

Review of the Florida Lottery, 2020

Report 21-02

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OPPAGA

Office of Program Policy Analysis and Government Accountability

Review of the Florida Lottery 2020

EXECUTIVE SUMMARY

Lottery transfers to the Educational Enhancement Trust Fund declined in Fiscal Year 2019-20 to \$1.914 billion, \$13.3 million (0.7%) less than the prior year. This decline is primarily due to lower sales of draw games such as the multi-state POWERBALL and MEGA MILLIONS jackpot games, which were affected by the COVID-19 pandemic.

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 third lowest in the nation.

We reviewed procedures for retiring scratch-off games and followed up on prior findings regarding the launch of a new mobile app, responsible play initiatives, preventive measures against underage play, and the retailer integrity program.

The department determines the end date of lottery games based on factors such as sales level, the games' seasonality, and whether a game has any top prizes remaining. When all of the top prizes in a game have been claimed, the department sends notifications to retailers' lottery terminals and updates the Florida Lottery website and mobile app.

In June 2020, the department launched a new mobile app. Among its features, the app allows players to check winning numbers and jackpots; check past winning numbers, prize levels, and payout amounts; and find Florida Lottery retailers.

The department also implemented additional responsible play initiatives, which included providing employee and retailer training and pursuing certification for its responsible gaming programs. The department relies on its contracts with retailers and other preventive measures to stop minors from purchasing lottery tickets. If the Legislature wishes to implement additional measures, it could consider requiring the department to configure all of its vending machines to require ID scanning for age verification. Alternatively, the Legislature could consider requiring use of ID scanning technology only in high-traffic or other targeted areas or requiring players to confirm their age or enter their birthdate before making a vending machine purchase.

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.^{1,2}

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

² Prior OPPAGA reports that identify revenue enhancement and operational efficiency options for the Department of the Lottery are available on OPPAGA's [website](#).

The department continues to implement its retailer integrity program, which includes analyzing data to identify suspicious patterns of behavior, following up on customer complaints, and conducting operations to identify retailers/clerks who steal winning tickets. The department further enhanced player protection by including a ticket scanning function in the new mobile app.

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 2020-21, the Legislature appropriated \$187 million from Lottery sales revenue and authorized 418.5 positions for department operations.³ Prizes and retailer commissions are paid directly from sales revenues and do not appear in the department's appropriation.

In Fiscal Year 2019-20, prizes totaled \$5.030 billion and retailer commissions totaled \$420.8 million.⁴ Total ticket sales for this period were \$7.505 billion. Florida ranked the second highest among U.S. lotteries in total sales and 10th highest among U.S. lotteries in per capita sales for Fiscal Year 2019-20.

Since its inception, the Lottery has outsourced some functions to produce, advertise, and sell tickets. The department allocated approximately \$143.2 million (77%) of its Fiscal Year 2020-21 appropriation to produce and advertise draw and scratch-off games.⁵ These vendor contracts include those listed below.

- A contract with PPK, Inc., for general market advertising services as well as multilingual services, including those in Spanish. This contract expires in October 2021. The department may elect to contract for additional renewal periods not to exceed five years.
- A contract with IGT Global Solutions Corporation to provide a terminal-based gaming system. The gaming system includes computer systems and retailer terminals, vending machines, telecommunications, and technical support services. This contract expires in June 2032 (or 13 years from start-up of operations under the contract) with three three-year renewal options.
- A contract with Scientific Games International, Inc., to print, market, and distribute scratch-off game tickets. This contract expires in March 2027. The department may elect to contract for additional renewal periods not to exceed seven years.

³ Chapter [2020-111](#), *Laws of Florida*.

⁴ 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 1% of the prize value for winning tickets they redeem less than \$600. Retailers also can receive bonuses for selling select winning tickets and performance incentive payments.

⁵ Of the \$143.2 million, approximately \$104 million was allocated to produce draw and scratch-off games and \$39.2 million was allocated to advertising for Fiscal Year 2020-21.

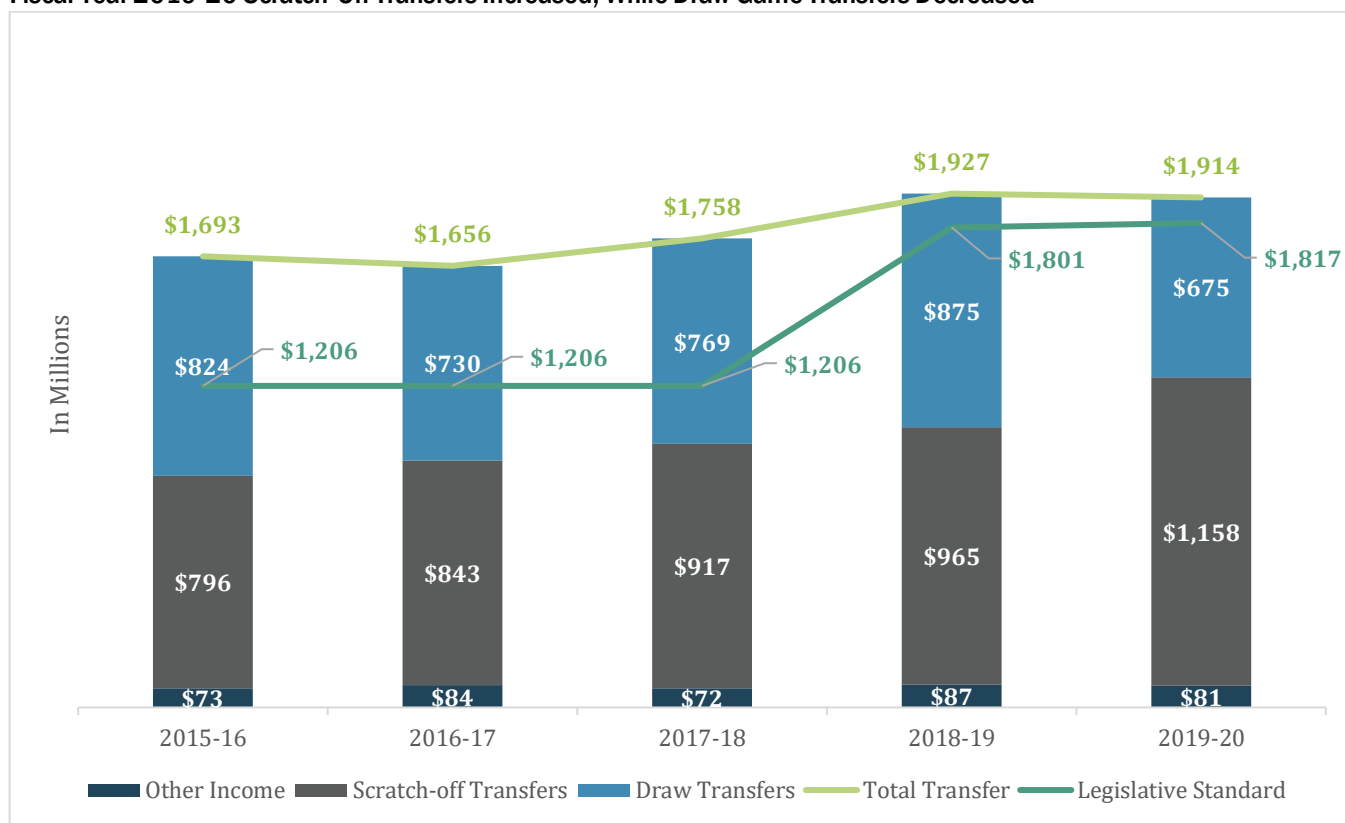
REVENUE PERFORMANCE

In Fiscal Year 2019-20, lottery sales increased to \$7.505 billion compared to the prior year's sales of \$7.151 billion (an increase of \$353.9 million). The increase was primarily due to higher sales of scratch-off games. Scratch-off game sales increased by \$727.5 million to \$5.665 billion, while draw game sales decreased by \$373.7 million to \$1.840 billion.

