



January 2018

Report No. 18-01

Review of the Florida Lottery, 2017

at a glance

Lottery transfers to the Educational Enhancement Trust Fund decreased in Fiscal Year 2016-17 to \$1.656 billion or \$36 million less than the prior year. This decrease is primarily due to lower overall draw game sales and transfers, and appears more significant due to a record setting Powerball jackpot that increased ticket sales for the prior year.

Several additional game and product distribution options are available to further increase transfers to education. However, some options could represent expanded gambling. In addition, the introduction of new games likely would result in shifts in sales from existing games.

The Lottery continues to outperform the legislative performance standard for its operating expense rate, which is second lowest in the nation.

The Lottery should continue its ongoing efforts to protect the integrity of the Lottery by

- improving its capabilities for identifying and investigating potential ticket theft or brokering by retailers; and
- increasing the number of retailer locations with ticket self-checkers and providing a ticket scanning function in its mobile app.

If the Legislature is concerned about the possibility that minors could buy lottery tickets, it could consider directing the Lottery to configure its vending machines to require age verification.

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 funds. For Fiscal Year 2017-18, the Legislature appropriated \$167.4 million from Lottery sales revenue and authorized 418.5 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 2016-17, prizes totaled \$3.997 billion and retailer commissions totaled \$344 million.³ Total ticket sales for this time period

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 revenue enhancement and 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 available on OPPAGA's [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.

were \$6.156 billion, ranking Florida the third 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 75%, or \$125.7 million, of its Fiscal Year 2017-18 appropriation to produce and advertise draw and scratch-off games.⁵ These vendor contracts include those listed below.

- A contract with PP+K, Inc., for general market advertising services, as well as Spanish and Creole language advertising services. This contract expires in October 2021.
- 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. A 2016 contract for a new terminal-based gaming system is under litigation; meanwhile, the Lottery is operating under the existing contract.⁶
- A contract with Scientific Games International to print, market, and distribute scratch-off game tickets. This contract expires in September 2018.

⁴ Florida ranked 11th highest among U.S. lotteries in per capita sales for Fiscal Year 2016-17.

⁵ Of the \$125.7 million, approximately \$86.2 million was allocated to produce draw and scratch-off games and \$39.6 million was allocated to advertising for Fiscal Year 2017-18.

⁶ This contract originally expired in March 2015. However, the terms of the contract have been continued through extension and emergency agreement.

⁷ The Lottery's legislatively approved performance standards are

Revenue Performance —

In Fiscal Year 2016-17, Lottery sales increased to \$6.156 billion compared to the prior year's sales of \$6.063 billion (an increase of \$94.1 million). The increase was primarily due to higher sales of scratch-off games. Draw game sales decreased by \$195 million, but scratch-off game sales increased by \$289 million.

The trend in Lottery transfers to the Educational Enhancement Trust Fund is generally positive, but declined from Fiscal Year 2015-16 to Fiscal Year 2016-17. Lottery transfers for Fiscal Year 2016-17 were \$1.656 billion, or \$36 million (2.1%) less than the prior year. However, Fiscal Year 2016-17 transfers exceeded Fiscal Year 2014-15 transfers of \$1.496 billion by \$160 million. (See Exhibit 1.) Transfers for Fiscal Year 2016-17 exceeded the legislative standard of \$1.206 billion and the Lottery's internal objective of transferring \$1.508 billion to the Educational Enhancement Trust Fund.⁷

The decline in transfers from Fiscal Year 2015-16 to Fiscal Year 2016-17 is primarily due to two factors. First, draw game transfers decreased by \$93.9 million due to a decline 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. This phenomenon was demonstrated in Fiscal Year 2015-16, when a record-setting Powerball jackpot led to higher draw game ticket sales and transfers as the jackpot grew to almost \$1.6 billion.⁸ The jackpot sizes in Fiscal Year 2016-17 were not as large,

reported in its long-range program plan—*Long Range Program Plan Fiscal Years 2018-19 through 2022-23*, Florida Lottery, September 29, 2017.

