

# Review of the Florida Lottery, 2018

Report No. 19-03

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# OPPAGA

Office of Program Policy Analysis and Government Accountability

## Review of the Florida Lottery, 2018

### EXECUTIVE SUMMARY

Lottery transfers to the Educational Enhancement Trust Fund increased in Fiscal Year 2017-18 to \$1.758 billion, or \$102 million more than the prior year. This increase is primarily due to higher scratch-off game transfers as well as higher Powerball and Mega Millions draw game transfers.

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

The Department of the Lottery continues to outperform the legislative performance standard for its operating expense rate, which is the second lowest in the nation. The department maintains a comprehensive product mix by regularly adding new games, enhancing existing games, and retiring games. In addition, the Florida Lottery recently received the North American Association of State and Provincial Lotteries and the National Council on Problem Gambling certification for implementing a responsible gaming program.

However, department operations could be further enhanced. Although the department has multiple layers of security to ensure the integrity of lottery games, it should include an evaluation of its security measures for fast play games in the scope of its next contracted security study. The department continues to implement its retailer integrity program and anticipates further enhancements once it fully implements its new gaming system contract. The department is implementing a plan to bolster and enhance the prevention of underage play, but if the Legislature wishes to address the potential that minors could purchase lottery tickets from vending machines, it could consider requiring the department to configure some or all of its vending machines to require age verification.

In Fiscal Year 2017-18, the department expended over \$31.6 million on advertising media purchases made by a private company under contract. We found no evidence of the department or its contractor intentionally targeting particular populations with its advertising efforts. Despite no evidence of targeting, we found that certain demographic groups still may play the Lottery more than others.

#### REPORT 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.<sup>1,2</sup>

<sup>1</sup> 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.

<sup>2</sup> 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](#).

# BACKGROUND

The Department of the Lottery generates funds for education by selling draw, scratch-off, and fast play games. Draw games (also known as terminal 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. Fast play games incorporate aspects of both terminal-based and instant games. Fast play tickets print on demand by the terminals connected to the gaming system but can be played immediately to determine if the ticket is a winner.

The Lottery is self-supporting and receives no general revenue funds. For Fiscal Year 2018-19, the Legislature appropriated \$182.1 million in the General Appropriations Act from Lottery sales revenue and authorized 418.5 positions for department operations.<sup>3</sup> Prizes and retailer commissions are paid directly from sales revenues and do not appear in the department's appropriation.

In Fiscal Year 2017-18, prizes totaled \$4.394 billion and retailer commissions totaled \$373.8 million.<sup>4</sup> Total ticket sales for this time period were \$6.701 billion, ranking Florida the third highest among U.S. lotteries in total sales and 10th highest among U.S. lotteries in per capita sales for Fiscal Year 2017-18.

Since its inception, the Lottery has outsourced its core functions to produce, advertise, and sell tickets. The department allocated approximately 77%, or \$139.7 million, of its Fiscal Year 2018-19 appropriation to produce and advertise draw and scratch-off games.<sup>5</sup> These vendor contracts include those listed below.

- A contract with PP+K, Inc., for general market advertising services as well as multilingual services, including those in Spanish. This contract expires in October 2021.
- A contract with IGT Global Solutions Corporation to provide a terminal-based gaming system. The gaming system includes computer systems and retailer terminals, instant ticket vending machines and full-service vending machines, telecommunications, and technical support services.<sup>6</sup> This contract expires in March 2032 (or 13 years from start-up of operations under the contract) with two 3-year renewal options.<sup>7</sup> The department is currently receiving gaming system services from IGT under a prior contract.
- A contract with Scientific Games International, Inc., to print, market, and distribute scratch-off game tickets. This contract expires in March 2019<sup>8</sup>.

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<sup>3</sup> Chapter [2018-9](#), *Laws of Florida*.

<sup>4</sup> 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.

<sup>5</sup> Of the \$139.7 million, approximately \$100.4 million was allocated to produce draw and scratch-off games and \$39.2 million was allocated to advertising for Fiscal Year 2018-19.

<sup>6</sup> The contract restricts the use of the Lottery to a maximum of 2,500 machines, including 1,500 full-service vending machines with the terminal game functionality disabled and 1,000 full-service vending machines with the terminal game functionality enabled. Pursuant to the agreement, on or after the date of start-up, all vending machines currently in the field will be replaced with new touch screen vending machines. As of June 2018, the department plans for these machines to be placed in existing retailer locations across the state.

<sup>7</sup> The initial term of the 2017 agreement expires on the date that is 13 years after the start-up date of production operations. As of May 2018, the department is planning a start-up date of no earlier than April 1, 2019.

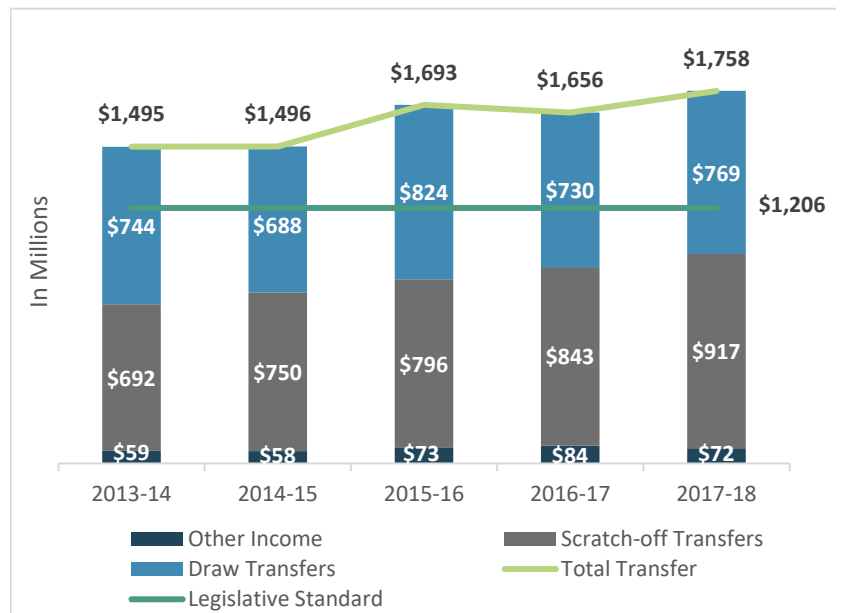
<sup>8</sup> This contract originally expired in September 2018 (after the department exercised both of its two-year renewal terms), but the department extended the contract for six months, through March 2019, while it was undergoing the procurement process for a new contract. The Lottery issued an invitation to negotiate procurement on September 25, 2018.

# REVENUE PERFORMANCE

In Fiscal Year 2017-18, lottery sales increased to \$6.701 billion compared to the prior year’s sales of \$6.156 billion (an increase of \$544.3 million). The increase was primarily due to higher sales of scratch-off games. Scratch-off game sales increased by \$408.7 million while draw game sales increased by \$135.6 million. The Florida Lottery broke a U.S. lottery record last year with \$123.8 million in scratch-off sales in a single week. Further, Florida had 10 weeks of scratch-off sales above \$100 million in Fiscal Year 2017-18 compared to 2 weeks above \$100 million in Fiscal Year 2016-17.

The trend in Lottery transfers to the Educational Enhancement Trust Fund (EETF) is generally positive. Lottery transfers for Fiscal Year 2017-18 were \$1.758 billion, or \$102 million (6.1%) more than the prior year. (See Exhibit 1.) Scratch-off transfers increased \$74.1 million and draw game transfers increased \$39.9 million, while other income such as unclaimed prizes declined \$13 million. Draw game transfers increased primarily due to increased sales of the multi-state Powerball and Mega Millions jackpot games. Moreover, transfers for Fiscal Year 2017-18 exceeded the legislative standard of \$1.206 billion and the Lottery’s internal objective of transferring \$1.67 billion to the EETF.<sup>9</sup>

**Exhibit 1**  
**Fiscal Year 2017-18 Scratch-Off and Draw Game Transfers Increased**



Source: Florida Lottery financial statements and Department of the Lottery Long Range Program Plans.

# 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

## Several Options Could Enhance Lottery Revenues

### Options Based on Other State Lotteries

- Introduce new games
- Implement new ways of selling tickets
- Increase the retailer network

<sup>9</sup> The Lottery’s legislatively approved performance standards are reported in its Long Range Program Plans, currently—*Florida Lottery Long Range Program Plan Fiscal Years 2019-20 through 2023-24*, October 1, 2018. The Legislature first established this standard for Fiscal Year 2006-07.

increase its retailer network. However, some of these options could represent an expansion of legalized gambling and could produce negative social costs.<sup>10, 11</sup>

We identified several options that could enhance lottery revenues based on game and product distribution methods that other U.S. lotteries 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.<sup>12</sup> 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 Department of the Lottery increased its sales by enhancing its product mix. For example, in February 2018 the department reintroduced a \$30 price point scratch-off ticket, FLORIDA 100X THE CASH, which has generated over \$352.3 million in sales and more than \$51.6 million in transfers to education. The department reported that the game had the highest single week of sales for any scratch-off ticket in the U.S. for Fiscal Year 2017-18, generating \$34.3 million in a single week and producing more than \$6.3 million in transfers to education in that week.

### The Lottery Enhanced Its Product Mix to Increase Sales

#### Examples of New Lottery Products in Fiscal Year 2017-18

- Reintroduced a \$30 scratch-off ticket, FLORIDA 100X THE CASH, which generated over \$352.3 million in sales
- Reintroduced terminal-based instant win games, branded as Fast Play, which produced more than \$17.8 million in sales
- Added a permanent draw game sampler to encourage players to try to new games

The department continues to refine and enhance its strategy of launching families of scratch-off games. According to department officials, this strategy helps maximize marketing efficiency by promoting multiple price points at the same time. Games launched as families accounted for \$2.5 billion, or 54.5% of total scratch-off sales in Fiscal Year 2017-18.

The department also realized increased sales of terminal-based games compared to the previous fiscal year. The department attributes some of this increase to the reintroduction of instant win terminal

<sup>10</sup> 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.

<sup>11</sup> Fiscal impact estimates presented in this report do not account for negative social costs and shifts of other taxable economic activity.

<sup>12</sup> 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.

games, which the department branded as Fast Play. The department offered four fast play games at the \$1 and \$2 price points featuring different themes and play styles. In total, the four games produced more than \$17.8 million in sales and \$4.8 million in transfers during Fiscal Year 2017-18. In addition, the department sought to increase sales by adding an EZmatch™ instant win feature to the FLORIDA LOTTO® game.

To achieve a variety of sales goals, such as attracting new players and encouraging players to try different draw games, the department added a permanently available draw game sampler, GROUPER®, and offered seven draw game promotions such as GameDay Cash, POWERBALL® Power Cruise 2, and CASH4LIFE® Bonus Bucks. It also offered second chance drawings to support scratch-off games and several retailer promotions throughout the year to promote awareness of both scratch-off and draw games.

## 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 department could consider adding one or more new games, such as draw games that offer different play styles, as the department 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, with drawings held multiple times per day. We identified six state lotteries that currently offer an All or Nothing game—Arizona, Georgia, Iowa, Massachusetts, Minnesota, 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, department 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 \$6.1 million in additional transfers during the first full year of implementation.<sup>13</sup>

### New Games Could Increase Lottery Revenues

#### Examples of New Game Options

- The All or Nothing game could generate \$6.1 million in additional transfers during the first full year of implementation.
- Oversized scratch-off tickets could generate \$16.1 million in additional transfers during the first full year of implementation.
- New games tend to have a limited life cycle with initial sales increases that later decline.
- Appendix A provides information on additional new game options, including Fast Keno, Daily Keno, and monitor games.

Another option is to offer oversized scratch-off tickets. Florida Lottery tickets are currently four inches wide and vary in height from two and one-half inches to nine inches. We identified 19 state lotteries that have offered oversized scratch-off tickets.<sup>14</sup> For example, in April 2015, Texas first launched Super Ticket 7’s, an eight by twelve-inch scratch-off game. For \$10, the ticket offered four games to play. During Fiscal Year 2016-17, Texas offered three oversized scratch-off games with sales of \$134.4 million. One drawback of oversized scratch-off tickets is that because of their dimensions, the tickets

<sup>13</sup> We estimated a range of potential All or Nothing transfer revenue (\$3 million to \$20.5 million, with a median of \$6.1 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 2019. The estimate assumes a draw game transfer rate to the EETF of 39.39%, based on the December 2018 Revenue Estimating Conference projected transfers for Fiscal Year 2019-20 and that 10% of the sales would be shifted from existing game sales.