Although Lottery sales increased in Fiscal Year 2019-20, Lottery transfers to the Educational Enhancement Trust Fund (EETF) decreased compared to Fiscal Year 2018-19. Lottery transfers for Fiscal Year 2019-20 were \$1.914 billion, \$13.3 million (0.7%) less than the prior year. (See Exhibit 1.) While scratch-off transfers increased by \$192.6 million, draw game transfers decreased by \$200.2 million and other income such as unclaimed prizes decreased by \$5.6 million.⁶ The transfer rate for draw games is about twice as much as for scratch-off games.⁷ As a result, the increase in scratch-off sales was not enough to offset the decline in draw game sales. However, total transfers to the EETF for Fiscal Year 2019-20 exceeded the legislative standard of \$1.817 billion.⁸

Exhibit 1

Fiscal Year 2019-20 Scratch-Off Transfers Increased, While Draw Game Transfers Decreased¹



¹ The legislative standard for transfers to the EETF was \$1.206 billion for Fiscal Years 2015-16 through 2017-18. This standard increased to \$1.801 billion in Fiscal Year 2018-19 and \$1.817 billion in Fiscal Year 2019-20.

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

⁶ Although 2019-2020 transfers were \$13.3 million less than the prior year, the figures in the paragraph sum to \$13.2 million due to rounding.

⁷ In Fiscal Year 2019-20, an average of 37% of sales for draw games was transferred to the EETF, compared to 20% for scratch-off games.

⁸ The Lottery's legislatively approved performance standards are reported in its Long Range Program Plans, *Florida Lottery Long Range Program Plan Fiscal Years 2021-22 through 2025-26*, September 30, 2020.

The COVID-19 pandemic began to affect Lottery game sales during the last quarter of Fiscal Year 2019-20. According to the July 2020 Revenue Estimating Conference (REC), lottery sales exceeded the conference's Fiscal Year 2019-20 estimate due to increased sales of scratch-off tickets during the last quarter of the year. During the REC, the department stated that the uptick in scratch-off sales during this period could be attributed to people having fewer options for discretionary spending during the pandemic. REC principals and participants gave examples that included people being unable to spend money on activities such as going to the movies, sports betting, and other gaming. However, the department estimated that the year-over-year increases in scratch-off sales realized leading up to the conference should not be expected to continue for the entire fiscal year, and so the conference assumed a reduction in the last quarter of Fiscal Year 2020-21.

In addition, there were lower draw game sales in the last quarter of Fiscal Year 2019-20 for games such as POWERBALL and MEGA MILLIONS. Due to the lower sales, the rules changed nationally for POWERBALL and MEGA MILLIONS, which eliminated guaranteed minimum starting jackpots and minimum increases when a jackpot rolls to the next drawing. These changes resulted in smaller jackpots. According to the department, the impact of lower, slower-growing jackpots contributed to the loss in sales for draw games.

The REC based its Fiscal Year 2021-22 estimates on several assumptions, including the shift back to normal scratch-off sales levels, anticipated lower draw game sales, and the predicted continuation of the pandemic. Specifically, the REC decreased its Fiscal Year 2021-22 sales prediction by \$145.4 million and its transfer assumption by \$25.6 million for Fiscal Year 2020-21 and \$60.4 million for Fiscal Year 2021-22.

REVENUE ENHANCEMENT

During Fiscal Year 2019-20, the Lottery continued 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 and increasing the number of scratch-off game facings at sales counters with new ticket dispensers.⁹ To further increase sales and transfers, the Lottery could implement new games, introduce new ways of selling tickets, or increase its retailer network. However, some of these options could represent an expansion of legalized gambling and could produce negative social costs.^{10,11}

We identified several options that could enhance lottery revenues based on game and product distribution methods that other U.S. lotteries have implemented. 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 the department made new games or product distribution options available.

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

(See Appendices A and B for more detailed information.)

⁹ Increasing the number of game facings adds more spaces to display additional scratch-off tickets.

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

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

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. If any of these game options were implemented, further study of the sales shift would be needed.

If the Lottery implemented a new game or product distribution option, it would need to consider whether the implementation would have a potential impact on the revenue sharing terms of any gaming compact between the State of Florida and the Seminole Tribe of Florida.

The Lottery took steps to increase sales

In Fiscal Year 2019-20, the Department of the Lottery expanded product distribution and enhanced its product mix to increase sales. In Fiscal Year 2018-19, the Lottery added a new corporate chain retailer, Wal-Mart Supercenters, via a 17-store pilot project in the Florida panhandle. In Fiscal Year 2019-20, the department added 194 Florida Wal-Mart supercenters to the lottery retailer network, with plans to add an additional 5 stores by February 2021. This expansion, including the pilot stores, resulted in \$37.5 million in additional revenue during Fiscal Year 2019-20. The Lottery also completed its upgrade of scratch-off dispenser facings at 620 Publix locations, adding approximately 4,960 product facings during Fiscal Year 2019-20. The increased visibility and availability of scratch-off tickets led to an increase of 14.8%, or \$129.8 million, in scratch-off sales at Publix locations.

The Department of the Lottery also increased its sales by enhancing its product mix. For example, in February 2020, the department introduced a new \$30 price point scratch-off ticket, FASTEST ROAD TO \$1,000,000. Florida had the top-selling \$30 game in the lottery industry in Fiscal Year 2019-20, with a single week of sales that exceeded \$28.3 million.

The Lottery Enhanced Its Product Mix to Increase Sales

Examples of New Lottery Products in Fiscal Year 2019-20

- Introduced a new \$30 scratch-off ticket, FASTEST ROAD TO \$1,000,000
- Added 35 new scratch-off games
- Moved to daily drawings for CASH4LIFE

The Lottery continued to increase sales of its scratch-off games through product implementation and marketing strategies. The department reported 33 weeks of scratch-off sales over \$100 million in Fiscal Year 2019-20, compared to 14 weeks of scratch-off sales over \$100 million in Fiscal Year 2018-19. The Lottery broke its own industry record with \$149.8 million in scratch-off sales during a single week in Fiscal Year 2019-20. The department also reported that for the ninth consecutive year, the Lottery achieved an all-time scratch-off sales record of \$5.665 billion in Fiscal Year 2019-20, which is an increase of 14.7% over the prior year. According to the department, sales were driven by 35 new scratch-off games.

Although draw games sales declined overall in Fiscal Year 2019-20, sales of certain draw games were higher than in the previous fiscal year. For example, CASH4LIFE moved to daily drawings from twice-weekly drawings and saw an increase in sales of over 29%, or \$14 million more than the previous year. In addition, the department employed ticket pulsing for its \$20 game, \$5,000,000 LUCK, which encouraged sales during the holiday season. Ticket pulsing involves printing an alternative version of ticket art and refreshing a game’s look to extend its product shelf life. Compared to the \$20 game launched the previous year, sales for \$5,000,000 LUCK were \$45 million higher, or over 74%, through the first six weeks.

The department increased its terminal-based game offerings by expanding its Fast Play instant win game line with two three-game launches during the year and introducing holiday-themed tickets at

the \$1 and \$2 price points from November 2019 to January 2020. During the launch of these holiday-themed games, the Lottery offered retailers a double commission promotion in the month of December. This promotion caused a slower decline in Fast Play game sales, which had been decreasing at a rate of 6.59% per week and slowed to a 3.53% decline per week.

In addition, the department offered five draw game promotions that included Cold Hard Cash for Jackpot Triple Play, POWERBALL New Year’s Eve, FANTASY 5 Bonus Cash Fridays, Triple Cash featuring daily games, and the MEGA MILLIONS Mega Bucks promotion. 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 terminal-based games.

New lottery games could generate additional revenues¹²

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 progressive jackpot fast play.¹³ Players choose the play amount of \$1, \$2, \$5, or \$10 for an instant play, instant win ticket that a clerk prints from a lottery terminal or the player prints from a self-service vending machine. Games can be played immediately to determine if the ticket is a winner, and sales feed into a jackpot prize that increases until it is won. The winner’s portion of the jackpot is dependent on how much they chose for the play amount.

An advantage of a progressive jackpot fast play game is that player excitement may serve as a sales driver. In addition, the progressive jackpot feature helps further differentiate this type of instant play game from scratch-off games. A disadvantage is that strong sales are needed to grow the jackpot and lead to the success of this option. We estimate that implementing progressive jackpot fast play games in Florida could generate approximately \$9.8 million in additional transfers during the first full year of implementation.¹⁴

Another new game option is hybrid fast play, which offers two ways to win on one ticket. We identified five state lotteries that currently offer a hybrid fast play game—Arizona, Maine, Maryland, South Dakota, and Wisconsin. For example, Maryland offers the 5 Card Cash game, based on a standard poker game using a 52-card playing deck. Each ticket offers a chance to win up to two times, as an instant win and in a daily drawing. For \$2, players receive a ticket featuring five randomly selected cards from the deck. If a player’s ticket shows a Poker hand of a pair of Jacks or better, the player instantly wins the

New Games Could Increase Lottery Revenues

Examples of New Game Options

- Implementing progressive jackpot fast play games could generate \$9.8 million in additional transfers during the first full year of implementation.
- A hybrid fast play game could generate \$3.5 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 All or Nothing, Fast Keno, Daily Keno, monitor games, and oversized scratch-off tickets.