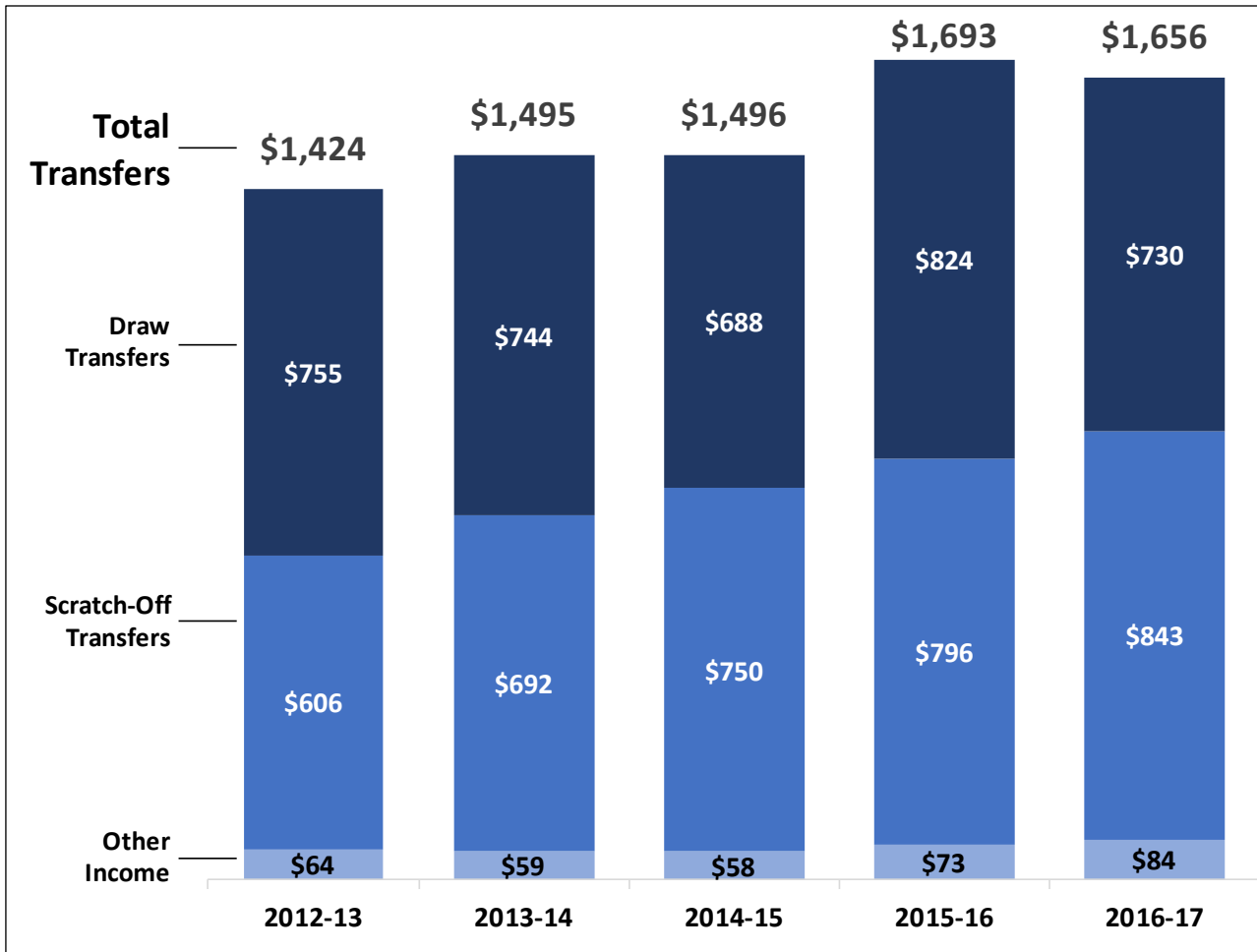
⁸ In January 2016, Florida's 11th Powerball jackpot winner was one of three nationally to win the record-setting \$1.59 billion jackpot. This series of 19 Powerball jackpot rollovers began November 7, 2015. The series of rollovers generated more than \$117.1 million for education in Florida and \$14.4 million in retailer commissions and bonuses, and created 5.4 million winning Florida tickets totaling more than \$58.8 million in prizes, including 18 new millionaires.

and thus draw game sales and transfers were not as high. Second, even though scratch-off sales increased substantially, the transfer rate

(profit margin) for scratch-off games is about half of the rate for draw games.⁹

Exhibit 1

Fiscal Year 2016-17 Transfers Declined After Record Draw Game Transfers in Fiscal Year 2015-16



Source: Lottery financial statements.

Revenue Enhancement —

The Lottery continues to take steps to increase its sales and transfers to the Educational Enhancement Trust Fund. For instance, the Lottery increased its sales by enhancing its existing product mix. To further increase sales and transfers, the Lottery could implement new

games, introduce new ways of selling tickets, or increase its retailer network. However, some of these options could represent an expansion of legalized gambling and could produce negative social costs.^{10, 11}

We have identified several options to enhance lottery revenues based on game and product distribution methods that other U.S. lotteries

⁹ Lottery administrators reported that although scratch-off games have a lower profit margin than draw games, a substantial increase in scratch-off sales over the past seven years has led to steady growth in transfers.

¹⁰ For more information on 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.

have implemented. For more information, Appendix A details additional new game options and Appendix B lists additional product distribution options, along with their advantages and disadvantages. As noted in the appendices, several of the options would require legislative authority to implement.

The fiscal impact estimates in the appendices assume lottery customers and retailers would be educated and ready to play as soon as new games or product distribution options were made available. These estimates also assume that Florida’s sales experience would be similar to that of other U.S. lotteries. However, Florida’s sales experience may differ depending on a variety of factors including how the Florida Lottery implements the option. The revenue estimates also assume that some of the sales from new games or product distribution options would be the result of shifts from existing game sales.

For the 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 the revenue sharing terms of the compact.

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

The Lottery increased its sales by enhancing its product mix. For example, on February 17, 2017, the Lottery began to sell Cash4Life, a regional multi-state draw game that offers two lifetime prizes—a top prize of \$1,000 a day for life or a second prize of \$1,000 a week for life. Lottery officials reported \$28.8 million in sales of Cash4Life during Fiscal Year 2016-17, resulting in approximately \$11.7 million in transfers.

The Lottery also continued to increase sales and transfers from scratch-off games. For example, the Lottery launched the Gold Rush Doubler (\$20) scratch-off game in September 2016 and the World Class Cash (\$25) scratch-off game in February 2017. Each game achieved average weekly sales of approximately \$15 million during the first 12 weeks. The Lottery also reintroduced the Gold Rush brand as a family suite of games in January 2017. The Lottery reports that these games, launched at the \$1, \$2, \$5, and \$10 price points, accounted for over \$329 million in sales and approximately \$61 million in transfers.