<sup>14</sup> Arizona, Arkansas, California, Georgia, Idaho, Illinois, Kansas, Kentucky, Minnesota, Missouri, New Mexico, North Carolina, Ohio, South Carolina, Tennessee, Texas, Virginia, Washington, and Wisconsin.



cannot be dispensed through vending machines or standard counter dispensers. Therefore, lotteries typically must use special ticket dispensers for on-counter visibility and distribution. Florida Lottery officials evaluated the possibility of introducing an oversized scratch-off ticket and found that the long-term viability of the option might be limited. Typical sales patterns for oversized scratch-off games are positive in the first launch, but subsequent launches fall flat or under-perform when compared to standard scratch-off games. We estimate that implementing the oversized scratch-off ticket could generate approximately \$16.1 million in additional transfers during the first full year of implementation.<sup>15</sup>

## Other states use additional product distribution methods

Our prior reports included a discussion of offering lottery products over the internet.<sup>16</sup> We identified 11 U.S. lotteries that sell lottery products over the internet via their websites.<sup>17</sup> 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. However, the viability of using this distribution method is now in question given a recent U.S. Department of Justice opinion.

While several states began offering internet sales of lottery tickets in response to a U.S. Department of Justice Office of Legal Counsel 2011 opinion providing the legal basis for such sales, the Department of Justice recently reversed that view. This year, the U.S. Deputy Attorney General advised staff to provide businesses that relied upon the 2011 opinion with a 90-day window to come into compliance with federal law before pursuing civil or criminal actions. Absent federal statutory change providing a clear legal basis for internet sales, the legality of existing and future internet sales remains uncertain as this change may be the subject of litigation. At the time of publication of this report, the effect of this latest opinion has not been fully resolved, therefore, more information would be needed if Florida were to move forward with this option.

## Increasing the retailer network could also enhance revenues

Another option that has the potential to increase sales is for the department to increase its retailer network. In Fiscal Year 2016-17, the top two southeast U.S. lotteries ranked by per capita sales—Georgia and South Carolina—had an average of 1,228 residents per retailer.<sup>18</sup> The two states had higher per capita sales (\$406 and \$327,

### Increasing the Retailer Network Could Increase Lottery Revenues

#### Increasing the Retailer Network

- Florida ranks behind Georgia and South Carolina in terms of per capita lottery sales and residents per retailer.
- The size of Florida's lottery retailer network has been relatively flat over the past four years.
- Adding 200 more retailers could generate \$4.8 million in additional transfers to the Educational Enhancement Trust Fund per year.

<sup>15</sup> We estimated a range of potential oversized scratch-off ticket transfer revenue (\$1.7 million to \$121.1 million, with a median of \$16.1 million) based on the highest and lowest per capita sales in states that offer oversized scratch-off tickets, which we applied to Florida's estimated population for 2020. The estimate assumes a scratch-off game transfer rate to the EETF of 18.74%, based on the December 2018 Revenue Estimating Conference projected transfers for Fiscal Year 2020-21; additional estimated dispenser costs of \$197,000; additional printing costs of \$650,000; and that 15% of the sales would be shifted from existing game sales.

<sup>16</sup> 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](#).

<sup>17</sup> These states are Georgia, Illinois, Kentucky, Maine, Michigan, New Hampshire, New York, North Carolina, North Dakota, Pennsylvania, and Virginia.

<sup>18</sup> 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

respectively) than Florida (\$293). During that period, the Florida Lottery averaged 1,501 residents per retailer. Adding 3,059 new retailers to Florida's retailer network would meet the Georgia and South Carolina lotteries' market penetration and has the potential to generate about \$72.9 million annually in additional transfers to the EETF. More modest growth of 200 retailers would generate about \$4.8 million annually in transfers.<sup>19</sup>

The Department of the Lottery's Long Range Program Plan for Fiscal Years 2019-20 through 2023-24 recognizes that there is an opportunity to increase the retailer network, particularly among underrepresented minorities. However, the number of retailers in the network has remained relatively flat over the past four years, from 13,195 as of June 30, 2014, to 13,039 as of June 30, 2018. For Fiscal Year 2017-18, department administrators reported a 2.1% increase in corporate retailers but a 1.1% decline in independent retailers, reflecting a shift in the market from independent retailers to corporate retailers. They reported that some retailers closed after Hurricane Irma, but this shift is likely primarily due to high volume corporate retailer chains opening new locations and displacing smaller, independent retailers in some areas. For example, some small independent convenience stores with a few gas pumps may close because they have difficulty competing with a large corporate chain convenience store that has numerous gas pumps and other features such as being able to accommodate tractor-trailers.

## OPERATIONS

The Department of the Lottery continues to keep its expenses as a percentage of sales low and below the legislative standard. The department maintains a comprehensive product mix by regularly adding new games, enhancing existing games, and retiring games. National organizations certified the Florida Lottery's responsible gaming program as meeting best practices. If the Legislature wishes to encourage the Lottery's long-term adherence to these best practices, it could consider amending statutes to require that the Florida Lottery maintain national or international responsible gaming certification.

The department has multiple layers of security to ensure the integrity of lottery games but should evaluate its security measures for fast play games in the scope of its next contracted security study. The department has taken additional steps to prevent the sale of lottery tickets to minors but could expand the methods it uses. The department should continue its ongoing efforts to protect against retailer theft of tickets and ticket brokering.

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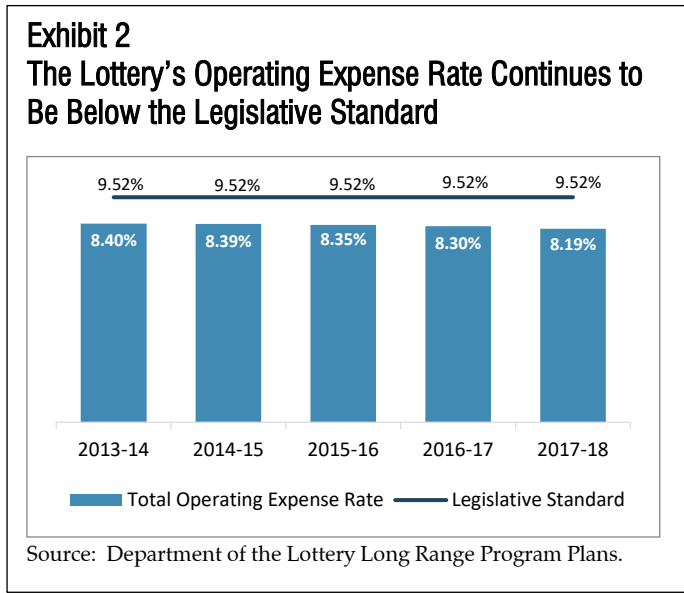
available for the Tennessee Lottery's retailer-to-population ratio, so for this measure, we compared the Florida Lottery's performance to the four remaining states.

<sup>19</sup> We estimated potential transfer revenues from increasing the retailer network by assuming that new retailers would achieve at least the average weekly gross sales new retailers achieved in Fiscal Year 2017-18. 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.



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

The Department of the Lottery’s operating expenses in relation to its ticket sales continue to be lower than the legislative standard.<sup>20</sup> (See Exhibit 2.) Furthermore, compared to other U.S. lotteries, the Florida Lottery had the second lowest operating expense rate in Fiscal Year 2016-17, behind Massachusetts.<sup>21</sup> According to department administrators, a primary reason for the low operating expense rate is that the department has maintained stable operating expenses while ticket sales have increased.



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

The Florida Lottery maintains a comprehensive product mix by regularly adding new games, enhancing existing games, and retiring games

We examined the department’s management of its product mix to describe how the Lottery makes decisions to introduce new games, enhance existing games, and retire games. Department administrators reported that their primary goal when making decisions about the product mix is to achieve internal sales goals and the Revenue Estimating Conference forecast for transfers to the EETF. They review the current product mix, market conditions, and new offerings on an on-going basis, and make changes during an annual product calendar planning process.

**The Florida Lottery Maintains a Comprehensive Product Mix**

**Game Management**

- The Lottery regularly adds new games, enhances existing games, and retires games.
- The department uses vendor recommendations, research, and game performance in other states to select new games.
- The department enhances draw games to maintain and/or increase lagging sales.
- Lottery game termination decisions are primarily based on sales.

The department reported that it considers a variety of factors when deciding the mix of games, including

- the balance of game price points to ensure that the department does not compete with itself for the same core players;
- seasonality—maximizing sales during the summer tourist season, specific sports seasons, and the Christmas holiday season;

<sup>20</sup> Operating expenses include payments to gaming vendors and retailer commissions.

<sup>21</sup> Florida Lottery’s ranking is based on the latest fiscal year data available from La Fleur’s *2018 World Lottery Almanac*. Operating expense rates include administrative expenses, payments to gaming vendors, and retailer commissions.

- consumer buying habits and efforts to attract new players;
- uniqueness of a game to appeal to a variety of players; and
- changing technologies and play styles, e.g., electronic and/or automated play.

## **The department uses vendor recommendations, research, and game performance in other states to select new games**

The Florida Lottery offers 10 draw games and introduces about 40 scratch-off games a year. The department routinely adds the new scratch-off games to its product mix throughout the year. It introduces new draw games less frequently because they generally have a much longer lifecycle.

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

According to the department's scratch-off and draw game procedures, creating new games is a continuous process. Product Development researches game concepts from primary and secondary game printing vendors, those that are internally developed, other licensed property companies, and/or successful games in other lottery states.<sup>22</sup> While the department's graphics department may internally develop new games, most new games come to the department through vendor recommendations and/or research. Department procedures state that Product Development stays abreast of industry trends related to games and continuously researches game concepts. In addition to adding the occasional draw game, the department may enter into agreements that include other states for the operation and promotion of multistate lottery games and promotions.

According to department officials, the department uses a variety of methods to test new games before including them in the product mix. Administrators reported that, based on experience, while every scratch-off game is researched thoroughly, supplemental research needs are determined on a case-by-case basis. If a new scratch-off game represents a new concept, the department may conduct player testing in focus groups, player panels, or conjoint analysis to determine its marketability.<sup>23</sup> Based on its analysis, Product Development submits a four to six month scratch-off game concepts launch schedule to the Secretary for approval.

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

## **The department enhances draw games to maintain and/or increase lagging sales**

Because scratch-off games have a shorter lifecycle, department administrators reported that they only enhance draw games. Enhancements may include add-ons like second chance draws and EZmatch in an effort to extend the lifecycle among core players and attract new players. For multi-state games, all

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<sup>22</sup> Licensed property companies buy the rights to use national brands/logos, e.g., the National Football League or Major League Baseball, and sell use of the brand/logo for use on lottery tickets.

<sup>23</sup> A conjoint analysis is a market research technique that is used to measure the value of different product features and predict the value of combinations of features.

participating states must agree to game enhancements and the Florida Lottery does not have sole discretion to implement game enhancements.

## Game termination decisions are primarily based on sales

The department closes scratch-off games at the end of their lifecycle and replaces them with games that are more profitable. According to department administrators, they typically close scratch-off games each quarter. The Product Development unit reported using several criteria to determine when to end games, including

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

In addition, the department occasionally determines that a draw game is no longer meeting sales expectations and the Secretary approves its termination. The department reported that it usually replaces the game with a new game with better sales potential.

## National organizations certified the Florida Lottery's responsible gaming program as meeting standards

In September 2018, the Florida Lottery received the North American Association of State and Provincial Lotteries (NASPL) and the National Council on Problem Gambling (NCPG) certification for implementing a responsible gaming program. Florida became 1 of 15 U.S. lotteries to achieve this distinction, which involves independent verification of the NASPL's responsible gambling standards. The Florida Lottery's program was independently evaluated in eight areas, including research, employee training, retailer training, player education, new/existing product oversight, advertising, engagement and awareness, and budget. The Lottery was found to be proficient in all eight categories. Further, the evaluators believed that every section of the application met the standards required for verification.

### The Florida Lottery Received National Certification for Responsible Gaming

#### Responsible Gaming Certification

- In September 2018, the Florida Lottery received NASPL and NCPG certification for implementing a responsible gaming program.
- At the time of our review, this certification was not required.
- The Legislature could amend the statutes to require that the Lottery maintain national or international responsible gaming certification.

This certification extends through September 2021. If the Legislature wishes to encourage the Lottery's long-term adherence to responsible play standards, it could consider amending statutes to require that the Lottery maintain national or international responsible gaming certification. This could help ensure that responsible gambling will remain a priority for the Florida Lottery.