¹² Unless otherwise noted, all estimates in this report use the projected Fiscal Year 2021-22 EETF transfer rates from the July 2020 Revenue Estimating Conference. Transfers resulting from implementing new game or product distribution options may differ based on the transfer rates at the time of implementation.

¹³ We identified 12 state lotteries that currently offer one or more progressive jackpot fast play games—Arizona, Idaho, Indiana, Iowa, Maine, Minnesota, Montana, New Hampshire, New Jersey, New Mexico, Ohio, and Vermont.

¹⁴ We estimated a range of potential progressive jackpot fast play game transfer revenue (\$1 million to \$789.9 million, with a median of \$9.8 million) based on the highest and lowest per capita sales in states that offer progressive jackpot fast play games, which we applied to Florida’s estimated population for 2021. The estimate assumes a transfer rate to the EETF of 19% and that 10% of the sales would be shifted from existing game sales.

prize associated with that hand.¹⁵ During the evening drawings, five cards are drawn from a standard 52-card deck. Players win by matching two, three, four, or five of the randomly drawn cards of the same suit and rank.

An advantage of a hybrid fast play game is that it combines the excitement of an instant win feature with that of a daily drawing. However, because the original fast play games are limited to an instant win, the second step for the hybrid game’s drawing component might cause confusion for some players. We estimate that implementing a hybrid fast play game could generate approximately \$3.5 million in additional transfers during the first full year of implementation.¹⁶

Other states use additional product distribution methods

State lotteries throughout the country offer additional product distribution methods that the Florida Lottery does not currently use, including selling lottery tickets through the internet and offering mail-in subscriptions.

We identified 11 state lotteries that offer lottery products over the internet.¹⁷ The product mix the lotteries 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.¹⁸

Lotteries that sell products over the internet require that players be at least 18 years of age and located within the state when making a lottery purchase. Based on the experience of other states, we estimated the potential revenue from implementing internet sales in Florida is approximately \$13.4 million to \$34.3 million per year in additional recurring transfers to education depending on whether only draw games or both draw and instant games are offered, respectively.^{19,20}

Offering Lottery Products Over the Internet Could Increase Sales

Internet Sales
<ul style="list-style-type: none">• Potential revenue from implementing internet sales in Florida could be as high as \$34.3 million per year.• Implementing this distribution method would require statutory changes to address several issues.• Although other states sell lottery tickets over the internet, the practice is the subject of an ongoing legal case.

Offering lottery products over the internet would require statutory revisions. Florida law currently restricts the use of player-activated terminals without the assistance of a retailer and does not authorize the use of credit cards or other instruments issued by a bank for lottery purchases without a purchase of \$20 in other goods.²¹ The state would need to comply with federal laws that require state

¹⁵ Players can cash in their winning tickets immediately and receive an exchange ticket with the same cards to hold for the evening drawing or they can wait until after the evening drawing to redeem their instant ticket prizes.

¹⁶ We estimated a range of potential hybrid fast play game transfer revenue (\$1.3 million to \$5.4 million, with a median of \$3.5 million) based on the highest and lowest per capita sales in states that offer hybrid fast play games, which we applied to Florida’s estimated population for 2021. The estimate assumes a transfer rate to the EETF of 19% and that 10% of the sales would be shifted from existing game sales.

¹⁷ The state lotteries are Georgia, Illinois, Kentucky, Michigan, New Hampshire, New York, North Carolina, North Dakota, Pennsylvania, Rhode Island, and Virginia.

¹⁸ New York offers subscription-only internet sales. Although Virginia recently began offering internet sales, these sales data were unavailable for analysis. Therefore, we only used Virginia’s online subscription sales data for the analysis.

¹⁹ We estimated a range of potential internet transfer revenue (\$10.8 million to \$73.4 million, with a median of \$13.4 million to \$34.3 million depending on whether only draw games or both draw and instant games are offered, respectively) based on the highest and lowest per capita sales in states that offer internet sales, which we applied to Florida’s estimated population for 2021. We estimated potential transfers from implementing internet sales by using available sales data from seven states that currently offer internet sales. Rhode Island only recently implemented internet sales, so sales data was unavailable. Illinois, New York, and Pennsylvania did not provide sufficient data. Our estimate assumes a transfer rate to the EETF of 39.53% for draw only internet sales and 24.04% for both draw and instant internet sales. The estimate also assumes that 5% of sales would be shifted from existing game sales.

²⁰ The estimate does not account for swipe fees from use of credit cards. If the Lottery assumed the swipe fees, this would reduce the transfer amount to the EETF. Alternatively, the Lottery could require the player to cover the swipe fees.

²¹ Section 24.105(9)(a), F.S., restricts the use of player-activated machines without the assistance of a retailer and s. 24.118(1), F.S., requires the purchase of no less than \$20 of other goods and services to use a credit card or other instrument issued by a bank to purchase lottery products.

regulations to include age and location verification to reasonably block access to minors and persons located outside the state. In addition to Florida-specific concerns related to internet sales, 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 2011 opinion from the U.S. Department of Justice (DOJ) Office of Legal Counsel, which provided the legal basis for such sales, the department reversed that view in 2018. The 2011 opinion found that interstate transmission of wire communications that do not relate to a sporting event or contest fall outside the reach of the Wire Act, and because state lottery internet sales proposals did not involve wagering on sporting events or contests, the Wire Act does not prohibit them. However, in 2018, DOJ issued another opinion stating that the statutory prohibitions are not uniformly limited to gambling on sporting events or contests and apply to non-sports-related betting or wagering. In February 2019, the New Hampshire Lottery filed a lawsuit regarding the 2018 DOJ opinion. A New Hampshire court held that the Wire Act was only applicable to sports gambling. Following these findings, DOJ filed an appeal on August 16, 2019. The United States Court of Appeals for the First Circuit heard appeal arguments in June 2020, but the court has not ruled on the appeal. Because the effect of the latest DOJ opinion has not been fully resolved, more information would be needed if Florida were to move forward with this option.

We also identified six state lotteries that offer mail-in subscription sales, which could be offered as an alternative to internet sales.²² Subscription sales allow players to purchase game drawings for up to one year in advance on certain draw games. Mail-in subscription services vary by state. For example, some states offer subscription forms to fill out at a local lottery retailer, while others allow the form to be filled out online before being downloaded, printed, and mailed in with payment.

Offering Lottery Products through the Mail Could Increase Sales

Mail-In Subscriptions

- Potential revenue from implementing mail-in subscription sales in Florida could be as high as \$4.9 million per year.
- Implementing this distribution method would require statutory changes to allow for purchase via card, unless payment is limited to checks or bank account transfers.

Based on the experience of other states, we estimated the potential revenue from implementing mail-in subscription sales in Florida is approximately \$4.9 million per year in additional recurring transfers to education.^{23,24} Implementing this option to allow use of credit cards would result in swipe fees and would require statutory changes, as current statutes require the purchase of \$20 of other goods and services to use a credit card or other instrument issued by a bank to purchase lottery products.^{25,26} However, the option could be implemented to limit payment to check or money order, as is the case in three of the four state lotteries that use this option. Subscription sales offer players greater convenience by allowing them to purchase draw game tickets from their home and helping ensure that they do not miss a drawing. However, this option may not offer the greatest potential for sales growth, as mail-in subscriptions offered in other states generally make up a small percentage of total sales, typically 3% or less.

²² The six states are Maine, Maryland, Massachusetts, New Hampshire, New York, and Vermont.

²³ Massachusetts and New York were excluded from our analysis due to insufficient information.

²⁴ We estimated a range of potential transfer revenue from implementing mail-in subscription sales (\$2.9 million to \$917.3 million, with a median of \$4.9 million) based on the highest and lowest per capita sales in four states that currently offer mail-in subscription sales, which we applied to Florida's estimated population for 2021. Our estimate assumes a transfer rate to the EETF of 39.53% and that 5% of sales would be shifted from existing game sales.

²⁵ The estimate uses sales data from three states that limit payments to check or money order and one state that allows payment through credit cards in addition to check and money order. The estimate assumes implementation without a statutory change to allow use of credit cards and instead to require payment with check or money order. As a result, the estimate does not account for potential swipe fees from use of credit cards.