In addition, on September 1, 2017, the Lottery reintroduced an instant-win terminal-based game, now commonly referred to as fast play.¹³ The new game (Cornhole Cash) is a \$2 instant game that prints on demand from a retailer’s lottery terminal. Players add up points based on the game displayed on the ticket to immediately determine if they have scored sufficient points to win the corresponding prize shown on the ticket. Lottery officials reported that in Fiscal Year 2017-18, they plan to offer another \$2 fast play game in the first half of the year and two games (\$1 and \$2) in the second half. The department estimates that it will achieve fast play sales of \$22.9 million and approximately \$6.1 million in transfers to the Educational Enhancement Trust Fund during Fiscal Year 2017-18.

New lottery games could generate additional revenues

To maintain and increase sales, lotteries need to continually review and refresh their product mix. The Legislature and the Lottery could consider adding one or more new games, such as draw games that offer different play styles, as the Lottery retires games that have peaked in popularity and are in a period of declining sales. One example of a new game is All or Nothing,

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 The Lottery offered Lucky Lines, a multi-priced instant-win terminal-based game between October 2010 and May 2013.

with drawings held multiple times per day. We identified six state lotteries that currently offer an 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. We estimate that implementing the All or Nothing game could generate approximately \$7 million in additional transfers during the first full year of implementation.¹⁴

Another option is to reintroduce a higher price point scratch-off ticket.¹⁵ Currently, the Lottery offers \$1, \$2, \$3, \$5, \$10, \$20, and \$25 price points. We identified 13 U.S. lotteries that currently offer a \$30 scratch-off ticket.¹⁶ For example, the California Lottery commemorated its 30th anniversary in 2015 with a \$30 scratch-off ticket, achieving average weekly sales of \$13.4 million during the first 12 weeks.

Lottery administrators reported that they are planning to replace the current \$25 scratch-off games with a \$30 scratch-off game to commemorate the Florida Lottery’s 30th anniversary in February 2018. The Lottery’s market research firm conducted focus group interviews with scratch-off players in September 2016 and found that participants liked the idea of a \$30 ticket for the Lottery’s 30th anniversary, and would be interested in purchasing the ticket. The Lottery estimates that the 30th anniversary ticket

will generate a net increase of \$31.3 million in sales and \$5.8 million in transfers in Fiscal Year 2017-18 when compared to \$25 ticket sales and transfers from the prior year.

Other states use additional product distribution methods

The Legislature and the Lottery could consider expanding product distribution. 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.

We identified nine U.S. lotteries that sell lottery products over the internet via their websites. The product mix they offer online varies, including subscriptions to game drawings for up to one year in advance, tickets for single drawings of draw games, and/or instant games.

- The New Hampshire, New York, and Virginia lotteries sell subscriptions for draw games on their websites. For instance, the New Hampshire lottery’s website offers 3-, 6-, and 12-month subscriptions to Lucky for Life, Mega Millions, Powerball, and Tri-State Megabucks.
- The Illinois, North Carolina, and North Dakota lotteries’ websites offer both subscriptions for draw games and tickets for a single drawing. For example, the Illinois Lottery website allows players to purchase preset 13-week, 26-week, or 52-week subscriptions, with the option to renew, for Powerball, Mega Millions, Lotto, and Lucky Day Lotto. The website offers other subscription options, such as Lucky

¹⁴ We estimated a range of potential All or Nothing transfer revenue (\$4 million to \$10 million, with a median of \$7 million) based on the highest and lowest per capita sales in states that offer All or Nothing, which we applied to Florida’s estimated population for 2018. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 41.30%, based on the August 2017 Revenue Estimating Conference projected transfers for Fiscal Year 2018-19 and that 10% of the sales would be shifted from existing game sales.

¹⁵ The Lottery offered a \$30 scratch-off game (\$600 Million High Roller) in January 2008.

¹⁶ Lotteries in California, Connecticut, Georgia, Illinois, Massachusetts, Michigan, Missouri, New Jersey, North Carolina, Ohio, Pennsylvania, West Virginia, and Wisconsin offer \$30 scratch-off games.

Day Lotto subscriptions from 1 week to 12 weeks. In addition, the website allows players to choose customized subscriptions for Mega Millions, Powerball, and Lotto for a single drawing and up to 25 consecutive drawings.

- The Georgia, Kentucky, and Michigan lotteries’ websites sell tickets for single drawings of draw games and instant games.¹⁷ For example, the Georgia Lottery offers individual tickets for Fantasy 5, Keno!, Mega Millions, and Powerball, as well as instant games that can be played online.

Lotteries that sell products over the internet require that players be at least 18 years of age and located within the state when making a lottery purchase.¹⁸ Based on the experience of other states, we estimated the potential revenue from implementing internet sales in Florida is approximately \$4 million in additional transfers per year.¹⁹

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.²⁰ 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.