# Multiple layers of security help ensure the integrity of Florida Lottery game drawings

Florida law creates a Division of Security within the Lottery to promote and protect the integrity of and the public confidence in the state lottery.<sup>24</sup> The law requires the division to monitor game drawings.<sup>25</sup> Further, the department is required to adopt rules governing the establishment and operation of the state lottery, including the method of selecting winning tickets. If a lottery game involves a

drawing, the drawing shall be public and witnessed by an accountant employed by an independent certified public accounting firm. The equipment used in the drawing shall be inspected before and after the drawing.<sup>26</sup> Pursuant to law, the department has established a process for its Division of Security to oversee drawings, adopted rules for game drawing procedures, created a draw studio that televises drawings, engaged an accountant to witness the drawings, and addressed the inspection of the equipment in its rules and procedures.<sup>27</sup> The department has also adopted a confidential draw management standard operating procedure manual that outlines the processes for drawings and the responsibilities of all personnel involved.

Florida law also requires the department to engage an independent firm experienced in security procedures to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Lottery at least once every two years.<sup>28</sup> At a minimum, the evaluation must include an examination of the Lottery's computer security and systems security. Accordingly, the department periodically engages an independent firm to conduct a comprehensive study and evaluation of Lottery security. The most recent security study was issued in May 2018 and included follow-up on the status of findings and recommendations from the 2016 study.

At the time of our review, the Florida Lottery offered 10 draw games and fast play games that print on demand from the Lottery terminal. The department conducts the drawings for seven games in its draw studio at its headquarters location: Florida Lotto, Lucky Money, Fantasy 5, Pick 5, Pick 4, Pick 3, and Pick 2. Although the national Powerball drawing is also held at the Florida Lottery headquarters location, the Multi-State Lottery Association (MUSL) conducts the drawing. The Mega Millions drawing is held in Atlanta, Georgia and the Cash4Life drawing is held in Trenton, New Jersey.

There have been incidents in which other U.S. lottery draw game systems, including the MUSL gaming system, have been compromised, particularly those that use random number generators (RNGs) or similar methods to determine winners. According to department officials, they do not use RNGs for determining winners in any of the 10 draw games offered in Florida. However, they do use a RNG to

## The Lottery Provides Security in Multiple Ways to Help Ensure the Integrity of Lottery Drawings

### Lottery Security Measures

- The department has taken several steps to protect the integrity and public confidence in the Lottery.
- As required by statutes, in May 2018, the department received the results of a contracted independent, comprehensive security evaluation of its operations.
- The security study did not specifically evaluate the risks associated with Fast Play-type games, which have been compromised in another state.
- The Lottery should include an evaluation of its security measures for Fast Play-type games in the scope of its next contracted security study.

<sup>24</sup> Section [20.317\(2\)](#), F.S.

<sup>25</sup> Section [24.108\(6\)](#), F.S.

<sup>26</sup> Section [24.105\(9\)](#), F.S.

<sup>27</sup> Rule [53ER16-40](#), F.A.C.

<sup>28</sup> Section [24.108\(7\)\(a\)](#), F.S. Studies of security shall be conducted as the department deems appropriate but at least once every two years.

determine second chance winners. The most recent security study conducted by an independent firm engaged by the department included recommendations relating to second chance draws, and department officials reported they have taken steps to address the recommendations.

In addition, another U.S. lottery game system that offered a fast play-type game was compromised by retailers. Department officials stated that retailer identification of winning tickets and theft of the ticket is a known risk with the fast play style of games, but they have security measures in place to help ensure that theft or fraud by retailers does not happen. Department administrators reported that the security study was a comprehensive examination of their operations. However, the security study did not specifically examine risks associated with the fast play games because the study had already started months before the launch of the fast play games. The department should include an evaluation of its security measures for fast play games in the scope of its next contracted security study.

## The department has taken 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.<sup>29</sup> Statutes also require the department to supervise and administer the operation of the Lottery in accordance with provisions of law and rules.<sup>30</sup> As such, department rules specify that selling a lottery ticket to a minor is grounds to suspend and terminate a retailer's contract.<sup>31</sup> Consistent with statutes and the department's rules, the Florida 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 standard retailer contract for vending machines stipulates that vending machines shall be in the direct line of sight of store personnel. If a person under the age of 18 attempts to purchase lottery tickets from a vending machine, store personnel are required to deactivate the machine.<sup>32</sup>

### The Lottery Is Continuing Implementation of Its Plan to Prevent Underage Sales

#### The Lottery's Underage Sales Prevention Plan

- The department has a three-part plan to prevent lottery sales to minors; it is currently implementing the second phase this plan, which involves inspecting retailers to deter improper management and sale of tickets to minors.
- The department's methods to prevent underage sales are consistent with strategies that other state lotteries are implementing.
- The Legislature could further require the department to configure some or all of its vending machines to verify age prior to purchase, which is a practice employed by seven other state lotteries.

In January 2018, OPPAGA reported that the department relied on preventative measures but planned 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, department officials stated that they relied on retailer training, messaging, placing vending machines in the line of sight of sales clerks, inspections, and investigating any complaints. These types of measure were consistent with those used by most other state

<sup>29</sup> 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.*

<sup>30</sup> 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.

<sup>31</sup> Rule [53ER07-15](#), *F.A.C.*

<sup>32</sup> 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.

lotteries we contacted. Department officials said that they recognize underage sales to be an important issue and as a result, the Division of Security developed the Education, Inspection, and Enforcement of Underage Play Plan. At the time of our 2018 report, the department was implementing the education stage of the plan by educating retailers on their responsibilities to prevent underage sales.

The department is currently implementing the inspection stage of the plan by conducting compliance inspections at retailer locations that focus on underage play and the deterrence of improper management/sale of lottery games to underage individuals. The department reported that it conducted over 1,298 compliance inspections in calendar year 2018. As a last step in the plan, department officials state that they intend to conduct underage sting operations, potentially in partnership with the Division of Alcoholic Beverages and Tobacco, beginning in May 2019. The two agencies have a Memorandum of Understanding and already partner in conducting some of their retailer investigations.

In addition, as part of the responsible gaming verification standards, the Lottery demonstrated it met the following best practices.

- Persons depicted as lottery players in lottery advertising should not be, nor appear to be, under the legal purchase age.
- Age restrictions should, at a minimum, be posted at the point of sale.
- Advertising should not appear in media directed primarily to those under the legal age.
- Lotteries should not be advertised nor marketed at venues where the audience is reasonably and primarily expected to be below the legal purchase age.
- Advertising should not contain symbols nor language primarily intended to appeal to minors or those under the legal purchase age.
  - The use of animation should be monitored to ensure that characters are not associated with animated characters on children's programs.
  - Celebrity or other testimonials should not be used that would primarily appeal to persons under the legal purchase age.

## The Florida Lottery could expand the methods it uses to prevent sales to minors, similar to those used in other states

We contacted 19 state lotteries to determine whether they use age verification on their vending machines to prevent underage sales. Although most of these lotteries do not use age verification technology, seven reported that they 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. The seven state lotteries we identified that are deploying age verification technology on their vending machines do so in various ways.<sup>33</sup>

For example, the Connecticut and North Carolina lotteries have configured all of their lottery vending machines to verify age before purchase. In contrast, the Illinois, Louisiana, Massachusetts, New York, and Virginia lotteries use age verification technology only on vending machines in select locations. The Illinois Lottery uses age verification technology in locations that are not directly in the line of sight and actively monitored by retailer staff to 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.

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<sup>33</sup> These states are Connecticut, Illinois, Louisiana, Massachusetts, New York, North Carolina, and Virginia.



## The Legislature could consider requiring age verification on vending machines to further prevent underage lottery sales

If the Legislature wishes to address the possibility that minors may 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 department would incur some expense in reconfiguring its 2,500 vending machines since the machines currently do not have such technology.

However, department 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. Department administrators also expressed a concern that clerks might over-rely on the technology and not be as diligent about monitoring the machines for underage players.

## The department has implemented a comprehensive retailer integrity program to protect 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.<sup>34</sup> 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.<sup>35</sup>

### The Lottery's Retailer Integrity Program Includes Multiple Components to Address Potential Illegal Retailer Behavior

#### Recent Retailer Integrity Activities

- In January 2018, the Lottery began participating with other state law enforcement agencies in an investigations case tracking system, which should help enhance the department's ability to identify and investigate fraudulent retailer activity.
- The department reported that implementation of the new Lottery gaming system in April 2019 will result in further improvements to its ability to identify and investigate potentially fraudulent retailer behavior.
- The new gaming system also includes additional ticket self-checkers for all retailers that can accommodate them and a ticket scanning function in the Lottery mobile app so that players can more easily determine for themselves whether a ticket is a winner.

<sup>34</sup> *Lottery Transfers Continue to Increase; Options Remain to Enhance Revenues and Improve Efficiency*, OPPAGA [Report No. 15-03](#), January 2015.

<sup>35</sup> 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.<sup>36, 37</sup> 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 Department of the Lottery's Division of Security 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 10,300 of its 13,000 retailer locations.<sup>38, 39</sup>

During calendar year 2018, the department conducted 1,068 retailer compliance operations and opened 5,546 criminal investigations. The department also conducted 3,283 player reviews, which focused on players with suspicious patterns of wins based on a review of claimant data during calendar year 2018. These activities resulted in the department terminating 39 retailer contracts for security reasons in calendar year 2018.

In addition, according to department officials, if Lottery staff substantiates that someone is stealing winning tickets or acting as a ticket broker, the department pursues an arrest. The department reported that during calendar year 2018, its law enforcement officers made 44 arrests, of which 34 were clerks working in a retail location, 6 were retailers, 1 was the spouse of a retailer, and 3 were players. The individuals arrested were charged with offenses that included grand theft, conspiracy to commit fraud, and false claims. Department law enforcement officers also assisted other law enforcement agencies with 32 additional arrests that included a wide variety of charges such as robbery, grand theft, burglary, homicide, racketeering, forgery, fraud, and running a gambling house.<sup>40</sup>

Department officials reported they upgraded their investigations case management system in January 2018 by participating in a new system in collaboration with other state law enforcement agencies; the Department of Highway Safety and Motor Vehicles is the lead agency for implementing the case management system. Department 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. They reported that the Division of Security is still in the process of building reports and fully utilizing the system.

In addition, department officials reported that they plan to make improvements to their capabilities for identifying and investigating potential ticket theft or brokering by retailers. At the time of our review, department personnel was making multiple data queries when analyzing data to identify potential problems in retailer behavior.<sup>41</sup> The department intends to improve this process with the implementation

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<sup>36</sup> 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.*

<sup>37</sup> Ticket brokering violates s. [24.118\(2\)](#), *F.S.*, and is a first degree misdemeanor.

<sup>38</sup> Lottery staff identifies retailers for these operations based on customer complaints and other audit selection criteria.

<sup>39</sup> For additional information about the Retailer Integrity Program, see OPPAGA [Report No. 15-03](#), January 2015.

<sup>40</sup> 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.

<sup>41</sup> For instance, department employees 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.

of the new gaming system in April 2019, which will give the department access to the gaming system vendor’s Live Alerts functionality. Through Live Alerts, limited parameters can be set based on what the Lottery Division of Security defines as suspicious activity. The system will alert the Division of Security whenever the parameter thresholds are met.

Implementation of the new gaming system also includes additional ticket self-checkers for all retailer locations that can accommodate them and a ticket scanning function in the Lottery mobile app so that players can determine for themselves whether a ticket is a winner. The department reported that additional ticket self-checkers are being installed at retailer locations and that all possible retailer locations will have this technology available to players when the new gaming system launches in April 2019.<sup>42</sup> In addition, the new mobile app will launch in conjunction with the gaming system launch. The department should continue with these ongoing efforts to protect the integrity of the Florida Lottery.

## LOTTERY ADVERTISING AND SALES

### OPPAGA found no evidence of the Lottery targeting particular populations with its advertising, but certain groups are more likely to play the Lottery than others

In 2017-18, the department spent approximately \$31.6 million on media purchases with the stated goal of reaching as many adult Floridians as possible. We examined two issues in this area. First, whether the Department of the Lottery targets particular subpopulations with its advertising. Second, whether certain subpopulations disproportionately purchase lottery tickets. Our interviews of department administrators and officials of the agency with which the department contracts for advertising services (PP+K, Inc.), and our examination of contract and other relevant documents, revealed no evidence that Lottery advertising is intentionally targeted towards particular racial or economic groups. Our analyses of Florida Lottery tracking data and winner claims data found that individuals who were Hispanic, college-educated, and had higher incomes were more likely to play at least once a year. In contrast, persons who were African American, living in poverty, or had low education levels tended to spend more on Lottery products overall. However, both of these analyses are estimates, which have limitations.