²⁶ Section 24.118, F.S.

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 2018-19, the top two southeast U.S. lotteries ranked by per capita sales—Georgia and South Carolina—had an average of 1,276 residents per retailer.²⁷ The two states had higher per capita sales (\$420 and \$385, respectively) than Florida (\$333). During that period, the Florida Lottery averaged 1,600 residents per retailer. Adding 3,407 new retailers to Florida’s retailer network would meet the Georgia and South Carolina lotteries’ market penetration and has the potential to generate about \$105.3 million annually in additional transfers to the Educational Enhancement Trust Fund. More modest growth of 200 retailers would generate about \$6.2 million annually in transfers.²⁸

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.
- The size of Florida’s lottery retailer network has been relatively flat over the past six years.
- Adding 200 more retailers could generate \$6.2 million in additional transfers to the Educational Enhancement Trust Fund per year.

The Department of the Lottery’s Long Range Program Plan for Fiscal Years 2021-22 through 2025-26 recognizes that there is an opportunity to increase the retailer network, particularly among underrepresented minority establishments. However, the number of retailers in the network has remained relatively flat over the past six years, from 13,195 as of June 30, 2014, to 13,264 as of July 1, 2020. The total number of retailers grew slightly from 13,252 in Fiscal Year 2018-19 to 13,264 Fiscal Year in 2019-20.²⁹

Although the number of retailers was essentially unchanged for Fiscal Year 2019-20 compared to the prior year, there was a noticeable decline in new retailers added to the network during the fourth quarter of the fiscal year compared to the typical rate of retailer activations. On average, the Lottery added 371 retailers to the network during each quarter from Fiscal Year 2015-16 through the third quarter of Fiscal Year 2019-20. During the fourth quarter of Fiscal Year 2019-20, the Lottery added an estimated 179 retailers (52% lower than the previous average).^{30,31} However, there was a decline in the number of retailers eliminated from the network compared to the typical rate of retailer terminations. On average, the Lottery terminated contracts with 358 retailers during each quarter from Fiscal Year 2015-16 through the third quarter of Fiscal Year 2019-20. During the fourth quarter of Fiscal Year 2019-20, the Lottery terminated contracts with 212 retailers (41% lower than the previous average).³²

²⁷ For this analysis, we analyzed data for five southeastern states with lotteries—Georgia, Kentucky, North Carolina, South Carolina, and Tennessee (Alabama does not have a lottery and Mississippi data were not available). We compared the Florida Lottery’s per capita sales to all five lotteries. However, data were not available for the Tennessee Lottery’s retailer-to-population ratio, so for this measure, we compared the Florida Lottery’s performance to the four remaining states.

²⁸ We estimated potential transfer revenues from increasing the retailer network by assuming that the 200 new retailers would achieve at least the average weekly gross sales new retailers achieved in Fiscal Year 2019-20. The estimate assumes all 200 new retailer terminals are active for a full year and that 20% of their sales would be shifted from existing retailers.

²⁹ Retailer counts provided represent contracted retailers. This includes retailers actively selling lottery tickets, recently approved retailers not yet actively selling lottery tickets, and suspended retailers.

³⁰ The previous average is based on all retailer activations in each fiscal year quarter from Fiscal Year 2015-16 through the third quarter of Fiscal Year 2019-20.

³¹ Vendors do not appear in Lottery retailer data until they start actively selling Lottery products. As a result, some retailers recruited in one fiscal year may not appear in data until the following fiscal year once they sell Lottery products. OPPAGA estimated activated retailers using calculations from previous years to account for this possible lag in retailer counts.

³² The previous average is based on all retailer terminations in each fiscal year quarter from Fiscal Year 2015-16 through the third quarter of Fiscal Year 2019-20.

According to the department, factors related to the COVID-19 pandemic are among the reasons contributing to both the decline in retailer activations and the decline in retailer terminations during the last quarter of Fiscal Year 2019-20. The department stated that the decrease in retailer activations was due in part to scaling back the time Lottery sales representatives spent in the field recruiting retailers in response to the pandemic. In addition, the department reported that, as a result of the pandemic, fewer Lottery retailers were undergoing a change of ownership. When a Lottery retailer undergoes a change of ownership, the original retailer's contract is terminated. The new owner may apply to be a Lottery retailer, and if approved, receives a new Lottery contract, which is counted as a retailer activation. However, due to the pandemic, fewer businesses were being purchased, which the department stated contributed to both the lower activation and termination rates. The department deployed sales representatives back in the field to continue recruitment efforts in mid-September 2020 and plans to focus on different trade styles, such as restaurants, for future recruitment efforts.

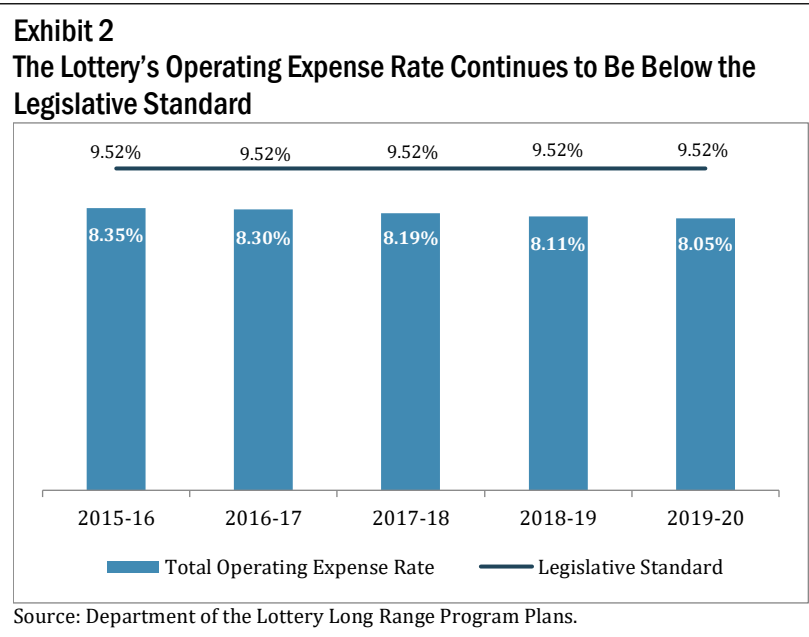
OPERATIONS

The Department of the Lottery continues to keep its expenses as a percentage of sales low and below the legislative standard. We reviewed procedures for retiring scratch-off games and followed up on prior findings regarding the launch of a new mobile app, responsible play initiatives, preventive measures against underage play, and the retailer integrity program.

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.

(See Exhibit 2.)³³ Furthermore, compared to other U.S. lotteries, the Florida Lottery had the third lowest operating expense rate in Fiscal Year 2019-20, behind West Virginia and Massachusetts.³⁴ 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.



³³ Operating expenses include payments to gaming vendors and retailer commissions.

³⁴ Florida Lottery's ranking is based on the latest fiscal year data available from La Fleur's 2020 World Lottery Almanac. Operating expense rates include administrative expenses and retailer commissions.

The department retires scratch-off games on a quarterly basis when the games have no top prizes remaining

The Florida Lottery's product development division determines the end date of lottery games based on factors such as sales level, the games' seasonality, and whether a game has any top prizes remaining. When all of the top prizes in a game have been claimed, the department sends notifications to retailers' lottery terminals and updates the Florida Lottery website and mobile app to reflect that no top prizes remain. This update is based on prizes claimed, rather than tickets sold. The website is updated nightly, while the mobile app is updated every 30 to 35 minutes.

The department reviews and ends any games with no remaining top prizes on a quarterly basis. Thus, there may be a period between when a game's top prizes have been claimed and when the game is removed from the market; this could result in players being unaware that top prizes are not available unless they check the Florida Lottery website or mobile app. In September 2020, we identified 12 scratch-off games with zero top prizes remaining, as indicated on the department's website. Once the department decides to remove a game, lottery sales representatives post announcements at retailer locations with the game's end date and last day to redeem tickets. They also remove any remaining inventory of the ended games from retailer locations.

When all the top prizes have been claimed for a game, the department removes the game from the retailer orderable games list and sales representative Mobile Sales Tool, and the department instructs the instant ticket vendor to cease distribution of that game. Thus, department administrators believe that the sales from games with no top prizes remaining are extremely low from the point the top prize was claimed through when the game is pulled from the market.