Increasing the retailer network could also increase revenues

Another option to increase sales is for the Lottery to increase its retailer network. In Fiscal Year 2015-16, the top two southeast U.S. lotteries ranked by per capita sales—Georgia and South Carolina—had an average of 1,229 residents per retailer.²¹ The two states had higher per capita sales (\$412 and \$323, respectively) than Florida (\$294). During that period, the Florida Lottery averaged 1,518 residents per retailer. Adding 3,198 new retailers to Florida’s retailer network would meet the Georgia and South Carolina lotteries’ market penetration and has the potential to generate about \$79 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.²²

The Lottery’s Long-Range Program Plan for Fiscal Years 2018-19 through 2022-23 recognizes that there is an opportunity to expand the retailer network, particularly among underrepresented minorities. However, the number of retailers in the network has remained relatively flat, from

existing game sales per the Florida Lottery.

¹⁷ 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.

¹⁸ To verify players are of legal age to purchase lottery tickets, lotteries use methods such as age-verification and identity-verification technology to assess information players provide to pre-register on the lottery website. To verify players are located within the state when making a purchase, lotteries often use geo-location technology.

¹⁹ We estimated a range of potential internet transfer revenue (\$480,000 to \$203 million, with a median of \$4 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 2019. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 25.39%, based on the August 2017 Revenue Estimating Conference draw game and scratch-off projected transfers for Fiscal Year 2019-20. The estimate also assumes that 5% of sales would be shifted from

²⁰ 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.

²¹ For this analysis, we analyzed data for five southeastern states with lotteries—Georgia, Kentucky, North Carolina, South Carolina, and Tennessee (Alabama and Mississippi do not have lotteries). We compared the Florida Lottery’s per capita sales to all five lotteries. However, data was not available for the Tennessee Lottery’s retailer-to-population ratio, so for this measure, we compared the Florida Lottery’s performance to the four remaining states.

²² We estimated potential transfer revenues from expanding the retailer network by assuming that new retailers would achieve at least the average weekly gross sales new retailers achieved in Fiscal Year 2016-17. The estimate assumes all new retailer terminals are active for a full year and that 20% of their sales would be shifted from existing retailers.

13,073 as of June 30, 2016, to 13,059 as of June 30, 2017. During this period, Lottery administrators reported a 3.5% increase in corporate retailers but a 2.3% decline in independent retailers, reflecting a shift in the market from independent retailers to corporate retailers. They reported that this shift might be attributed to high volume corporate retailer chains opening new locations and displacing smaller, independent retailers in some areas.

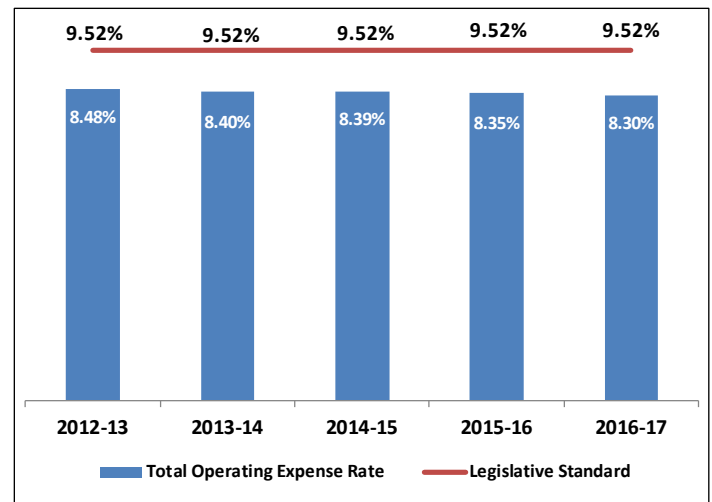
Operations

The Lottery continues to keep its expenses as a percentage of sales low and below the legislative standard. However, the Lottery could take additional steps to prevent the sale of lottery tickets to minors and should continue its ongoing efforts to enhance processes for protecting players against ticket theft by retailers.

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.²³ (See Exhibit 2.) Compared to other U.S. lotteries, the Florida Lottery had the second lowest operating expense rate in Fiscal Year 2015-16, behind Massachusetts.²⁴ According to department administrators, a primary reason for the low operating expense rate is that the department maintained stable operating expenses while ticket sales increased.

Exhibit 2 The Lottery's Operating Expense Rate Continues to Be Below the Legislative Standard



Source: Department of the Lottery long range program plans.

The Lottery could take additional steps to prevent the sale of lottery tickets to minors

Florida law prohibits any person from knowingly selling a lottery ticket to a minor.²⁵ Statutes also require the department to supervise and administer the operation of the lottery in accordance with provisions of law and rules.²⁶ As such, Lottery rules specify that selling a lottery ticket to a minor is grounds to suspend and terminate a retailer's contract.²⁷

Consistent with statutes and the department's rules, the Lottery's standard retailer contract states that the retailer shall not sell lottery tickets to anyone under the age of 18 and requires the retailer to establish safeguards as necessary to ensure such a sale does not occur. The Lottery's standard retailer contract for vending machines stipulates that vending machines shall be in direct line-of-sight of store personnel. If a person under the age of 18 attempts to purchase lottery

²³ Operating expenses include payments to gaming vendors and retailer commissions.

²⁴ Florida Lottery's ranking is based on the latest fiscal year data available from La Fleur's *2017 World Lottery Almanac*. Operating expense rates include administrative expenses, payments to gaming vendors, and retailer commissions.