#### We Found No Evidence of Lottery Advertising Being Intentionally Targeted to Any Particular Populations

##### Lottery Advertising

- In Fiscal Year 2017-18, the department spent approximately \$31.6 million on media purchases with a primary goal of reaching as many adult Floridians as possible.
- The department spent proportionally more advertising dollars on the state’s most populated market areas and on English-language ads.
- Our review of the Lottery’s advertising activities found no evidence of the Lottery targeting any particular population.
- Our analyses of Lottery data suggest that certain demographic groups might spend more on lottery tickets than others.

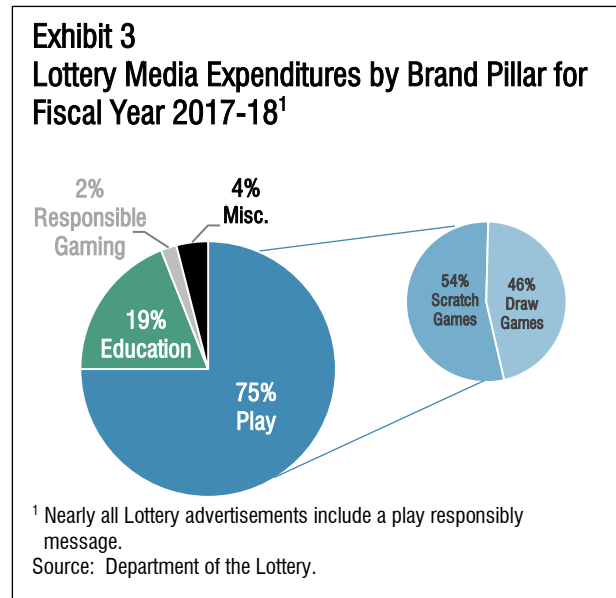
<sup>42</sup> According to department officials, some locations, such as drive-through convenience stores, may not be able to accommodate a ticket self-checker.

**In Fiscal Year 2017-18, the department spent approximately \$31.6 million on media purchases with a primary goal of reaching as many adult Floridians as possible.** Florida statutes authorize the Lottery to conduct market research and extensively and effectively advertise and promote lottery games.<sup>43</sup> In Fiscal Year 2017-18, the department spent over \$31.6 million on media purchases. These purchases included advertising for television, radio, billboards, and the internet. According to department officials and representatives we interviewed from PP+K, a primary goal when placing Lottery advertising is to reach the greatest number of Floridians over the age of 18, specifically Floridians between the ages of 25 and 54, at the lowest possible cost to achieve the best value for the state. Recently, the department focused on brand strategies and created three brand pillars that currently drive its advertising campaigns and messages.

1. *Play*—centers around entertainment and fun in your day; highlights new games and plays on memories of older games; includes messages such as “it’s good to have options” and “instant chance to win.”
2. *Education*—emphasizes the Lottery’s core purpose, which is making contributions to education, in particular the Florida Bright Futures Scholarships; includes messages such as “when you play Floridians win” and “the Florida Lottery helps students shine.”
3. *Responsible Gaming*—promotes responsible play by educating consumers on how best to play based on their financial circumstance and stresses no underage playing; includes messages such as “know your limits” and “play responsibly.”

In Fiscal Year 2017-18, media purchases included \$23.7 million (75%) on advertising messages related to play, \$6.1 million (19%) on messages related to education, \$0.5 million (2%) on messages related to responsible gaming, and \$1.3 million (4%) on miscellaneous expenditures.<sup>44</sup> (See Exhibit 3.) Of the media purchases related to play messaging, the Lottery spent approximately \$12.7 million on scratch-off game advertising and \$11 million on draw games. (See Appendix C for more details on the department’s advertising expenditures by campaign, media type, product type, and advertising message for Fiscal Year 2017-18.) The department’s Fiscal Year 2018-19 budget includes a \$1,067,853 (3%) increase in media spend over Fiscal Year 2017-18 and redirects additional resources to its responsible play and education messaging campaigns.

According to department officials, both department and PP+K administrators review all advertising messages to ensure that advertisements address the Lottery’s brand pillars and to lessen the possibility of a message veering away from the Lottery’s core values.

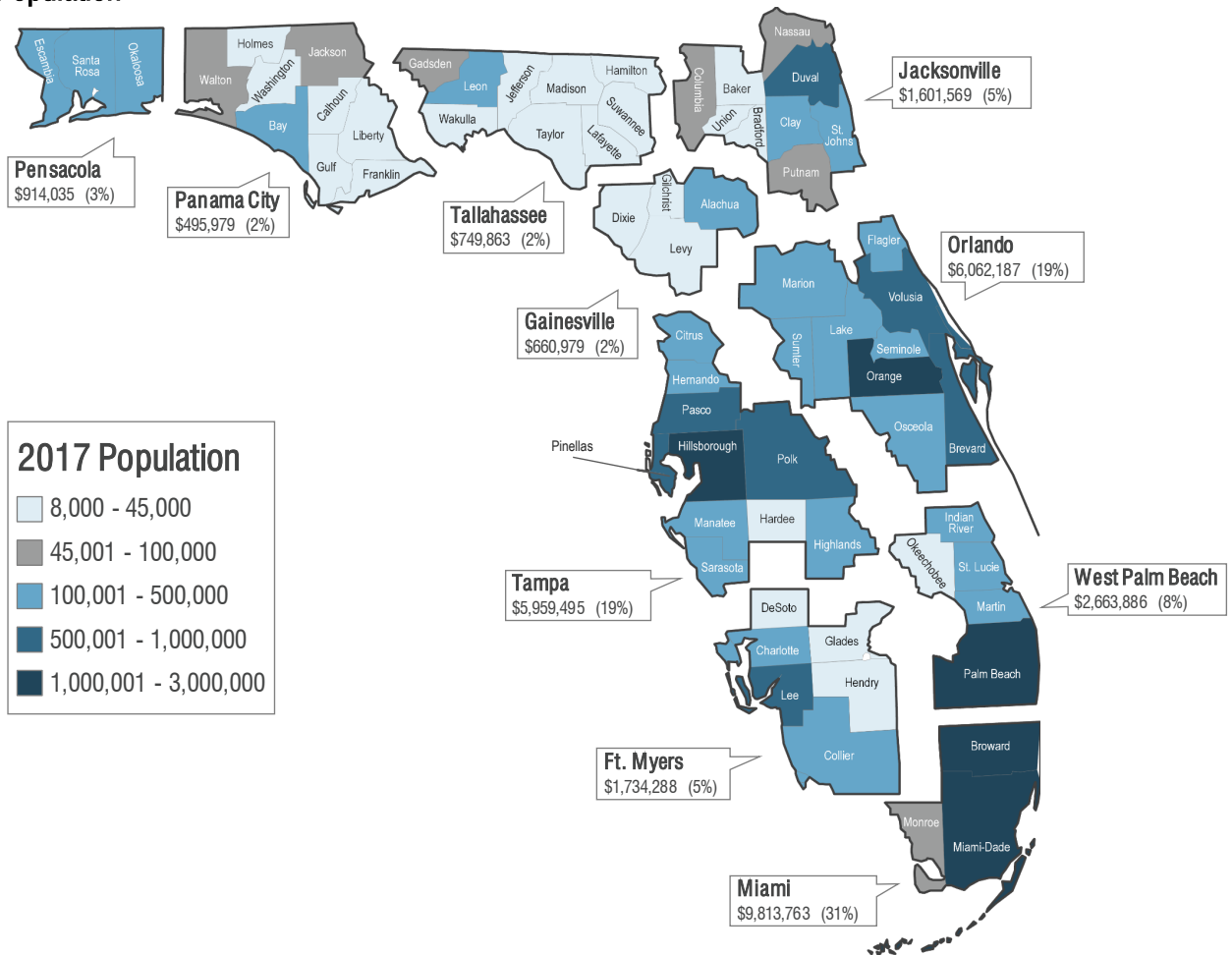


<sup>43</sup> Sections [24.105\(8\)](#) and [24.107\(1\)](#), F.S.

<sup>44</sup> Miscellaneous expenditures included miscellaneous printing costs, annual out-of-home static billboard production costs, out-of-home billboard digit leases, a contracted marketing mix modeling study, and incremental digital media buys to boost support for priority games.

The department spent proportionally more advertising dollars on advertising in the state's most populated market areas and on English-language ads. According to department officials, the department attempts to reach at least 50% of the population between the ages of 25 and 54 in each of its 10 designated market areas weekly.<sup>45</sup> Overall, in Fiscal Year 2017-18, the department spent proportionally more advertising dollars in higher populated market areas in South and Central Florida than in less populated areas in the northern part of the state. (See Exhibit 4.) For instance, the Miami market area, comprised of Broward, Miami-Dade, and Monroe counties, accounted for the largest portion of the advertising budget in Fiscal Year 2017-18, at 31% of total expenditures. The department's next largest advertising expenditure was in the Tampa and Orlando markets, which made up 38% of total advertising expenditures, at 19% each.<sup>46</sup> The portion of expenditures for the remaining seven market areas was 28%.<sup>47</sup> According to Lottery officials, the cost of advertising in larger markets, such as Miami, is significantly more expensive than in smaller markets like Tallahassee.

**Exhibit 4**  
**Lottery Advertising Expenditures by Designated Market Area for Fiscal Year 2017-18 and County Population<sup>1</sup>**



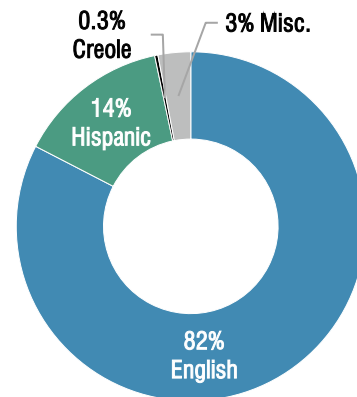
<sup>1</sup> Expenditures included an additional \$1,033,179 or 3% for miscellaneous advertising costs not attributed to a particular market area.  
 Source: Department of the Lottery and the Florida Legislature, Office of Economic and Demographic Research.

<sup>45</sup> The Florida Lottery's 10 designated market areas are Ft. Myers, Gainesville, Jacksonville, Miami, Orlando, Panama City, Pensacola, Tallahassee, Tampa, and West Palm Beach.  
<sup>46</sup> Tampa's market area includes Citrus, Hardee, Hernando, Highlands, Hillsborough, Manatee, Pasco, Pinellas, Polk, and Sarasota counties, while Orlando's market area covers Brevard, Flagler, Lake, Marion, Orange, Osceola, Seminole, Sumter, and Volusia.  
<sup>47</sup> Expenditures included an additional \$1,033,179 (3%) for miscellaneous advertising costs not attributed to a particular market area.



While most of the advertising was in English, approximately 15% of these expenditures were for advertising to individuals whose primary language is something other than English, primarily Spanish or Creole. For Fiscal Year 2017-18, the department spent \$26 million (82%) on English-language advertising, \$4.5 million (14%) on Hispanic advertising, \$100,693 (0.3%) on Creole advertising, and \$1,033,179 (3%) on miscellaneous advertising expenditures. (See Exhibit 5.) English advertisements are purchased throughout all 10 designated market areas. The department's advertising vendor procures Spanish-language media for the Ft. Myers, Miami, Orlando, Tampa, and West Palm Beach market areas, with Miami representing the largest portion (55%) of these expenditures. Creole advertisements were only purchased in the Miami market. (See Appendix D.)

**Exhibit 5  
Lottery Media Expenditures by Language for  
Fiscal Year 2017-18**



Source: Department of the Lottery.

## Our review of advertising activities found no evidence that the Lottery intentionally targets particular populations

Department administrators and officials within the Lottery's advertising agency (PP+K) emphasized that the Lottery's marketing efforts focus solely on reaching adults ages 25 to 54 within the state. They stated that Lottery advertising does not intentionally target subpopulations based on race, income level, or level of education. According to department officials, with the exception of the language translation, the messages for English language and non-English advertising are identical.

To verify the department's claim that its advertising does not intentionally target subpopulations, we conducted an extensive analysis of Lottery advertising documents and reports. We found no evidence that the Lottery intentionally advertises to subpopulations based on race, income level, or level of education. Furthermore, many of these documents corroborate statements by the department and its advertising agency regarding the focus of Lottery advertising.

- The Invitation to Negotiate (ITN) for General Market Advertising & Related Commodities and Services, the ITN Response from Vendor, and the approved contract between the department and PP+K do not describe targeting advertising campaigns to appeal to any specific racial group or to subpopulations based on income or education level. The ITN specifies advertising should focus on five broad objectives, which are generally consistent with the three pillars the department reported that it currently uses to drive its advertising campaigns. PP+K's ITN response conforms to the request from the department's ITN. The approved five-year contract between PP+K and the department codifies the terms of the ITN.
- The Lottery's advertising guidelines address the expected tone of advertising messages. The guidelines include six statements that generally address the types of messages that advertising should not include, such as promoting financial security or misrepresenting an individual's chances of winning. However, the statements do not address advertising to specific subpopulations within the state.