The department launched a new mobile app in June 2020

As noted in our January 2020 report, the department's latest gaming system contract required the vendor to create and maintain a new Florida Lottery mobile app. Although the implementation of the mobile app was delayed, the department launched a new mobile app on June 26, 2020 for Apple users and on June 29, 2020 for android users. The app allows players to check winning numbers and jackpots; check past winning numbers, prize levels, and payout amounts; select numbers and search whether that combination of numbers has ever won in the past; view recently launched scratch-off tickets; watch Lottery videos; and find Florida Lottery retailers.

The New App Includes Additional Features

New Features

- Digital play slip function for players to pre-select the numbers they would like to play in a draw game
- Digital fast play barcodes for faster retailer processing
- Ticket self-checker function for players to scan their tickets with their mobile device
- Player age self-identification function

The Lottery's new mobile app also includes digital play slips, digital fast play barcodes, and a ticket self-checker. The digital play slip allows players to pre-select numbers they would like to play for purchase at a Lottery retailer, the digital fast play barcode allows users to pre-select fast play games for purchase from a Lottery retailer using the generated barcode, and the ticket self-checker allows users to see if their ticket is a winner. The new app requires the user to self-report their age for verification before accessing any app features. The new app also includes information about the Florida Council on Compulsive Gambling and the National Council on Problem Gambling. Players are

still unable to purchase tickets from the new mobile app. The new mobile app updates the remaining top prizes for games approximately every 30 to 35 minutes based on the Lottery's record of prizes claimed.

The department reports positive player feedback regarding the new mobile app. The department's quality assurance team examines player app reviews on a weekly basis to incorporate suggestions for improvement. In addition, they report that retailers are pleased with the app's ticket checking function because it reduces store traffic. The department conducted a retailer survey related to the new mobile app; over half of the 1,863 of the retailers who responded reported some experience with the Lottery's new mobile app. Approximately 20% of respondents who had experience with the mobile app reported having experience with the digital play slip feature and under 10% reported that players utilized the Fast Play digital bar code feature. However, over three-quarters of respondents anticipate the mobile app will be beneficial or utilized in their retailer location.

The department enhanced responsible play initiatives in Fiscal Year 2019-20

During Fiscal Year 2019-20, the department continued to require responsible play training, obtained World Lottery Association Level 2 Certification, and launched a responsible play website.

As part of the Florida Lottery's responsible gaming initiative, the department continued mandatory responsible gaming training for all Lottery employees, which began in March 2019. The training covers topics such as warning signs for problem gaming and a brief description of the department's responsible play program, including the role of the department and retailers. A test was administered beforehand to gauge employee awareness of responsible play, and the department tailored the training to employee needs based on these results. This training is required for all Lottery employees and is repeated annually, with completion tracked by the department's human resources division.

In addition to its employee training, the department has added a department-wide performance expectation to all employee position descriptions. The performance expectation requires each employee to be knowledgeable about the Florida Lottery's Responsible Gaming program and ensure retailers and players are aware of the program as well. The department stated that this expectation helps to ensure that employees are aware of their responsibilities pertaining to responsible gaming.

Similar to the Lottery employee training initiative, the department also introduced required retailer training on responsible gaming. The training covers similar topics to the employee training, including a brief description of the department's responsible play program and the role of retailers. The training and course materials have been uploaded to the computer systems that communicate with the retailers. Department sales representatives monitor retailers to confirm that they are in compliance and have completed the training, typically on an annual basis.

The department also received World Lottery Association (WLA) Level Two Certification for its responsible gaming initiatives in December 2019. There are four levels of certification, and level two is titled the Self-Assessment and Gap Analysis. To obtain this certification, the department had to conduct a self-assessment, submit a prioritization of future needs based on gaps identified in the self-assessment, and submit an organizational profile. This certification is valid for three years, and the department stated that it will work on a level three certification in the future. Level three certification requires the development of a plan, timetable, and budget to implement specific responsible gaming programs. The WLA certification is in addition to the North American Association of State and

Provincial Lotteries (NASPL) certification that the department received in 2018. The department will begin the re-certification process for the NASPL certification in early 2021.

The department launched its responsible play and responsible winning website, The Player's Guide, in January 2020. The website was developed, designed, and launched by the department's advertising vendor, PPK. As of August 18, 2020, the website had almost half a million sessions (i.e., clicks) where users had interaction with some aspect of the website. The Player's Guide website has two main sections: responsible play and responsible winning. The responsible play section includes play responsibly tips, addiction resources, information on odds of winning, a link for players to calculate their discretionary income, and a responsible play quiz. The responsible winning section includes general winning responsibly tips, information on managing winnings and payment options, protecting winnings, and public disclosure.

The department relies on its contracts with retailers and other preventive measures to stop minors from buying tickets

Florida law prohibits any person from knowingly selling a lottery ticket to a minor.³⁵ Statutes also require the department to supervise and administer the operation of the Lottery in accordance with provisions of law and rules.³⁶ Department rules specify that selling a lottery ticket to a minor is grounds to suspend and terminate a retailer's contract.³⁷ Consistent with statutes and department 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 retailer contract addendum 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.³⁸

³⁵ 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.

³⁶ 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.

³⁷ Rule 53ER07-15, F.A.C.

³⁸ 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. 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.

In addition to its contracts with retailers, the department uses other preventive measures to avoid underage sales. To help prevent underage sales both at the counter and through vending machines, the department uses retailer training, messaging, placement of vending machines in the line of sight of sales clerks, inspections, and investigations of complaints. For example, during retailer inspections, Division of Security officers verify that vending machines are within the line of sight of clerks, discuss the responsibility to prevent underage sales through methods such as checking identification of any customers who look underage, and provide the retailer with educational materials. Regarding messaging, Florida Lottery advertisements state that someone must be at least 18 years old to play, and this message is included in television, radio, and print advertisements, as well as on signage at retailer locations.

The Department Relies on Preventive Measures to Avoid Underage Sales

Preventing Underage Play

- Department methods to prevent underage sales include its contracts with retailers, retailer training, messaging, placing vending machines in the line of sight of sales clerks, inspections, and investigating complaints.
- The department's methods to prevent underage sales are generally consistent with strategies that many other state lotteries are implementing.
- The Legislature could consider requiring the department to configure its vending machines to verify age using ID scanning technology prior to purchase. Alternatively, the Legislature could require ID scanning only for machines in high traffic or other targeted areas, or require players to verify age or enter their birthdate prior to making a vending machine purchase.

We contacted 45 U.S. lotteries and asked them how they prevent minors from purchasing tickets. Many reported using preventative measures similar to the Florida Lottery, such as retailer education, messaging or signage, and/or requiring vending machines to be in the line of sight of sales clerks.

We also asked the other U.S. lotteries whether they use age verification on their vending machines to prevent underage sales. Age verification technology reads a driver's license or state identification card to determine the player's age. Although most of the lotteries with vending machines that responded to our questionnaire (19 of 31) do not use age verification technology, 3 reported that they configure their vending machines to require ID scanning prior to making a purchase, and 6 reported their vending machines have ID scanning capabilities that are sometimes used.³⁹ For example, the Minnesota Lottery reported using ID scanning functions on vending machines when requested by retailers or when machines are not able to be located in clerks' line of sight. An additional three lotteries reported that they require players to confirm their age or enter their birthdate before making a vending machine purchase.⁴⁰

If the Legislature wishes to address the possibility that minors may purchase lottery tickets from vending machines, it could consider requiring the department to reconfigure all of its vending machines to require ID scanning for age verification. The department reports that, based on its research, requiring ID scanning can be an impediment to sales because the technology might not always work with out-of-state driver's licenses and passports. Alternatively, the Legislature could require use of ID scanning technology only in high-traffic or other targeted areas or require players to confirm their age or enter their birthdate before making a vending machine purchase. The department would incur some expense in reconfiguring its 2,500 vending machines for ID scanning or other age verification functionality.

³⁹ The three state lotteries that reported using age verification technology on their vending machines were Louisiana, Massachusetts, and North Carolina. The six state lotteries that reported they sometimes use age verification technology on their vending machines were Arizona, Colorado, Minnesota, Mississippi, Rhode Island, and Virginia.

⁴⁰ The three state lotteries that reported they require players to confirm their age or enter their birthdate before making a vending machine purchase were Oregon, Washington, and West Virginia.