²⁵ Section [24.117](#), *F.S.*, provides that any person who knowingly sells a

state lottery ticket to a minor is guilty of a misdemeanor of the first degree, punishable as provided in ss. [775.082](#) or [775.083](#), *F.S.*

²⁶ Section [24.105\(2\)](#), *F.S.*, requires the department to supervise and administer the operation of the lottery in accordance with the provisions of this act and rules adopted pursuant thereto.

²⁷ Rule [53ER07-15](#), *Florida Administrative Code*.

tickets from a vending machine, store personnel are required to deactivate the machine.²⁸

There is a lack of recent data on the extent to which minors buy lottery tickets in Florida. The most recent state prevalence study on the issue was published in 2002.²⁹ Although this report is dated, it does provide some information on the potential extent of underage lottery purchases. The 2002 study found that 18.5% of the 1,051 Florida adolescents surveyed reported purchasing lottery tickets in their lifetime, and 12.5% within the past year. More recently, in 2016, there were news reports and video allegedly showing that Florida retailers did not always disable vending machines when minors actively attempted to purchase lottery tickets.

Lottery officials cited statistics showing that during the last six years, the Lottery conducted 9,782 investigations and of these, only 13 were for underage sales. These 13 cases were based on eight complaints and five referrals from the Florida Department of Business and Professional Regulation (DBPR), Division of Alcoholic Beverages and Tobacco (which conducts underage sting operations for alcoholic beverages and tobacco). Of these 13 cases, the Lottery reported three arrests and one retailer contract termination for underage sales. However, the Department of the Lottery acknowledges that 13 cases resulting from complaints and referrals might not be a reliable measure of the incidence of underage sales.

The Lottery currently relies on preventative measures, but plans to implement additional efforts to address underage sales. To help prevent sales of lottery tickets to minors both at the counter and through vending machines, Lottery officials reported that they rely on retailer training, messaging, placing vending machines in line-of-sight of sales clerks, inspections, and investigating any complaints. For example, in 2017, the Lottery created a new retailer security

awareness and integrity training program, and requires all new retailers and all retailers renewing their contracts to participate in the training. The Lottery reminds retailers of their legal obligation to prevent the sale of lottery tickets to minors through its website, articles in its newsletter, weekly messages to retailers, and an educational flyer provided to retailers in October 2017 with new orders of scratch-off tickets. The Lottery also uses signs on vending machines and sales terminals stating customers must be 18 or older to play. To help ensure line-of-sight to vending machines, Lottery sales representatives and retailers agree on proper placement of vending machines, and the Lottery's sales representatives and security officers are supposed to check vending machine location upon each visit. We reviewed the inspection checklist security officers use when they visit a retailer and identified items to verify that vending machines are in employees' direct line-of-sight and that the machines have the required signage regarding the prohibition of the sale of lottery tickets to persons under 18.

Florida Lottery officials stated that they recognize underage sales to be an important issue, and they have developed a plan to implement additional efforts in the future to prevent sales to minors. They will continue their emphasis on educating retailers, such as requiring new and existing retailers to participate in the new security awareness and integrity training program. Once they have ensured that retailers are educated as to their responsibilities, the department plans to increase the frequency of compliance inspections at retailer locations. As a last step, department officials stated that they intend to conduct underage sting operations, potentially in partnership with the Division of Alcoholic Beverages and Tobacco. The two agencies have a Memorandum of Understanding

²⁸ Section [24.112\(15\)](#), *F. S.*, provides that the vending machine must be capable of being electronically deactivated for a period of five minutes or more. In order to be authorized to use a vending machine to dispense lottery tickets, a retailer must locate the vending machine in the retailer's direct line of sight to ensure that purchases are only made by persons at least 18 years of age. The retailer must ensure that at least one employee is on duty when the

vending machine is available for use.

²⁹ [Gambling and Problem Gambling Prevalence Among Adolescents in Florida](#), a report to the Florida Council on Compulsive Gambling, Inc., University of Florida, December 2002.

and already partner in conducting some of their retailer investigations.

The Florida Lottery could expand the methods it uses to prevent sales to minors, similar to those used in other states. We contacted 16 state lotteries to determine how they enforce prohibitions against underage sales. Although most of these lotteries use methods similar to those used by the Florida Lottery, six reported that they also configure their vending machines to verify the player's age prior to making a purchase. Age verification technology reads a driver's license or state identification card to determine the player's age. Six state lotteries we contacted are deploying age verification technology on their vending machines, but in different ways.³⁰

For example, the North Carolina Education Lottery has configured all of its lottery vending machines to verify age, although retailers can choose to turn off the verification function and rely only on line-of-sight. The Illinois Lottery uses age verification technology on vending machines in high traffic areas that make it difficult for retailer employees to monitor a machine, and/or remote cameras that retailer staff can monitor from a private office and deactivate a vending machine to prevent a sale. In Louisiana, retailers can choose whether they want age verification technology installed on vending machines in their stores.

Florida Lottery officials mentioned concerns that the card readers may not be able to read all identification cards. The North Carolina Education Lottery has addressed this issue by enabling store personnel to disable age verification if a player is having difficulty scanning an identification card. In addition, when vending machines are installed in stores that also offer counter sales, a player with an identification card that cannot be scanned by a vending machine can instead make a purchase from a clerk. Florida Lottery administrators

expressed concern that clerks would over-rely on the technology and not be as diligent about monitoring the machines for underage players.

