPAGA website: www.oppaga.state.fl.us

OPPAGA website: <http://www.oppaga.state.fl.us>

Project supervised by Becky Vickers (850/717-0515)

Project conducted by Mark Frederick (850/717-0505),

Mark West and Rich Woerner

David D. Summers (850/717-0555), Staff Director, Education Policy Area

R. Philip Twogood, Coordinator