The department has a comprehensive retailer integrity program to protect players against ticket theft by retailers

All lotteries face the challenge of ensuring public confidence in the integrity of their operations. One significant threat to this confidence occurs when retailers 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, and being identified as a retailer who is stealing winning tickets, etc.⁴¹

The Lottery's Retailer Integrity Program Includes Multiple Components

Retailer Integrity Enhancements

- Implementation of the new Lottery gaming system in April 2019 improved the department's ability to identify and investigate potentially fraudulent retailer behavior.
- The department's upgrade of the investigations case tracking system enhanced access to prior Lottery security case reports.
- The new gaming system included additional ticket self-checkers for all retailers that can accommodate them.
- The department's new mobile app includes a ticket scanning function so that players can more easily determine for themselves whether a ticket is a winner.

Theft of winning tickets and ticket brokering are crimes.^{42,43} 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, and conducting operations to identify retailers/clerks who steal winning tickets.^{44,45} During Fiscal Year 2019-20, the department conducted 148 retailer compliance operations, 511 underage education compliance inspections, and opened 1,736 criminal investigations. The department also conducted 75 integrity investigations that focused on players with suspicious patterns of wins based on a review of claimant data. These activities resulted in the department terminating nine retailer contracts for security reasons in Fiscal Year 2019-20.

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 Fiscal Year 2019-20, its law enforcement officers made nine arrests, of which five were clerks, two were owners or managers, and two were players. The individuals arrested were charged with offenses that included grand theft, organized scheme to defraud, petit theft, and filing a false claim. Division of Security Agents also assisted other law enforcement agencies with eight additional arrests that included a wide variety of charges such as burglary, dealing in stolen property, grand theft, organized fraud, and criminal mischief.⁴⁶

⁴¹ 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.).

⁴² 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 \$750 or more but less than \$20,000 is grand theft of the third degree 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 and punishable by up to 15 years in prison. Theft of a ticket worth \$100,000 or more is first degree grand theft and punishable by up to 30 years in prison. For more information, see ss. 812.014 and 775.082, F.S.

⁴³ Ticket brokering violates s. 24.118(2), F.S., and is a first degree misdemeanor.

⁴⁴ Lottery staff identifies retailers for these operations based on customer complaints and other audit selection criteria.

⁴⁵ For additional information about the Retailer Integrity Program, see OPPAGA Report No. 15-03, January 2015.

⁴⁶ 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.

As discussed in our January 2020 report, the department made several improvements to the Retailer Integrity Program. The department upgraded its investigations case tracking system, which resulted in providing an internal records management system and allowing Lottery agents enhanced access to prior Lottery security case reports. In addition, implementation of a new gaming system in April 2019 gave the department access to the gaming system vendor's live alerts functionality. Through live alerts, parameters can be set based on what the Lottery's Division of Security defines as suspicious activity. The system alerts the division whenever the parameter thresholds are met, which gives the division timely information more efficiently and allows for more immediate investigations of suspicious behavior. Implementation of the new gaming system also included additional ticket self-checkers for all retailer locations that can accommodate them so that players can determine for themselves whether a ticket is a winner rather than relying on a retailer or clerk. The department reports that ticket self-checkers have been installed at 12,236 (94%) active retailer locations.⁴⁷

In addition, the Lottery mobile app provides a ticket scanning function so that players can more easily determine for themselves whether a ticket is a winner. While the launch of the mobile app was delayed, as discussed earlier, the department made the mobile app available on its website in June 2020 and included the ticket scanning function.

OPTIONS

While the Department of the Lottery has taken steps to increase sales, additional actions could increase sales and efficiency and ultimately increase transfers to education. Moreover, additional steps could be taken to prevent underage sales.

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, any necessary statutory changes, and potential impact on the revenue sharing terms of any gaming compact between the State of Florida and the Seminole Tribe of Florida.

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 ID scanning for age verification. Alternatively, the Legislature could consider requiring use of ID scanning technology only in high-traffic or other targeted areas or requiring players to confirm their age or enter their birthdate before making a vending machine purchase.

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 Secretary's written response to this report is in Appendix C.

⁴⁷ According to the department, the remaining locations (e.g., drive-through convenience stores) cannot accommodate a ticket checker.

APPENDIX A

New Lottery Game Options

New games that attract new players have the potential to increase revenues to education but some games 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.⁴⁸ 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 Educational Enhancement Trust Fund need to meet or exceed the transfer rates specified in the bond covenants. Estimates of annual revenue assume full implementation by July 1, 2021. However, some options would require additional time to implement, such as launching a keno or monitor game. In addition, unless otherwise noted, all estimates in this report use the projected Fiscal Year 2021-22 EETF transfer rates from the July 2020 Revenue Estimating Conference. Transfer rates differ based on the type of game (i.e., draw or scratch). Transfers resulting from implementing new game options may differ based on the transfer rates at the time of implementation. If the Lottery implemented a new game, it would need to consider whether the implementation would have a potential impact on the revenue sharing terms of any gaming compact between the State of Florida and the Seminole Tribe of Florida.

Exhibit A-1

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

Option	Advantages	Disadvantages
All or Nothing For \$1 or \$2, players select 10 to 12 numbers from up to 24 numbers and win the top prize by matching all numbers drawn or by matching none of the numbers drawn; drawings are held multiple times per day. ¹	<ul style="list-style-type: none">• Could generate approximately \$7.7 million in transfers to education during the first full year of implementation²	<ul style="list-style-type: none">• May have a limited life cycle after which sales decline
Cash Pop Players choose the play amount of \$1, \$2, \$5, or \$10 and select one number from 1-15; alternatively, the game can be played with players selecting more than one number. The ticket prints with a randomly assigned prize amount that varies based on the ticket price point, and multiple drawings are held per day. Players win the prize amount shown on their ticket if they match the one number drawn. ³	<ul style="list-style-type: none">• Potential to bring in new players• Ease of understanding/game play• Game designed to create more winning experiences per day and generate churn at retail	<ul style="list-style-type: none">• This game has a higher prize payout than traditional draw games, which could decrease the funds available for transfer to education unless offset by increased sales volume• Additional resource requirements to conduct multiple daily drawings• Because this game is relatively new, there is limited information available on which to base estimates regarding the amount of additional sales revenue that it might generate

⁴⁸ If any of these options were implemented, further study of the sales shift (also referred to as the cannibalization rate) would be needed.

Option	Advantages	Disadvantages
Daily Keno Players choose as many as 10 numbers from a panel of 80 numbers in the hope of matching their choices to 20 to 22 numbers drawn by the central computer at the Lottery headquarters; the game may be played more than once per day. ⁴	<ul style="list-style-type: none"> • Could generate approximately \$10.1 million per year in additional recurring transfers to education⁵ 	<ul style="list-style-type: none"> • Could be considered an expansion of gambling • May have a limited life cycle after which sales decline
Fast Keno Players choose from 10 to 12 numbers from a panel of 80 numbers with the hope of matching their choices to 20 numbers drawn by the central computer at the Lottery headquarters; it may be played frequently (e.g., every four to five minutes); players watch a monitor at a retailer location to determine if they have won or leave the premises and check the Lottery's website for the winning numbers. ⁶ Implementing this option may require legislative budget approval for additional gaming system equipment and legislative action to modify the requirements for a drawing to be public, witnessed by an accountant, and include inspecting the drawing equipment before and after each drawing, given that electronic drawings could occur every four to five minutes (s. 24.105(9)(d) , F.S.).	<ul style="list-style-type: none"> • Could generate approximately \$81.8 million per year in additional recurring transfers to education⁷ • Can be limited to social settings such as bars, restaurants, and fraternal organizations, although other U.S. lotteries allow traditional lottery retailers to participate; some state lotteries also offer Keno-to-Go at traditional lottery retailer sites whereby players purchase tickets, leave the premises, and check the lottery website to see if they have won • Would help the Lottery recruit new retailers in social venues 	<ul style="list-style-type: none"> • May be addictive due to its rapid play style • Could be considered an expansion of gambling • Has a higher prize payout than traditional draw games, which could decrease the funds available for transfer to education unless offset by increased sales volume • Sales are dependent on new retailer participation
Hybrid Fast Play Instant play games that print from retailer terminals where players can win immediately and also have a chance to win again during a later drawing. ⁸	<ul style="list-style-type: none"> • Could generate approximately \$3.5 million per year in additional recurring transfers to education⁹ • Combines the excitement of an instant win feature with the fun of a daily evening drawing • Game designed to create more winning experiences per day 	<ul style="list-style-type: none"> • While players can only win at the time of purchase with the original fast play games, the hybrid fast play games involve a second step for the draw component that might cause confusion for some players
Monitor Games Computer animated games, such as simulated horse racing, poker, and bingo, that are played on in-store monitors similar to the way Fast Keno is played. ¹⁰ Implementing this option may require legislative budget approval for additional gaming system equipment and legislative action to modify the requirements for a drawing to be public, witnessed by an accountant, and include inspecting the drawing equipment before and after each drawing, given that electronic drawings could occur frequently (s. 24.105(9)(d) , F.S.).	<ul style="list-style-type: none"> • Could generate approximately \$8.6 million per year in additional recurring transfers to education¹¹ • Could appeal to emerging markets of lottery players that have grown up playing computer games • Allows the Lottery to recruit new retailers in social venues such as bars and restaurants • Could be limited to pari-mutuel facilities or social settings, such as bars and restaurants 	<ul style="list-style-type: none"> • May be addictive due to its rapid play style • Could be considered an expansion of gambling