The Legislature could consider requiring age verification on vending machines to further prevent underage lottery sales. If the Legislature is concerned about the possibility that minors could purchase lottery tickets from vending machines, it could consider requiring the department to configure all of its vending machines to require age verification. Alternatively, it could require use of this technology in high traffic or other targeted areas. The Lottery would incur some expense in reconfiguring its 2,500 vending machines since they currently do not have such technology. However, if directed by the Legislature, the Lottery could require age verification as part of any new procurement of vending machines.

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.³¹ 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.³²

³⁰ These states are Illinois, Louisiana, Massachusetts, New York, North Carolina, and Virginia.

³¹ *Lottery Transfers Continue to Increase; Options Remain to Enhance Revenues and Improve Efficiency*, OPPAGA [Report No. 15-03](#), January 2015.

³² 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 (s. [24.115\(4\)](#), F.S.).

Theft of winning tickets and ticket brokering are crimes.^{33, 34} 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, which includes several components intended to address potential illegal retailer behavior. These components include analyzing data to identify suspicious patterns of behavior, following up on customer complaints, conducting operations to identify retailers/clerks who steal winning tickets, and providing ticket self-checkers for players at approximately 8,700 of its 13,000 retailer locations so that players can determine for themselves whether a ticket is a winner and how much they have won.^{35, 36}

During Fiscal Year 2016-17, the Lottery conducted 510 retailer compliance operations, opened 2,019 criminal investigations, and closed 1,916. The Lottery also conducted 410 player reviews, which focused on players with suspicious patterns of wins based on a review of claimant data. These activities resulted in the department terminating 71 retailer contracts during 2016-17.

In addition, according to Lottery officials, if Lottery staff substantiates that someone is stealing winning tickets or acting as a ticket broker, the department pursues an arrest. The Lottery reports that during Fiscal Year 2016-17, its law enforcement officers made 34 arrests, of which 19 were clerks working in a retail location, 9 were players, 5 were retailers, and 1 was the wife of a

retailer. The individuals arrested were charged with offenses that included grand theft, conspiracy to commit fraud, and false claims. Lottery law enforcement officers also assisted other law enforcement agencies with 46 additional arrests that included a wide variety of charges such as robbery, grand theft, burglary, homicide, racketeering, forgery, fraud, and running a gambling house.³⁷

According to Lottery administrators, they are also continuing to pursue upgrading their investigations case management system by participating in a new system in collaboration with other state law enforcement agencies; the Department of Highway Safety and Motor Vehicles (DHSMV) is the lead agency for implementing the case management system. Lottery administrators intend for the upgrade to improve their efficiency in handling the investigation caseload and enhance their analytical capabilities.³⁸ They report that they have experienced some delays in their implementation schedule, but anticipate starting to use the new system by January 1, 2018. DHSMV reports that the delays were primarily due to technical issues such as making a final decision on how to integrate and operationalize the Lottery's access to the case management system and ensuring that the Lottery's mobile devices meet authentication security requirements.

In addition, Lottery officials reported that they plan to make improvements to the department's capabilities for identifying and investigating potential ticket theft or brokering by retailers. Currently, Lottery personnel make multiple data

³³ 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.*

³⁴ Ticket brokering violates s. [24.118\(2\)](#), *F.S.*, and is a first degree misdemeanor.

³⁵ Lottery staff identifies retailers for these operations based on customer complaints and other audit selection criteria.

³⁶ For additional information about the Retailer Integrity Program, see OPPAGA [Report No. 15-03](#), January 2015.

³⁷ 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.

³⁸ 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.

queries when analyzing data to identify potential problems in retailer behavior.³⁹ The department intends to improve this process by conducting analysis monthly rather than every several months so that there is less data to process each time. The Lottery has also started to analyze retailer sales data to identify abnormal patterns in the types of games sold. Moreover, the Lottery recently installed ticket self-checkers for players at 1,613 retailer locations, increasing the portion of retailers with this technology from approximately one-half to two-thirds (8,689 of the approximately 13,000 lottery retailers, or 67%).

The Lottery also intends to make further improvements in the future. These include enhanced capabilities to proactively analyze data and alert the Lottery of potentially problematic behavior and additional ticket self-checkers for more retailer locations and a ticket scanning function in the Lottery mobile app.

The Lottery should continue its ongoing 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 and provide a ticket scanning function in its mobile app so that players can more easily determine for themselves whether a ticket is a winner.

Options

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

The Department of the Lottery should continue its ongoing efforts to protect the integrity of the Florida Lottery by

- improving its data analysis and reporting capabilities for identifying and investigating potential ticket theft or brokering by retailers; and
- increasing the number of retailer locations with ticket self-checkers and providing a ticket scanning function in its mobile app so that players can more easily determine for themselves whether a ticket is a winner.

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 revenue sharing terms of the gaming compact with the Seminole Tribe of Florida.

If the Legislature is concerned about the possibility that minors could purchase lottery tickets, it could consider requiring the department to configure all of its vending machines to require age verification or only requiring use of this technology in high traffic or other targeted areas.

Agency Response

In accordance with the provisions of s. 11.51(2), *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of the Lottery for review and response. We also provided a copy to the Secretary of the Department of Business and Professional Regulation for review. The Lottery's written response to this report is in Appendix C.

³⁹ For instance, department employees currently conduct individual data queries to identify frequent winners and determine whether

these winners are retailers. Staff also separately checks whether retailers they are investigating have been the subject of customer complaints.