- The Lottery’s buying guidelines for media purchases are more descriptive than the advertising guidelines and outline target audience, programming priorities, length of advertisements, and special considerations for TV, radio, digital, and out-of-home advertising.<sup>48</sup> The guidelines are consistent with statements made by department officials that the focus of Lottery advertising is adult-age Floridians. The guidelines specify that the buying demographics of TV, radio, and out-of-home advertisements for both the general and Hispanic markets is adults between the ages of 25 and 54. Similarly, the guidelines specify that digital advertisements target the population over the age of 18 in both the general and Hispanic market.
- We also examined the Lottery’s product planning calendar, advertising flowcharts, and its quarterly media and advertising reports. The product planning calendar illustrates in which month advertisements will run, which products will be advertised, and the overarching message for each ad. The advertising flowcharts depict the intended market areas, media type, associated campaign, unit of purchase, and the product being highlighted for the fiscal year. PP+K’s quarterly media and advertising reports for January 2017 through September 2018 provide the agency’s annual communication strategy as well as its executional details by campaign. Our review of all of these documents found no evidence of targeting specific subpopulations within the state other than for language.

## Despite no evidence of targeting, certain demographic groups still may play the Lottery more than others

We found no evidence that Florida Lottery advertising intentionally targets subpopulations, so we examined whether lottery products might generally appeal to certain segments of the population more than others, which some research suggests is the case.<sup>49,50</sup> We analyzed Lottery tracking data and administrative data to determine whether certain demographic groups were more likely to play the Lottery, were more likely to play the Lottery frequently, or tended to spend more on lottery tickets than other demographic groups. The Lottery’s tracking survey found that individuals who were Hispanic, college-educated, or had higher incomes reported that they were more likely to play at least once a year. Our analysis of winner claims data found that residents spent more on lottery tickets in parts of the state where a larger percentage of adults were African American, living in poverty, or had low education levels. We analyzed tracts by race, poverty, education level, and ethnicity separately and did not examine combinations of these subgroups. Therefore, these findings should not be combined to develop a profile of a typical lottery player. Our findings are consistent with the research literature on lottery play that we examined.

**According to the Lottery tracking survey, individuals who were Hispanic, college-educated, or had higher incomes reported that they were more likely to play at least once a year.** The Florida Lottery’s former market research vendor conducted a monthly lottery tracking study, which represented approximately 6,000 responses on an annual basis. The vendor asked panel respondents

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<sup>48</sup> Out-of-home advertising is all media formats specifically intended to reach consumers outside of their homes only, including billboards, advertisements at gas pumps and train/bus stations, and posters.

<sup>49</sup> These studies suggest that African Americans, those with lower socioeconomic status, and individuals with lower levels of education play lotteries most frequently. Some studies show differences related only to instant play and not draw games.

<sup>50</sup> Examples of such studies are: John W. Welte, et al., "Gambling Participation in the U .S.-Results from a National Survey." *Journal of Gambling Studies*, 4 (2002): 313-37.; Garrick Blalock, David R. Just, and Daniel H Simon, "Hitting the Jackpot or Hitting the Skids: Entertainment, Poverty, and the Demand for State Lotteries." *American Journal of Economics and Sociology*, 66 (2007): 545-570.; Vanchai Ariyabuddhiphongs, "Lottery Gambling: A Review." *Journal of Gambling Studies*, 27 (2010): 15-33.; Brandon Lang and Megumi Omori "Can Demographic Variables Predict Lottery and Pari-mutuel Losses? An Empirical Investigation." *Journal of Gambling Studies*, 25 (2009): 171-183.

to answer a web-based survey with questions designed to evaluate game interest and inform product development.<sup>51</sup> We compiled the survey results for Fiscal Year 2017-18 to determine if certain demographic groups disproportionately reported purchasing lottery tickets at least once in the past year or purchasing lottery products more frequently in the past year compared to other study participants.

The survey results suggest that participants from certain demographic groups were more likely than their counterparts to have reported that they played the Lottery at least once in the past year. Although most percentage differences between demographic groups were relatively small, a higher percentage of males, persons identifying as Hispanic, and college-educated individuals reported having played the Lottery once or more in the past year. Furthermore, the percentage of individuals that said that they played the Lottery in the past year was higher for persons in higher income brackets. (See Exhibit 6.)

In general, these same subgroups reported that they played the Lottery

at least weekly. However, respondents with a high school education or less were more likely than respondents with higher levels of education to report that they played the Lottery once a week or more.

These findings should be viewed with caution. Although panel surveys are frequently used in market research, some studies have concluded that panel respondents such as those used for the Lottery's tracking study are not representative of all individuals in the population.<sup>52</sup> In addition, our comparison of the survey respondents to census data suggests that the survey may over-represent more highly

**Exhibit 6**  
**OPPAGA Analysis of Lottery Tracking Study Results (Combined Quarter 1 to Quarter 4, Fiscal Year 2017-18)<sup>1, 2, 3</sup>**

Demographic Category	Percentage Who Played Any Lottery Game in the Past Year n=6,003	Percentage Who Played Any Lottery Game Once a Week or More n=2,953
	Average	65%
<b>Gender</b>		
Male	<b>68%</b>	<b>46%</b>
Female	62%	31%
<b>Race</b>		
White	65%	39%
Other	65%	35%
<b>Hispanic Status</b>		
Hispanic	<b>72%</b>	<b>43%</b>
Non-Hispanic	63%	37%
<b>Education</b>		
High School or Less	62%	<b>42%</b>
Some Post Secondary	65%	38%
University or More	<b>66%</b>	38%
<b>Income</b>		
<\$20K	56%	35%
\$20K-\$29K	62%	37%
\$30K-\$49K	<b>66%</b>	38%
\$50K-\$69K	<b>68%</b>	<b>40%</b>
\$70K+	<b>69%</b>	<b>41%</b>

<sup>1</sup> This exhibit shows the percentage of each demographic category that has played any lottery game in the past year or played a lottery game once a week or more. For example, 65% of all survey respondents reported playing in the past year, but 72% of all Hispanic respondents and 63% of all non-Hispanic respondents reported playing in the past year.

<sup>2</sup> Differences in play by race may be obscured by the fact that the tracking survey results only reported race as "white" and "other."

<sup>3</sup> Bolded figures represent percentages that were above the average percentage for all respondents on that particular question.

Source: OPPAGA analysis of data provided by the Department of the Lottery.

<sup>51</sup> The vendor conducted the survey by telephone for the Hispanic population.

<sup>52</sup> Examples of such studies are: Benjamin M. Craig et al., "Comparison of US Panel Vendors for Online Surveys." *Journal of Medical Internet Research* 15 (2013); Pete Comely and Jon Beaumont, "Online Market Research: Methods, Benefits and Issues—Part 1." *Journal of Direct Data and Digital Marketing Practice* 12 (2011): 315-327.

educated individuals. Moreover, the tracking survey results do not specifically provide information about adults living in poverty or African-American adults.

**Residents spent more on lottery tickets in parts of the state where a larger percentage of adults were African American, living in poverty, or had low education levels.**<sup>53</sup> While the above finding describes how often individuals purchase lottery tickets, it does not address the number of tickets purchased.<sup>54</sup> Therefore, we conducted an analysis to examine spending on lottery products. To claim prizes of \$600 or more, winners must provide information to the department, including their primary address. Since winning tickets are a random sample of all tickets purchased, we were able to use this data to estimate the geographic distribution of all spending on lottery tickets by residents throughout the state of Florida for Fiscal Year 2013-14 through Fiscal Year 2017-18.<sup>55</sup> We compared these estimates to the demographics of all census tracts in Florida and found significant relationships between average weekly lottery spending per adult and the demographics of the areas where they reside. (See Appendix E for details about this analysis.)

Some prior research used retailer sales data to look at the demographics of the areas where lottery tickets are sold and assumed the demographics of the area in which the retailer was located were the same as the demographics of ticket purchasers. However, our analysis found that approximately 80% of retailer sales in a tract were to people residing outside the tract. Furthermore, approximately 59% of retailer sales were to people who resided outside of the retailer's ZIP code.

To better reflect the likely demographics of people who buy lottery tickets, we examined the demographics of the areas where lottery ticket buyers resided instead of examining the demographics of the areas where lottery tickets were sold. We found that, on average, adults living in areas with a relatively high percentage of residents who were African American, living in poverty, or had low education levels spent more on lottery tickets.<sup>56</sup>

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<sup>53</sup> For this analysis, adults with no more than a high school education are categorized as having "low education levels." Individuals under the federal poverty level are categorized as "living in poverty."

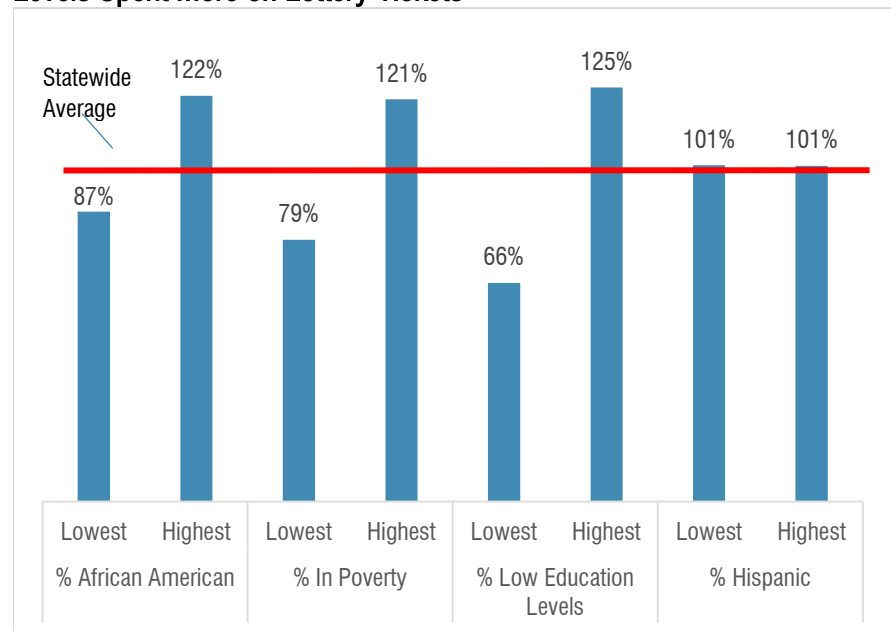
<sup>54</sup> The Lottery's tracking survey also asked survey participants about their spending on lottery products in the past month and past year. The survey responses are not consistent with the findings from our analysis of the winner's claims data or with the findings of several studies that we examined on this issue. See Appendix E for more details.

<sup>55</sup> During this period, the Lottery had some products with maximum prize payouts under \$600; these products were not represented in the winning claims data. However, over 93% of all Lottery spending during this period was on products that had a maximum prize payout of at least \$600; these products were represented in the over 580,000 winning claims records we analyzed. As a result, the winning claims data is a representative random sample of over 93% of all Lottery spending.

<sup>56</sup> Our analysis included an examination of the age of purchasers, but we found no definitive pattern by age. However, our analysis confirmed that, on average, males spend more on the Lottery than females.

For example, as shown in Exhibit 7, spending per adult on lottery tickets in the 20% of census tracts with the highest percentage of African Americans was 22% higher than the statewide average. In contrast, spending per adult on lottery tickets in the 20% of census tracts with the lowest percentage of African Americans was 13% lower than the statewide average. Our analysis found similar patterns based on poverty level and education level. However, the analysis did not reveal differences in lottery spending in areas with relatively high versus low percentages of adults identifying as Hispanic. While we were unable to directly examine the demographics of lottery ticket purchasers, this analysis suggests that, on average, adults who were African American, living in poverty, or had low education levels spent more on lottery products.<sup>57</sup> We analyzed tracts by race, poverty, education level, and ethnicity separately and did not examine combinations of these subgroups. Therefore, these findings should not be combined to develop a profile of a typical lottery player. This analysis is based on estimates, which have limitations, and are further discussed in Appendix E. However, these findings are consistent with the research literature on lottery play that we examined.<sup>58</sup>

**Exhibit 7**  
**Adults Living in Areas With a Relatively High Percentage of Residents Who Were African American, Living in Poverty, or Had Low Education Levels Spent More on Lottery Tickets**



Source: OPPAGA analysis of Lottery winner claims data and data from the U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates.

<sup>57</sup> Lottery winner data does not include demographic information about ticket purchasers, other than the age and gender. However, although not conclusive, by comparing quintiles of tracts that are the most demographically distinct we increased the likelihood that the demographics of the tracts are representative of the ticket purchasers.