Option	Advantages	Disadvantages
Oversized Scratch-Off Tickets Tickets are larger than typical scratch-off tickets, such as double the width of current tickets (e.g., 8" by 12") ¹²	<ul style="list-style-type: none"> • Could generate approximately \$13.3 million in transfers to education during the first full year of implementation¹³ • May attract new players who are interested in the niche appeal • Could be an appealing purchase for gift giving • Extra space allows for more games per ticket, which players may perceive as enhanced value • Unique game dispensers, sitting on top of the other merchandising towers, make players aware of the tickets and provide a means of distribution 	<ul style="list-style-type: none"> • Vending machines' current ticket dispensers would be unable to dispense these tickets due to the size • Implementation would require retailers to agree to place special ticket dispensers in their stores • Would compete with similarly priced products • May have a limited life cycle, as shown by the performance experience of other U.S. lotteries • Additional cost to print due to irregular size of ticket
Progressive Jackpot Fast Play Players choose the play amount of \$1, \$2, \$5, or \$10 for an instant play, instant win ticket that prints from the terminal and can be played immediately to determine if the ticket is a winner; game sales feed into a jackpot prize that increases until it is won. The winner's portion of the jackpot is dependent on how much they chose for the play amount. ¹⁴	<ul style="list-style-type: none"> • Could generate approximately \$9.8 million per year in additional recurring transfers to education¹⁵ • The excitement of a progressive jackpot serves as a sales driver • A progressive jackpot offers stronger differentiation from scratch-off products 	<ul style="list-style-type: none"> • Strong participation to drive sales and grow the jackpot is necessary for success • Communication of jackpot levels to players is dependent upon timely updates from the gaming system and any time lags could erode player confidence and participation

¹ We identified four state lotteries that offer an All or Nothing game—Georgia, Massachusetts, Texas, and Wisconsin.

² We estimated a range of potential All or Nothing transfer revenue (\$4.0 million to \$10.0 million, with a median of \$7.7 million) based on the highest and lowest per capita sales in states that offer All or Nothing, which we applied to Florida's estimated population for 2021. We assume a draw game transfer rate to the EETF of 39.53% and that 10% of the sales would be shifted from existing game sales.

³ We identified three state lotteries that recently started offering a Cash Pop game—Georgia, Kentucky, and New Jersey.

⁴ We identified four U.S. lotteries that offer Daily Keno—Indiana, Michigan, New York, and Washington.

⁵ We estimated a range of Daily Keno transfer revenue (\$6.3 million to \$18.3 million, with a median of \$10.1 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 2021. The estimate assumes a draw game transfer rate to the EETF of 39.53% based on the July 2020 Revenue Estimating Conference projected transfers for Fiscal Year 2021-22 and that 5% of the sales would be shifted from existing game sales.

⁶ We identified 21 U.S. lotteries that offer Fast Keno—California, Connecticut, Delaware, District of Columbia, Georgia, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, Tennessee, and West Virginia. The U.S. Virgin Islands were excluded from our analysis due to insufficient information.

⁷ We estimated a range of potential Fast Keno transfer revenue (\$8.8 million to \$662.8 million, with a median of \$81.8 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 2021. Our estimate assumes a transfer rate to the Educational EETF of 22%, based on the most conservative estimate provided by the Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

⁸ We identified five state lotteries that offer a hybrid fast play game—Arizona, Maine, Maryland, South Dakota, and Wisconsin.

⁹ We estimated a range of potential hybrid fast play game transfer revenue (\$1.3 million to \$5.4 million, with a median of \$3.5 million) based on the highest and lowest per capita sales in states that offer hybrid fast play games, which we applied to Florida's estimated population for 2021. The estimate assumes a transfer rate to the EETF of 19%, and that 10% of the sales would be shifted from existing game sales.

¹⁰ We identified five U.S. lotteries that offer monitor games—Kansas, Maryland, Massachusetts, Rhode Island, and the District of Columbia.

¹¹ We estimated a range of potential monitor game transfer revenue (\$5.0 million to \$151.4 million, with a median of \$8.6 million) based on the highest and lowest per capita sales in states that offer monitor games, which we applied to Florida's estimated population for 2021. Our estimate assumes a transfer rate to the EETF of 22%, based on the most conservative Fast Keno estimate provided by the Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

¹² We identified 19 state lotteries that offered oversized scratch-off tickets in 2018—Arizona, California, Georgia, Idaho, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Carolina, Ohio, South Carolina, Tennessee, Texas, Virginia, Washington, and Wisconsin. However, Tennessee and Missouri were excluded from our analysis due to insufficient information.

¹³ We estimated a range of potential oversized scratch-off ticket transfer revenue (\$3.5 million to \$121.4 million, with a median of \$13.3 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 2021. The estimate assumes a scratch-off game transfer rate to the EETF of 19%; 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. The estimated dispenser and printing costs were provided by the Florida Lottery in 2018.

¹⁴ We identified 12 state lotteries that offer one or more progressive jackpot fast playgame—Arizona, Idaho, Indiana, Iowa, Maine, Minnesota, Montana, New Hampshire, New Jersey, New Mexico, Ohio, and Vermont.

¹⁵ We estimated a range of potential progressive jackpot fast playgame transfer revenue (\$1.0 million to \$789.9 million, with a median of \$9.8 million) based on the highest and lowest per capita sales in states that offer fast play progressive games, which we applied to Florida's estimated population for 2021. The estimate assumes a transfer rate to the EETF of 19%, and that 10% of the 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 this 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.⁴⁹ In addition, unless otherwise noted, all estimates in this report use the projected Fiscal Year 2021-22 EETF transfer rates from the July 2020 Revenue Estimating Conference. Transfer rates differ based on the type of game (i.e., draw or scratch). Transfers resulting from implementing new product distribution options may differ based on the transfer rates at the time of implementation. Estimates of annual revenue assume full implementation by July 1, 2021. However, some options would likely require additional time to implement. If the Lottery implemented a new product distribution option, it would need to consider whether the implementation would have a potential impact on the revenue sharing terms of any gaming compact between the State of Florida and the Seminole Tribe of Florida.

Exhibit B-1

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

Option	Advantages	Disadvantages
Increase Retailer Network 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	<ul style="list-style-type: none"> • Adding 200 new retailers has the potential to generate approximately \$6.2 million per year in additional recurring transfers to education¹ • Florida has been below average in terminal density compared to other successful lottery states, so increasing its network could improve per capita sales • Could increase product distribution and awareness, making products available to new players who do not shop where products are currently being sold 	<ul style="list-style-type: none"> • May require legislative budget approval for more terminals, depending on the extent of growth • The non-traditional lottery business model may require the development of different products, compensation frameworks, and distribution strategies • May require additional lottery staff to service new accounts
In-Lane Sales Would allow players to buy lottery tickets as they go through the individual checkout lanes in locations such as grocery stores, convenience stores, and other trade styles. This option can be implemented in different ways. For example, the retailer can print the lottery ticket on the customer's receipt. Another way is the consumer can select a pre-printed card (similar to a gift card) from a display	<ul style="list-style-type: none"> • Would increase player convenience by enabling customers to purchase lottery tickets in the same line as they purchase other items such as groceries • May help with retailer recruitment by allowing new trade styles, such as big box retailers, the opportunity to sell lottery tickets without a lottery terminal or traditional display while still allowing them to be a contracted lottery partner 	<ul style="list-style-type: none"> • May require a great deal of work by the retailer to program their system • Depending on the option implemented, there may be limited merchandising opportunities, requiring alternate ways of making players aware of the game option • While this option allows retailers to sell lottery products without having lottery terminals, current technology limitations prevent these retailers from validating tickets and

⁴⁹ If any of these options were implemented, further study of the sales shift would be needed.