Appendix A

New Lottery Game Options

New games that attract new players have the potential to 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. Some of the sales from new games would be the result of sales shifts from existing games; our estimates include a component to address sales shift. However, 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 because their rapid play style may be more addictive than other types of games. In addition, implementing games with a high prize payout, such as higher priced scratch-off games, would require careful analysis of the Lottery Revenue Bond rate floor, as transfers to the Educational Enhancement Trust Fund need to meet or exceed the transfer rates specified in the bond covenants.⁴⁰ Estimates of annual revenue assume full implementation by July 1, 2018. 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.⁴¹ If the Lottery were to implement a new option, it would need to determine whether the implementation would have any potential impact on the revenue sharing terms of the compact.

Exhibit A-1

New Games Have the Potential to Increase Revenues to Education but Could Be Considered an Expansion of Gambling

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 day¹</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$7 million in transfers to education during the first full year of implementation² 	<ul style="list-style-type: none"> ▪ May have a limited life cycle after which sales decline
<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"> ▪ The Lottery has experienced significant revenues from higher priced scratch-off tickets; for example, \$20 and \$25 games generated approximately \$320.5 million in transfers for Fiscal Year 2016-17 ▪ The Lottery estimates additional transfers of \$5.8 million in Fiscal Year 2017-18 from sales of a \$30 scratch-off game when compared to prior year sales of \$25 games 	<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

⁴⁰ 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. For revenue bonds sold in 2016, the Division of Bond Finance guarantees that transfers will not be reduced below 38% of gross revenue from sales and other earnings, excluding application processing fees, except upon written certification of a lottery consultant that the amounts deposited into the trust fund will not be less than the amounts projected for each of the next three fiscal years as determined by the Consensus Estimating Conference’s estimate of deposits at the 38% rate.

⁴¹ 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 with the hope of matching their choices to 20 numbers drawn by the central computer at Lottery headquarters; it 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 numbers³</p> <p>Implementing this option may require legislative budget approval for additional gaming system equipment and legislative action to modify the requirements for a drawing to be public, witnessed by an accountant, and include inspecting the drawing equipment before and after each drawing, given that electronic drawings could occur every four to five minutes (s. 24.105(9)(d), F.S.)</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$108 million per year in additional recurring transfers to education⁴ ▪ 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 ▪ 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 ▪ Could be considered an expansion of gambling ▪ Sales are dependent on new retailer participation
<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 education⁵ 	<ul style="list-style-type: none"> ▪ Could be considered an expansion of gambling ▪ May have a limited life cycle after which sales decline
<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 budget approval for additional gaming system equipment and legislative action to modify the requirements for a drawing to be public, witnessed by an accountant, and include inspecting the drawing equipment before and after each drawing, given that electronic drawings could occur frequently (s. 24.105(9)(d), F.S.)</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 ▪ Could be considered an expansion of gambling

¹ We identified six state lotteries that currently offer an All or Nothing game—Arizona, Georgia, Iowa, Minnesota, North Carolina, and Texas.

² We estimated a range of potential All or Nothing transfer revenue (\$4 million to \$10 million, with a median of \$7 million) based on the highest and lowest per capita sales in states that offer All or Nothing, which we applied to Florida’s estimated population for 2018. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 41.30%, based on the August 2017 Revenue Estimating Conference projected transfers for Fiscal Year 2018-19 and that 10% of the sales would be shifted from existing game sales.

³ We identified 19 U.S. lotteries that offer Fast Keno—California, Connecticut, Delaware, District of Columbia, Georgia, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Jersey, New York, North Carolina, Ohio, Oregon, Rhode Island, U.S. Virgin Islands, and West Virginia.

⁴ We estimated a range of potential Fast Keno transfer revenue (\$13 million to \$767 million, with a median of \$108 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 2019. 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.

⁵ We estimated a range of Daily Keno transfer revenue (\$7 million to \$23 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 2018. The estimate assumes a draw game transfer rate to the Educational Enhancement Trust Fund of 41.30%, based on the August 2017 Revenue Estimating Conference projected transfers for Fiscal Year 2018-19 and that 5% of the sales would be shifted from existing game sales.

⁶ We estimated a range of potential monitor game transfer revenue (\$2 million to \$160 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 2019. 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 increase revenues to education. For example, authorizing product distribution through the internet and increasing the number of retailers have the potential to increase revenues by making lottery products more readily available to players. 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, 2018. However, some options would likely require additional time to implement. In addition, some new product distribution options could affect revenues from the gaming compact between the State of Florida and the Seminole Tribe of Florida.⁴² If the Lottery were to implement a new option, it would need to determine whether the implementation would have any potential impact on the revenue sharing terms of the compact.