<sup>58</sup> Some research indicates those with lower socioeconomic status and individuals with lower levels of education play the lottery most frequently. Furthermore, some research suggests that, although African Americans may be less likely to play overall, that among African-Americans who do play, they play more frequently and spend more than whites.

# OPTIONS

While the department and the Legislature have increased transfers to education, additional actions could increase sales and efficiency and ultimately further increase transfers to education.

## Department Options

The Department of the Lottery should

- include an evaluation of its security measures for fast play games in the scope of its next contracted security study;
- continue implementing its plan to prevent the sale of lottery tickets to minors; and
- 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 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 wishes to encourage the Lottery's long-term adherence to responsible play best practices, it could consider amending statutes to require that the Florida Lottery maintain national or international responsible gaming certification.

If the Legislature wishes to address 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. The Lottery's written response to this report is in Appendix F.

## 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 a 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 any new games with a higher prize payout would require careful analysis of the Lottery Revenue Bond rate floor, as transfers to the EETF need to meet or exceed the transfer rates specified in the bond covenants. Estimates of annual revenue assume full implementation by July 1, 2019. However, some options would require additional time to implement, such as launching a keno or monitor game. For the 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. 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
<b>All or Nothing</b> 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 <sup>1</sup>	<ul style="list-style-type: none"> <li>Could generate approximately \$6.1 million in transfers to education during the first full year of implementation<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>May have a limited life cycle after which sales decline</li> </ul>
<b>Oversized Scratch-off Tickets</b> Double the width of current tickets (e.g., 8" by 12") <sup>3</sup>	<ul style="list-style-type: none"> <li>Could generate approximately \$16.1 million in transfers to education during the first full year of implementation<sup>4</sup></li> <li>May attract new players who are interested in the niche appeal</li> <li>Could be an appealing purchase for gift giving</li> <li>Extra space allows for more games per ticket, which players may perceive as enhanced value</li> <li>Unique game dispensers, sitting on top of the other merchandising towers, make players aware of the tickets and provide a means of distribution</li> </ul>	<ul style="list-style-type: none"> <li>Vending machines' current ticket dispensers would be unable to dispense these tickets due to the size</li> <li>Implementation would require retailers to agree to place special ticket dispensers in their stores</li> <li>Would compete with similarly priced products</li> <li>May have a limited life cycle, as shown by the performance experience of other U.S. lotteries</li> </ul>
<b>Fast Keno</b> 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 the Lottery headquarters; it may be played	<ul style="list-style-type: none"> <li>Could generate approximately \$112.7 million per year in additional recurring transfers to education<sup>5</sup></li> <li>Can be limited to social settings such as bars, restaurants, and fraternal</li> </ul>	<ul style="list-style-type: none"> <li>May be addictive due to its rapid play style</li> <li>Could be considered an expansion of gambling</li> <li>Sales are dependent on new retailer participation</li> </ul>



Option	Advantages	Disadvantages
<p>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<sup>6</sup></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. <a href="#">24.105(9)(d)</a>, <i>F.S.</i>)</p>	<p>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</p> <ul style="list-style-type: none"> <li>▪ Would help the Lottery recruit new retailers in social venues</li> </ul>	
<p><b>Daily Keno</b></p> <p>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 the Lottery headquarters; the game may be played more than once per day</p>	<ul style="list-style-type: none"> <li>▪ Could generate approximately \$9.5 million per year in additional recurring transfers to education<sup>7</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Could be considered an expansion of gambling</li> <li>▪ May have a limited life cycle after which sales decline</li> </ul>
<p><b>Monitor Games</b></p> <p>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. <a href="#">24.105(9)(d)</a>, <i>F.S.</i>)</p>	<ul style="list-style-type: none"> <li>▪ Could generate approximately \$16 million per year in additional recurring transfers to education<sup>8</sup></li> <li>▪ Could appeal to emerging markets of lottery players that have grown up playing computer games</li> <li>▪ Allows the Lottery to recruit new retailers in social venues such as bars and restaurants</li> <li>▪ Could be limited to pari-mutuel facilities or social settings, such as bars and restaurants</li> </ul>	<ul style="list-style-type: none"> <li>▪ May be addictive due to its rapid play style</li> <li>▪ Could be considered an expansion of gambling</li> </ul>

<sup>1</sup> We identified six state lotteries that currently offer an All or Nothing game—Arizona, Georgia, Iowa, Massachusetts, Minnesota, and Texas.

<sup>2</sup> We estimated a range of potential All or Nothing transfer revenue (\$3.1 million to \$20.5 million, with a median of \$6.1 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 2019. The estimate assumes a draw game transfer rate to the EETF of 39.39%, based on the December 2018 Revenue Estimating Conference projected transfers for Fiscal Year 2019-20 and that 10% of the sales would be shifted from existing game sales.

<sup>3</sup> We identified 19 state lotteries that have offered oversized scratch-off tickets—Arizona, Arkansas, California, Georgia, Idaho, Illinois, Kansas, Kentucky, Minnesota, Missouri, New Mexico, North Carolina, Ohio, South Carolina, Tennessee, Texas, Virginia, Washington, and Wisconsin.

<sup>4</sup> We estimated a range of potential oversized scratch-off ticket transfer revenue (\$1.7 million to \$121.1 million, with a median of \$16.1 million) based on the highest and lowest per capita sales in states that offer oversized scratch-off tickets, which we applied to Florida’s estimated population for 2020. The estimate assumes a scratch-off game transfer rate to the EETF of 18.74%, based on the December 2018 Revenue Estimating Conference projected transfers for Fiscal Year 2020-21; additional estimated dispenser costs of \$197,000; additional printing costs of \$650,000; and that 15% of the sales would be shifted from existing game sales.

<sup>5</sup> We identified 20 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, Pennsylvania, Rhode Island, U.S. Virgin Islands, and West Virginia.

<sup>6</sup> We estimated a range of potential Fast Keno transfer revenue (\$12.5 million to \$780.3 million, with a median of \$112.7 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 2020. Our estimate assumes a transfer rate to the Educational EETF 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.

<sup>7</sup> We estimated a range of Daily Keno transfer revenue (\$6.2 million to \$20.5 million, with a median of \$9.5 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 2019. The estimate assumes a draw game transfer rate to the EETF of 39.39%, based on the December 2018 Revenue Estimating Conference projected transfers for Fiscal Year 2019-20 and that 5% of the sales would be shifted from existing game sales.

<sup>8</sup> We estimated a range of potential monitor game transfer revenue (\$5.2 million to \$174.1 million, with a median of \$16 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 2020. Our estimate assumes a transfer rate to the EETF 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, increasing the number of retailers has 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, 2019. 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. 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><b>Paying at the Pump for Lottery Products (Play at the Pump)</b></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 flat fee for each transaction, which is for the vendor that provides the technology that enables play at the pump purchases<sup>1, 2</sup></p> <p>Implementing this option may require statutory changes to</p> <ul style="list-style-type: none"> <li>▪ allow player-activated terminals (s. <a href="#">24.105, F.S.</a>)</li> <li>▪ allow use of credit cards or other instruments issued by a bank for lottery purchases without requiring purchase of \$20 in other goods (s. <a href="#">24.118, F.S.</a>)</li> <li>▪ modify the definition of and requirements for lottery retailers (ss. <a href="#">24.103</a> and <a href="#">24.112, F.S.</a>)</li> <li>▪ modify the definition of and requirements for lottery vending machines (s. <a href="#">24.112, F.S.</a>)</li> <li>▪ address the prohibition against selling lottery tickets at anything other than the price set by the Lottery (s. <a href="#">24.117, F.S.</a>)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Could generate approximately \$570,000 per year in additional recurring transfers to education<sup>3</sup></li> <li>▪ Would increase convenience and avoid the loss of sales from players who have no need to walk into the store to pay for gas</li> <li>▪ Offering this option at ATMs may help expand the retailer network to non-traditional locations</li> <li>▪ Purchases can be limited to a certain amount per week<sup>4</sup></li> <li>▪ Can be configured to require verification of age<sup>5</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Could be considered an expansion of gambling</li> <li>▪ 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</li> </ul>

Option	Advantages	Disadvantages
<p><b>Increase Retailer Network</b></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"> <li>▪ Adding 200 new retailers has the potential to generate approximately \$4.8 million per year in additional recurring transfers to education<sup>6</sup></li> <li>▪ Florida has been below average in terminal density compared to other successful lottery states, so increasing its network could improve per capita sales</li> <li>▪ Could increase product distribution and awareness, making products available to new players who do not shop where products are currently being sold</li> </ul>	<ul style="list-style-type: none"> <li>▪ May require legislative budget approval for more terminals, depending on the extent of growth</li> <li>▪ The non-traditional lottery business model may require the development of different products, compensation frameworks, and distribution strategies</li> <li>▪ May require additional lottery staff to service new accounts</li> </ul>
<p><b>In-Lane Sales</b></p> <p>Would allow players to buy lottery tickets as they go through the individual checkout lanes in locations such as grocery stores</p> <p>This option can be implemented in different ways; for example, one way is similar to a gift card transaction whereby the consumer selects a pre-printed card from a display within the store for a specific number of quick pick draw game tickets, and upon check-out, the cashier scans the bar code on the card; tickets would be printed on the customer's receipt</p>	<ul style="list-style-type: none"> <li>▪ Would increase player convenience</li> <li>▪ Would provide additional points of sale in existing retail locations</li> <li>▪ May help with retailer recruitment because it would allow new trade styles, such as big box retailers, the opportunity to sell lottery tickets without a clerk at a lottery terminal</li> </ul>	<ul style="list-style-type: none"> <li>▪ Technology currently used by other state lotteries limits tickets to quick picks for draw games</li> </ul>

<sup>1</sup> We identified seven state lotteries that offer Play at the Pump—California, Georgia, Missouri, New Mexico, New York, North Carolina, and Pennsylvania.

<sup>2</sup> 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 for each transaction and 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).

<sup>3</sup> We estimated a range of potential Play at the Pump transfer revenue (\$280,000 to \$1.2 million, with a median of \$570,000) 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 EETF of 39.38%, based on the December 2018 Revenue Estimating Conference projected transfers for Fiscal Year 2020-21. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> We estimated potential transfer revenues from increasing the retailer network by assuming that the 200 retailers would achieve at least the average weekly gross sales new retailers achieved in Fiscal Year 2017-18. 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

## Florida Lottery Advertising Expenditures by Campaign

Exhibit C-1

Florida Lottery Advertising Expenditures by Campaign for Fiscal Year 2017-18

Description <sup>1</sup>	Media Type <sup>1</sup>	Payment	Game or Product Type	Advertising Message	Message - Other
<b>Campaign: Week for Life and Week for Life \$20 Ticket</b>			<b>\$3,350,491.32</b>		
Week For Life- FL Lottery WINFINITY TV	TV	\$1,057,479.88	Scratch	Win Forever	Prizes Between \$500 And \$10,000 a Week For Life!
Week For Life- FL Lottery WINFINITY Radio	Radio	\$169,458.46	Scratch	Win Forever	Prizes Between \$500 And \$10,000 a Week For Life!
Week For Life- FL Lottery WINFINITY OOH	OOH	\$121,784.02	Scratch	Win Forever	Prizes Between \$500 And \$10,000 a Week For Life!
Week For Life- FL Lottery WINFINITY Digital (Media Buy)	Digital	\$137,233.25	Scratch	Win Forever	Prizes Between \$500 And \$10,000 a Week For Life!
Week For Life \$20 TV	TV	\$1,206,476.92	Scratch	Win Forever	Prizes Between \$500 And \$10,000 a Week For Life!
Week For Life \$20 Radio	Radio	\$227,199.39	Scratch	Win Forever	Prizes Between \$500 And \$10,000 a Week For Life!
Week For Life \$20 OOH	OOH	\$209,153.23	Scratch	Win Forever	Prizes Between \$500 And \$10,000 a Week For Life!
Week For Life \$20 Digital Banners	Digital	\$221,706.18	Scratch	Win Forever	Prizes Between \$500 And \$10,000 a Week For Life!
<b>Campaign: Permanent Grouper</b>			<b>\$1,856,575.12</b>		
Permanent Grouper TV	TV	\$1,235,364.55	Draw	Five Times The Chances To Win	\$6 Value For \$5
Permanent Grouper Radio	Radio	\$272,181.52	Draw	Five Times The Chances To Win	\$6 Value For \$5
Permanent Grouper OOH	OOH	\$213,122.03	Draw	Five Times The Chances To Win	\$6 Value For \$5
Permanent Grouper Digital Banners	Digital	\$135,907.02	Draw	Five Times The Chances To Win	\$6 Value For \$5
<b>Campaign: EZmatch Summer</b>			<b>\$628,769.38</b>		
FL Lottery EZmatch Summer Promotion Radio	Radio	\$320,765.06	Draw	Play Now And Win More	Add EZmatch To FL Lotto For An Instant Chance To Win!
EZmatch Summer Digital Banners	Digital	\$308,004.32	Draw	Play Now And Win More	Add EZmatch To FL Lotto For An Instant Chance To Win!
<b>Campaign: Brand - Education</b>			<b>\$6,079,727.16</b>		
Amazing Florida TV	TV	\$4,440,571.64	Brand	Funding Education By The Billions; When You Play Floridians Win	The Florida Lottery Helps Students Shine
Brand "Connections"	TV		Brand	Funding Education	Funding Education
Amazing Florida Radio	Radio	\$561,009.40	Brand	Funding Education By The Billions; When You Play Floridians Win	The Florida Lottery Helps Students Shine
Lottery Education Billboards	OOH	\$640,669.43	Brand	Over \$33 Billion To Education	Over \$33 Billion To Education
Education Digital Banners-Spanish/English	Digital	\$437,476.69	Brand	Over \$33 Billion To Education	Over \$33 Billion To Education

Description <sup>1</sup>	Media Type <sup>1</sup>	Payment	Game or Product Type	Advertising Message	Message - Other
		<b>Campaign: Holiday</b>	<b>\$2,424,423.51</b>		
Holiday TV	TV	\$1,554,397.00	Scratch	Best Gift This Season	Holiday Scratch-Offs Are Perfect For Everyone On Your List
Holiday Radio	Radio	\$331,200.72	Scratch	Best Gift This Season	Holiday Scratch-Offs Are Perfect For Everyone On Your List
Holiday OOH	OOH	\$211,817.62	Scratch	Best Gift This Season	Holiday Scratch-Offs Are Perfect For Everyone On Your List
Holiday Digital Banners-Media Buy	Digital	\$327,008.17	Scratch	Best Gift This Season	Holiday Scratch-Offs Are Perfect For Everyone On Your List
		<b>Campaign: Gameday Cash</b>	<b>\$2,251,039.11</b>		
Gameday Cash TV	TV	\$1,323,302.74	Draw	Win Big With Your Lotto, Fantasy 5 Or The All New Fast Play Ticket	Over \$200,000 In Cash Prizes, Bowl Tickets, Season Tickets And More!
Gameday Cash Radio	Radio	\$531,084.70	Draw	Win Big With Your Lotto, Fantasy 5 Or The All New Fast Play Ticket	Over \$200,000 In Cash Prizes, Bowl Tickets, Season Tickets And More!
Gameday Cash Digital Banners- Media Buy	Digital	\$396,651.67	Draw	Win Big With Your Lotto, Fantasy 5 Or The All New Fast Play Ticket	Over \$200,000 In Cash Prizes, Bowl Tickets, Season Tickets And More!
		<b>Campaign: Mega Millions</b>	<b>\$587,516.81</b>		
Mega Millions Radio	Radio	\$285,498.78	Draw	Jackpots Now Starting At \$40 Million	\$40,000,000 Starting Jackpot! More Than \$1,000,000 Winners!
Mega Millions OOH	OOH	\$165,815.25	Draw	Jackpots Now Starting At \$40 Million	\$40,000,000 Starting Jackpot! More Than \$1,000,000 Winners!
Mega Millions Digital Banners- English And Spanish Media Buy	Digital	\$136,202.78	Draw	Jackpots Now Starting At \$40 Million	\$40,000,000 Starting Jackpot! More Than \$1,000,000 Winners!
		<b>Campaign: Birthday and Birthday \$30 Ticket</b>	<b>\$3,800,587.11</b>		
Anniversary TV	TV	\$1,140,230.12	Scratch	More Times The Winning	Over \$32 Million Winning Tickets
30th Birthday Celebration OOH	OOH	\$263,024.42	Scratch	More Times The Winning	Over \$32 Million Winning Tickets
30th Birthday Digital Banners	Digital	\$146,197.20	Scratch	More Times The Winning	Over \$32 Million Winning Tickets
30th Birthday Celebration Radio	Radio	\$228,114.50	Scratch	More Times The Winning	Over \$32 Million Winning Tickets
30th Birthday Celebration \$30 Ticket TV	TV	\$1,255,040.44	Scratch	More Times The Winning	Over \$32 Million Winning Tickets
30th Birthday Celebration \$30 Ticket Radio	Radio	\$230,679.28	Scratch	More Times The Winning	Biggest Top Prize Ever
30th Birthday Celebration \$30 Ticket OOH	OOH	\$368,112.66	Scratch	More Times The Winning	Biggest Top Prize Ever
30th Birthday Celebration \$30 Ticket Digital Banners-Spanish And English	Digital	\$169,188.48	Scratch	More Times The Winning	Biggest Top Prize Ever

Description <sup>1</sup>	Media Type <sup>1</sup>	Payment	Game or Product Type	Advertising Message	Message - Other
<b>Campaign: Pac Man \$208,867.33</b>					
Pac Man Radio	Radio	\$101,665.50	Scratch	Not Chomp Change!	Top Prize Of \$250,000! Over \$52,000,000 In Cash Prizes!
Pac Man OOH	OOH	\$107,201.83	Scratch	Not Chomp Change!	Top Prize Of \$250,000! Over \$52,000,000 In Cash Prizes!
<b>Campaign: FL Lotto with EZmatch \$1,325,488.72</b>					
FL Lotto With EZmatch TV	TV	\$873,516.17	Draw	Instant Chance To Win!	Add EZmatch To Lotto For An Instant Chance To Win Up To \$500!
FL Lotto With EZmatch Radio	Radio	\$167,104.71	Draw	Instant Chance To Win!	Add EZmatch To Lotto For An Instant Chance To Win Up To \$500!
FL Lotto With EZmatch OOH	OOH	\$71,063.68	Draw	Instant Chance To Win!	Add EZmatch To Lotto For An Instant Chance To Win Up To \$500!
FL Lotto With EZmatch Digital Banners	Digital	\$213,804.16	Draw	Instant Chance To Win!	Add EZmatch To Lotto For An Instant Chance To Win Up To \$500!
<b>Campaign: Fast Play \$395,610.16</b>					
Fast Play Radio Scripts	Radio	\$128,322.00	Draw	The New Way To Win Now!	The Fastest Way To Win! Win Up To \$10,000 Instantly!
Fast Play OOH	OOH	\$117,795.16	Draw	The New Way To Win Now!	The Fastest Way To Win! Win Up To \$10,000 Instantly!
March Fast Play Digital Banners	Digital	\$149,493.00	Draw	The New Way To Win Now!	The Fastest Way To Win! Win Up To \$10,000 Instantly!
<b>Campaign: Play Responsibly \$532,638.94</b>					
Play Responsibly OOH Boards	OOH	\$199,920.40	Responsible Gaming	Know Your Limits	Play Responsibly
Play Responsibly Radio	Radio	\$332,718.54	Responsible Gaming	Know Your Limits	Play Responsibly
<b>Campaign: Grouper Second Chance \$228,521.59</b>					
Grouper Second Chance Promotion Radio Script	Radio	\$55,493.70	Draw	Everyone Deserves A Second Chance	\$400,000 In Cash Prizes Available Including 16 Top Prizes Of \$20,000!
Grouper Second Chance Promotion OOH	OOH	\$111,161.18	Draw	Everyone Deserves A Second Chance	\$400,000 In Cash Prizes Available Including 16 Top Prizes Of \$20,000!
Grouper Second Chance Digital	Digital	\$61,866.71	Draw	Everyone Deserves A Second Chance	\$400,000 In Cash Prizes Available Including 16 Top Prizes Of \$20,000!
Grouper Second Chance HTML	Digital	\$61,866.71	Draw	Everyone Deserves A Second Chance	\$400,000 In Cash Prizes Available Including 16 Top Prizes Of \$20,000!
<b>Campaign: Powercruise II \$456,126.79</b>					
Powercruise II Radio	Radio	\$165,910.50	Draw	Picture Yourself Winning Big	Your Second Chance To Win Big
Powercruise II Digital	Digital	\$290,216.29	Draw	Picture Yourself Winning Big	Your Second Chance To Win Big



Description <sup>1</sup>	Media Type <sup>1</sup>	Payment	Game or Product Type	Advertising Message	Message - Other
<b>Campaign: April Scratch-Offs</b>			<b>\$2,830,562.94</b>		
April Scratch-Offs TV	TV	\$1,608,966.03	Scratch	It's Good To Have Options	Live Changing Prizes Instantly!
April Scratch-Offs Radio	Radio	\$331,145.04	Scratch	It's Good To Have Options	Live Changing Prizes Instantly!
April Scratch-Offs OOH	OOH	\$544,382.37	Scratch	It's Good To Have Options	Live Changing Prizes Instantly!
April Scratch-Offs Digital	Digital	\$346,069.50	Scratch	It's Good To Have Options	Live Changing Prizes Instantly!
<b>Campaign: Retailer Recruitment</b>			<b>\$50,000.00</b>		
Retailer Recruitment Digital	Digital	\$50,000.00	Retailer Recruitment	Retailer Recruitment	Retailer Recruitment
<b>Campaign: Monopoly Teasers</b>			<b>\$123,245.31</b>		
Monopoly OOH Teaser Boards	OOH	\$123,245.31	Scratch	A New Spin On A Classic	Over \$355,000,000 In Cash Prizes!
<b>Jackpot Boards</b>			<b>\$3,228,252.00</b>		
Jackpot OOH	N/A	\$3,228,252.00	Draw	N/A	N/A
<b>Print Miscellaneous</b>			<b>\$717,175.35</b>		
Print/Misc., Sponsorships <sup>2</sup>	N/A	\$717,175.35	BRAND	N/A	N/A
<b>Miscellaneous Spend</b>			<b>\$613,603.72</b>		
Annual OOH Production, Sunshine Pre-pay, MMM Study, Incremental Digital <sup>3</sup>	N/A	\$613,603.72	N/A	N/A	N/A
<b>Total, Fiscal Year 2017-18: \$31,689,222.37</b>					

<sup>1</sup> OOH is out-of-home advertising, meaning all media formats specifically intended to reach consumers outside of their homes only, including billboards, advertisements at gas pumps and train/bus stations, and posters.

<sup>2</sup> Print/Misc. includes costs for all contracted print vendors, print publications, and other miscellaneous costs that take place throughout the year. Sponsorship costs include any media partnerships placed outside of the typical annual purchases, such as March Madness and Salsa y Sazon buys.

<sup>3</sup> Annual OOH production are costs such as static billboards with education messaging. Sunshine pre-pay includes the OOH billboard digit leases for Fiscal Year 2018-19. The Marketing Mix Modeling (MMM) study includes the cost incurred when contracting with Bottom-Line Analytics for the study. Incremental digital is comprised of the costs associated with purchasing digital media, such as banner ads, to boost support for priority Lottery games.

Source: Department of the Lottery.

# APPENDIX D

## Advertising Expenditures by Market Area and Market Segment

### Exhibit D-1

#### Florida Lottery Advertising Expenditures by Market Area and Market Segment for Fiscal Year 2017-18

Market Area	Market Segment			Total
	General	Hispanic	Creole	
Miami	\$7,223,722	\$2,489,348	\$100,693	\$9,813,763
Orlando	5,329,011	733,176		6,062,187
Tampa	5,294,278	665,217		5,959,495
West Palm Beach	2,448,282	215,604		2,663,886
Ft. Myers	1,303,592	430,696		1,734,288
Jacksonville	1,601,569			1,601,569
Pensacola	914,035			914,035
Tallahassee	749,863			749,863
Gainesville	660,979			660,979
Panama City	495,979			495,979
Miscellaneous <sup>1</sup>				1,033,179
<b>TOTAL</b>	<b>\$26,021,310</b>	<b>\$4,534,041</b>	<b>\$100,693</b>	<b>\$31,689,223</b>

<sup>1</sup> Miscellaneous includes other advertising expenses the department did not attribute to a particular market area, including annual print, out-of-home production, Sunshine pre-pay, and Marketing Mix Modeling (MMM) study costs. Annual OOH production are costs such as static billboards with education messaging. Sunshine pre-pay includes the OOH billboard digit leases for Fiscal Year 2018-19. The MMM study includes the cost incurred when contracting with Bottom-Line Analytics for the study.

Source: Department of the Lottery.