Exhibit B-1

Expanding Product Distribution Has the Potential to Increase Revenues to Education but Could Be Considered an Expansion of Gambling

Option	Advantages	Disadvantages
<p>Internet Sales</p> <p>Would authorize intrastate internet sales of lottery products and allow players to purchase individual draw games, instant games, and/or 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 check¹</p> <p>Implementing this option would require statutory changes to allow player-activated terminals (s. 24.105, F.S.) 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, F.S.)</p> <p>Implementing this option also would require legislative budget approval for enhanced systems and technology</p>	<ul style="list-style-type: none"> ▪ Could generate approximately \$4 million per year in additional recurring transfers to education² ▪ Provides more convenience to players who prefer to purchase their lottery products from their personal computer or cellular device ▪ The Lottery would receive revenues from subscription sales in advance of drawings ▪ Key benefits for the consumers are no missed draws, no waiting in lines, and ease of prize claims 	<ul style="list-style-type: none"> ▪ Could be considered an expansion of gambling ▪ 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 ▪ As has happened in other states, current lottery 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 ▪ Game changes after subscription tickets are purchased would require communication with players and possibly a replacement ticket ▪ Could reduce unclaimed prize funds, as prizes may be automatically credited to players

⁴² 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; most lotteries with this option charge players a \$1.00 flat fee for each transaction, which is for the vendor that provides the technology that enables play at the pump purchases^{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, F.S.) ▪ 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, F.S.) ▪ modify the definition of and requirements for lottery retailers (ss. 24.103 and 24.112, F.S.) ▪ modify the definition of and requirements for lottery vending machines (s. 24.112, F.S.) ▪ address the prohibition against selling lottery tickets at anything other than the price set by the Lottery (s. 24.117, F.S.) 	<ul style="list-style-type: none"> ▪ Could generate approximately \$520,000 per year in additional recurring transfers to education⁵ ▪ 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>Increase 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

¹ We identified nine U.S. lotteries that sell lottery products over the internet via their websites—Georgia, Illinois, Kentucky, Michigan, New Hampshire, New York, North Carolina, North Dakota, and Virginia.

² We estimated a range of potential internet transfer revenue (\$480,000 to \$203 million, with a median of \$4 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 2019. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 25.39%, based on the December 2016 Revenue Estimating Conference draw game and scratch-off game projected transfers for Fiscal Year 2019-20. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

³ We identified six state lotteries that offer Play at the Pump—California, Missouri, New Mexico, New York, North Carolina, and Pennsylvania.

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. For example, the Missouri, New Mexico, and North Carolina lotteries only allow use of debit cards but the California and Pennsylvania lotteries allow 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 We estimated a range of potential Play at the Pump transfer revenue (\$300,000 million to \$1.2 million, with a median of \$520,000) based on the highest and lowest per location sales in states that offer Play at the Pump sales, which we applied to having 500 locations in Florida. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 41.32%, based on the August 2017 Revenue Estimating Conference projected transfers for Fiscal Year 2019-20. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

⁶ Lotteries place limits on purchases. For example, the California and Pennsylvania lotteries limit Play at the Pump weekly purchases to \$50, while the North Carolina Education Lottery’s weekly limit is \$70, the New Mexico Lottery’s weekly limit is \$75, and the Missouri Lottery’s weekly limit is \$100.

⁷ Lotteries use different methods to verify age. For example, 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. The Pennsylvania Lottery requires players to push a button to self-certify that they are of age before the transaction will continue.

⁸ We estimated potential transfer 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 2016-17. 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



JIM POPPELL
Secretary

December 22, 2017

R. Philip Twogood, Coordinator
The Florida Legislature’s Office of Program
Policy Analysis and Government Accountability
111 West Madison Street, Room 312
Tallahassee, FL 23299-1475

Dear Mr. Twogood:

Thank you for the opportunity to formally respond to your office’s draft report: *“Review of the Florida Lottery, 2017”* (the “Report”). 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 will take your recommendations under consideration. The Department’s responses to the options identified in the Report are as follows:

1. Option: The Department of the Lottery should continue its ongoing efforts to protect the integrity of the Lottery by improving its capabilities for identifying and investigating potential ticket theft or brokering by retailers.

Response: Maintaining the security and integrity of Lottery operations is critical to our continued success, and identifying and investigating potential ticket theft or brokering by retailers are fundamental to ensuring the Lottery continues to operate in a manner consistent with Florida law. In response to this option the Department will continue to conduct data collection and analytics, engage in proactive predictive modeling, and identify and implement investigative process improvements.

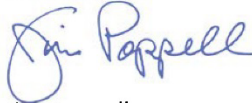
2. Option: The Department of the Lottery should continue its ongoing efforts to protect the integrity of the Lottery by increasing the number of retailer locations with ticket self-checkers and providing a ticket scanning function in its mobile app.

Response: This option aligns with our values of using resources wisely and exceeding our customer’s expectations. The Department will continue to pursue opportunities to both increase the number of retailer locations with ticket self-checkers, and change the Lottery’s mobile application to include ticket scanning capability so that players can more easily determine for themselves whether a Lottery ticket is a winner.

Mr. Philip Twogood
Page 2
December 22, 2017

Again, we would like to thank you and your staff for your diligent efforts to help us maintain the security and integrity of the Florida Lottery, and identify opportunities for improving the operations of the Department. These efforts are valuable in ensuring the Educational Enhancement Trust Fund continues to benefit from significant financial contributions to Florida education.

Sincerely,

A handwritten signature in blue ink that reads "Jim Poppell". The signature is written in a cursive style with a large initial "J".

Jim Poppell
Secretary

cc: David Mica, Jr., Chief of Staff
Anthony Garcia, Deputy Secretary
Sharon Bradford, Chief Financial Officer
David Guerrieri, General Counsel
Andy Mompeller, Inspector General

This page intentionally left blank

This page intentionally left blank

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.
- 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

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

Project conducted by Mark Frederick

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

R. Philip Twogood, Coordinator