# APPENDIX E

## Winning Ticket Analysis Methodology

We examined Department of the Lottery data on winning ticket claims and ticket sales, and U.S. Census data on the demographics of Florida census tracts, to determine whether spending on lottery tickets is potentially higher among particular demographic groups. Using the Lottery data, we were able to estimate the geographic distribution of spending on Lottery tickets by residents throughout the state of Florida for Fiscal Year 2013-14 through Fiscal Year 2017-18. We compared these estimates to the demographics of all census tracts in Florida and found significant relationships between average weekly lottery spending per adult and the demographics of the areas where they reside. On average, adults living in areas with a relatively high share of residents who were African American, living in poverty, or had low education levels, spent more on lottery products.

**Lottery tracking survey.** The Lottery's tracking survey also asked lottery players about their spending in the past month. Among players surveyed, males, non-white adults, and higher income individuals reported spending more on the lottery. However, differences based on education and Hispanic ethnicity were relatively small. The tracking survey also asked lottery players about their spending in the past year. We do not present these findings because our examination of the data suggests that measurement issues, potentially including recall bias, may be more pronounced for respondents when estimating their prior year spending than when estimating their prior month spending. Generalizing from respondents' past month and past year spending estimates, we calculated the implied statewide total lottery spending.<sup>59</sup> We found that both significantly underestimate spending on the lottery. The monthly estimate underestimated spending by approximately 29% while the annual estimate underestimated spending by over 50%.

**Estimating the geographic distribution of spending.** Given the survey limitations that we noted, to further explore the issue of differential spending, we used lottery winner data to estimate whether lottery spending varies among different demographic groups. We analyzed Department of the Lottery data on winning ticket claims, the locations of individuals who purchased the winning tickets, and retailer sales for Fiscal Year 2013-14 through Fiscal Year 2017-18. To claim prizes of \$600 or more, winners must provide information to the department, including their primary address and information about the winning ticket. During this period, the Lottery had some products with maximum prize payouts under \$600. These products are not represented in the winning ticket claims data. However, over 93% of all Lottery spending during this period was on products that had a maximum prize payout of at least \$600 and these products were represented in the over 580,000 winning claims records we analyzed.

This data allowed us to estimate the geographic distribution of all spending on Lottery tickets by residents throughout the state of Florida. Since tickets win at random based on pre-determined prize payout rates, winning tickets in the claims data reflect a random sample of nearly all tickets purchased. However, prize payout rates vary across games. Therefore, winning tickets represent a random sample of tickets purchased, stratified by game. To accurately estimate the geographic distribution of spending on Lottery tickets, we weighted each winning ticket by the average prize payout rate of each game, calculated as the number of tickets sold divided by the number of winning ticket claims over this

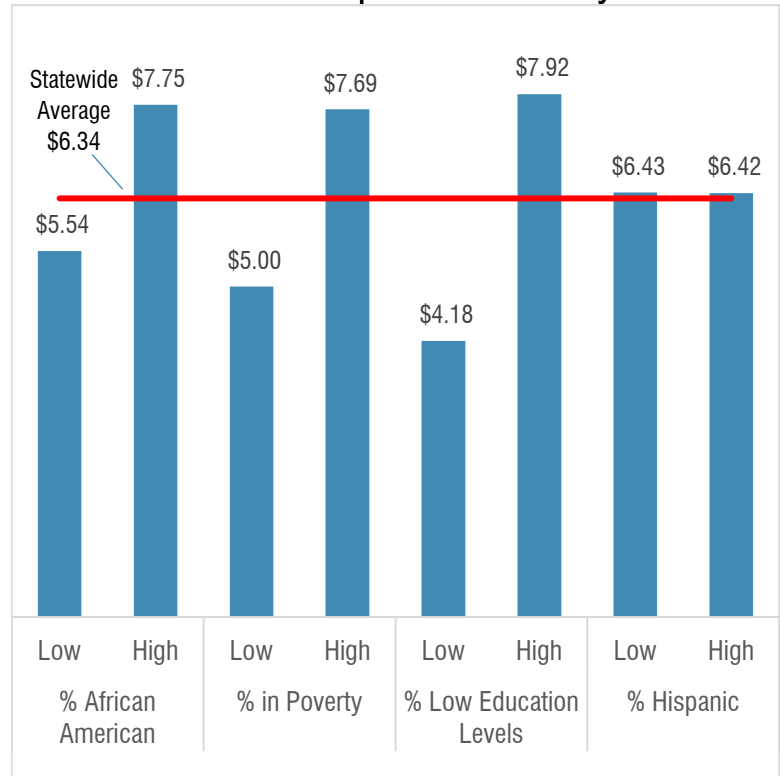
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<sup>59</sup> We calculated the statewide total spending estimates by multiplying the Florida adult population from the U.S. Census by the percent of adults who play the lottery and average spending per player from the Lottery tracking survey. We adjusted these estimates to account for purchase by out-of-state residents. To determine the accuracy of these survey-based estimates, we compared the estimates to actual statewide spending as reported by the Lottery from retailer sales.

period.<sup>60</sup> We then mapped the winners’ primary addresses to census tracts to determine the geographic distribution of estimated Lottery ticket spending throughout the state.

Using census data, we examined the relationship between per capita spending on Lottery tickets and the demographics of the census tracts where the purchasers resided.<sup>61</sup> We calculated per capita average weekly spending by dividing our tract-level estimates of spending by the adult population of the tract. We then examined the relationships between the race, ethnicity, age, income, and education level of the adults in the tracts and per capita Lottery ticket spending by the tracts’ residents.<sup>62</sup> We conducted several analyses to confirm the robustness of our results. Our findings focus on comparing the quintile of tracts with the highest percentage of the population in a given demographic group with the quintile of tracts with the lowest percentage of the population in a given demographic group. Exhibit 7 in the body of this report and Exhibit E-1 provide the same information but on different scales. Exhibit E-1 presents the estimates from our analysis in terms of average weekly lottery spending per adult. For example, we found that average weekly spending per adult on lottery products in the 20% of census tracts with the highest percentage of African Americans was \$1.42 (22%) higher than the statewide average of \$6.34. In contrast, average weekly spending per adult on lottery products in the 20% of census tracts with the lowest percentage of African Americans was \$0.80 (13%) lower than the statewide average.<sup>63</sup>

**Exhibit E-1  
Adults Living in Areas With a Relatively High Percentage of Residents Who Were African American, Living in Poverty, or Had Low Education Levels Spent More on Lottery Tickets**



Source: OPPAGA analysis of Lottery winner claims data and data from the U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates.

<sup>60</sup> This weighting is particularly important for this analysis because higher priced games typically have higher prize payout rates. As a result, higher priced games are over-represented in the winning ticket claims data compared to lower priced games. To ensure accurate representation of all ticket sales and the associated geographic location of the purchasers, it was important to weight winning claims by the prize payout rate.

<sup>61</sup> We analyzed demographic information, by census tract, from the U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates.

<sup>62</sup> This analysis excludes the approximately 7% of spending on Lottery games not represented in the winning ticket claims data, 3.8% of spending by people who reported addresses outside the state of Florida, and 1.9% of spending by people who reported addresses that could not be mapped to a census tract, primarily due to recording a post office box as their address. The quintile-level analysis also calculates true quintile-level rates by weighting tract-level estimates by the population size.

<sup>63</sup> This represents a net difference of \$115 in per adult annual spending between the tracts with the lowest and highest share of African American residents. These differences were more pronounced for poverty (\$140) and education level (\$195), but there was no difference based on the share of the adult population that was Hispanic.

While we were unable to directly examine the demographics of lottery ticket purchasers, this analysis suggests that, on average, adults who were African American, living in poverty, or had low education levels spent more on Lottery products. However, although not conclusive, by comparing quintiles of tracts that are the most demographically distinct we increased the likelihood that the demographics of the tracts are representative of the ticket purchasers. Also, our analysis is descriptive in nature and does not attempt to draw causal conclusions regarding why per capita sales vary between tracts with different demographics. There are a variety of factors that might affect the purchasing behaviors of different groups including demand-side factors (individual preferences, cultural norms, availability of substitute goods) and supply-side factors (availability of and access to the product).

This analysis has several advantages over alternative approaches. First, this analysis suggests it is preferable to examine winner claims data instead of retailer sales data. Retailer sales data has the advantage of allowing one to examine all lottery spending, instead of a stratified random sample of spending. However, we found that approximately 80% of sales by retailers within a census tract are to people who reside outside the census tract, and that approximately 59% of retailer sales were to people who resided outside of the retailer's ZIP code. Therefore, the demographics of the tracts where tickets are sold may not be representative of the demographics of the people who purchased the tickets. Second, this analysis is likely preferable to many survey approaches. Surveys have the advantage that they can directly tie the demographics of survey respondents to their reported purchasing behavior. However, winner claims data provides a very large random sample of players and does not suffer from some biases that may be found in surveys. Third, by comparing quintiles of tracts that are the most demographically distinct, this analysis increased the likelihood that the demographics of the tracts are representative of the ticket purchasers.

# APPENDIX F

## Agency Response

RON DESANTIS  
Governor



JIM POPPELL  
Secretary

February 4, 2019

R. Philip Twogood, Coordinator  
Office of Program Policy Analysis and Government Accountability  
111 West Madison Street  
Tallahassee, Florida 32399-1475

Dear Dr. Twogood:

Thank you for the opportunity to respond formally to your office's report: "Review of the Florida Lottery, 2018". We appreciate the diligence of your staff to thoroughly analyze our performance over the years to ensure the Florida Lottery continues to enable Floridians to benefit from significant funding for the enhancement of education and allow our players to experience the best games possible.

The Department spent many months working with your staff to ensure they had the most accurate, detailed, and complete information to compile their report. We also worked with them at every step to answer any questions and clarify any of the information. It truly was a team effort.

What resulted is a report that the Department believes will be helpful to us in our work going forward. With minor exceptions, the findings in the report mirror the positions of the Department.

The notable findings include that the Department:

- **Is Setting Records in Sales and Transfers to Education.** In Fiscal Year 17-18, the Lottery surpassed a new milestone of \$6.7 billion in annual sales and contributed yet another record amount of \$1.758 billion to the Educational Enhancement Trust Fund (EETF). Florida currently ranks 3rd highest among U.S. lotteries in total sales.
- **Continues to Outperform Legislative Operational Standards.** The Lottery's expense rate is the second lowest in the country. We have been able to dramatically increase revenues and contributions to education while maintaining lean staffing and operational expenses. Additionally, the Lottery is completely self-sufficient, requiring no General Revenue funding.
- **Does Not Target Any Audiences or Demographics With its Advertising Efforts.** The Lottery's goal is to maximize revenues through our marketing, but we make no effort whatsoever to target certain populations. Our message of fun, entertaining and responsible play is one that we communicate to all Floridians over the age of 18.

- **Has Been Recognized Nationally for its Responsible Gaming Program.** In September 2018, the Lottery received certifications from the North American Association of State and Provincial Lotteries (NASPL) and the National Council on Problem Gambling (NCPG) for the implementation of our Responsible Gaming program. Responsible Gaming is something that is incorporated into everything the Lottery does, from our security to our marketing efforts and everything in between.

These positive findings are a testament to the hard work and dedication of the Florida Lottery staff, as well as the leadership of the Governor and Legislature. We are extremely proud, and we commend OPPAGA for highlighting these points in the report.

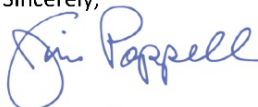
There was, however, one area of the report that the Department is unable to confirm. The section entitled "Despite no evidence of targeting, certain demographic groups still may play the Lottery more than others." Specifically, the report states: "*Residents spent more on lottery tickets in parts of the state where a larger percentage of adults had lower education levels, were African American, or were living in poverty.*"<sup>1</sup>

In the Lottery's tracking studies, conducted by our market research vendor, Ipsos, we have consistently found over the past five years the opposite to be true: that residents with higher income and higher education levels tend to spend more on the Lottery. Most recently, in both FY2016 and FY2017, we found that approximately 85 percent of players had at least some post-secondary education (roughly 65 percent had some university work or a degree), and that approximately 58 percent had an income of \$50,000 or more.

That said, we would like to work with your team to better understand your conclusions.

Again, I want to commend your team on producing a thoughtful, pertinent document. We look forward to working together with you in the future.

Sincerely,



Jim Poppell  
Secretary

cc: Samantha Ferrin, Chief of Staff  
Dane Dunson, General Counsel  
Anthony Garcia, Deputy Secretary  
Justin Rock, Deputy Secretary  
Sharon Bradford, Chief Financial Officer  
Andy Mompeller, Inspector General

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# OPPAGA

Office of Program Policy Analysis and Government Accountability

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

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- Government Program Summaries (GPS), an online encyclopedia, [www.oppaga.state.fl.us/government](http://www.oppaga.state.fl.us/government), provides descriptive, evaluative, and performance information on more than 200 Florida state government programs.
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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).

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