Option	Advantages	Disadvantages
<p>within the store for a specific number of quick pick draw game entries that are covered with latex, and upon check-out, the cashier scans the bar code on the card to activate. The numbers on the card are then entered into the next drawing. Players scratch the card to reveal their numbers and check their status via information provided on the back of the card.² In addition, retailers may have a self-standing terminal close to the point-of-sale checkout terminal.</p> <p>Implementing this option would require addressing statutes that require the purchase of \$20 of other goods and services to use a credit card or other instrument issued by a bank to purchase lottery products (s. 24.118, F.S.)</p>	<ul style="list-style-type: none"> • Would expose players to lottery products at additional points of sale in existing retail locations 	<p>paying prizes without a traditional lottery terminal</p>
<p>Internet Sales</p> <p>Would authorize intrastate internet sales of lottery products and allow players to purchase individual draw games, instant games, and/or subscribe to game drawings for up to one year in advance on the Florida Lottery website; for prizes under a specified amount (e.g., \$600), players would receive automatic credit or the Lottery would mail them a check</p> <p>Implementing this option would require statutory changes to allow player-activated terminals (s. 24.105, F.S.)</p> <p>Unless payment is limited to bank account transfers, implementing this option would also require addressing statutes that require the purchase of \$20 of other goods and services to use a credit card or other instrument issued by a bank to purchase lottery products (s. 24.118, F.S.)</p> <p>Implementing this option would also require legislative budget approval for enhanced systems and technology</p>	<ul style="list-style-type: none"> • Adding internet sales has the potential to generate approximately \$13.4 million to \$34.3 million per year in additional recurring transfers to education depending on whether only draw games or both draw and instant games are offered, respectively^{3,4} • The Lottery would receive revenues from subscription sales in advance of drawings • Could increase retail sales at brick and mortar stores • Would provide more convenience to players who prefer to purchase their lottery products from their personal computer or cellular device • Key benefits for the consumers would be no missed draws, no waiting in lines, and ease of prize claims 	<ul style="list-style-type: none"> • Could be considered an expansion of gambling • Must comply with federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state • As has happened in other states, current lottery retailers may oppose this option due to concerns that they would lose lottery sales commissions and revenues from sales of other in-store products, as players would no longer need to visit a retailer to make a lottery purchase • Game changes after subscription tickets are purchased would require communication with players and possibly a replacement ticket • Could reduce unclaimed prize funds, as prizes may be automatically credited to players • While several states began offering internet sales of lottery tickets in response to a 2011 opinion from the U.S. Department of Justice Office of Legal Counsel providing the legal basis for such sales, the Department of Justice recently reversed that view • At the time of publication of this report, the effect of the latest DOJ opinion had not been fully resolved; therefore, more information would be needed if Florida were to move forward with this option
<p>Mail-In Subscriptions</p> <p>Would allow players to purchase draw game tickets through the mail for draws in various increments, such as 26, 52, or 104 draws.</p>	<ul style="list-style-type: none"> • Could generate approximately \$4.9 million per year in additional recurring transfers to education^{6,7} • Would increase player convenience by allowing customers to purchase draw game tickets from their home 	<ul style="list-style-type: none"> • Might be limited to accepting checks or money orders as payment for subscriptions, potentially restricting player options • Allowing purchase via card includes additional swipe fees, which could

Option	Advantages	Disadvantages
<p>This option can be implemented in various ways. For example, players can pick up subscription forms at a lottery retailer to fill out and return with a form of payment, download and print the form and mail it to the lottery with a form of payment, request a form through the mail to return with a form of payment, or call the main lottery office to request a subscription form.⁵</p> <p>Unless payment is limited to checks or money orders, implementing this option would require statutory changes, as current statutes (s. 24.118, F.S.) require the purchase of \$20 of other goods and services to use a credit card or other instrument issued by a bank to purchase lottery products.</p>	<ul style="list-style-type: none"> • The Lottery would receive revenues from subscription sales in advance of drawings • Key benefits for the consumers would be no missed draws and no waiting in lines 	<p>affect the amount of transfers to education if the charge is assumed by the Lottery</p> <ul style="list-style-type: none"> • Revenue estimates do not account for potential swipe fees associated with credit card transactions⁷ • Might only appeal to a small portion of players; mail-in subscriptions offered in other states generally make up a small percentage of total sales, typically 3% or less

¹ 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 2019-20. The estimate assumes all 200 terminals being active for a full year and that 20% of their sales would be shifted from existing retailers.

² Texas currently implements in-lane sales through draw game tickets printed on sales receipts at the service counter in one grocery retail chain and through pre-printed cards (like a gift card) at one discount retailer chain. As of July 13th, 2020, there were 1,894 active retailers with in-lane terminals in Texas. The Idaho Lottery launched a pilot program for in-lane sales at one small grocery retail chain with 12 locations in January 2020. Idaho implemented in-lane sales through self-standing terminals next to the point-of-sale checkout.

³ We estimated potential transfers from implementing internet sales by using available sales data from seven states that offer internet sales. We excluded Illinois, New York, Pennsylvania, and Rhode Island from our analysis due to insufficient information. Our estimate assumes a transfer rate to the EETF of 39.53% for draw only internet sales and 24.04% for both draw and instant internet sales. The estimate also assumes that 5% of sales would be shifted from existing game sales.

⁴ The estimate does not account for swipe fees from use of credit cards. If the Lottery assumed the swipe fees, this would reduce the transfer amount to the EETF. Alternatively, the Lottery could require the player to cover the swipe fees.

⁵ We identified six state lotteries that currently offer mail-in subscription sales—Maine, Maryland, Massachusetts, New Hampshire, New York, and Vermont. Massachusetts and New York were excluded from our analysis due to insufficient information.

⁶ We estimated a range of potential transfer revenue from implementing mail-in subscription sales (\$2.9 million to \$917.3 million, with a median of \$4.9 million) based on the highest and lowest per capita sales in four states that currently offer mail-in subscription sales, which we applied to Florida's estimated population for 2021. Our estimate assumes a transfer rate to the EETF of 39.53%. The estimate also assumes that 5% of sales would be shifted from existing game sales.

⁷ The estimate uses sales data from three states that limit payments to check or money order and one state that allows payment through credit cards in addition to check and money order. The estimate assumes implementation without a statutory change to allow use of credit cards and instead to require payment with check or money order. As a result, the estimate does not account for potential swipe fees from use of credit cards. Source: OPPAGA analysis of lottery industry and Department of the Lottery information.

APPENDIX C

Agency Response

RON DESANTIS
Governor



JOHN F. DAVIS
Secretary

January 27, 2021

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, 2020." The Department of the Lottery (Lottery) appreciates the diligence of your staff in thoroughly analyzing our performance over the years. Your team assists us in ensuring Floridians benefit from significant funding for the enhancement of education.

The Lottery 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 provided. It truly was a team effort and we applaud your team for their professionalism and cooperation during this process.

The Lottery believes the resulting report will be helpful to us in our work going forward.

Some of the findings we would like to highlight include:

- **"The Lottery took steps to increase sales"**
 - The Lottery set a record in contributions to education, transferring a total of \$1.9 billion to education in Fiscal Year 2019-20.
 - In total, the Lottery has contributed over \$38 billion to education since 1988 and over \$1 billion for each of the past 18 consecutive years. The Lottery has also helped over 880,000 students receive Bright Futures Scholarships.
- **"The Lottery's operating expense rate is lower than the legislative standard"**
 - As noted in the report, the Florida Lottery had the third lowest operating expense rate in Fiscal Year 2019-20 among state lotteries.
- **"The department enhanced responsible play initiatives in Fiscal Year 2019-20"**
 - The Lottery is committed to encouraging responsible play. As highlighted in the report, this includes mandatory responsible gaming training for all Lottery employees and retailers and the Lottery obtaining World Lottery Association (WLA) Level Two Certification for responsible gaming.

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- **“The department has a comprehensive retailer integrity program to protect players against ticket theft by retailers”**
 - The Lottery commends the report for noting the Retailer Integrity Enhancements from the Lottery, relating to the implementation of the new gaming system, the functionality of the Lottery mobile app, and recognizing the hard work of the Lottery’s Division of Security.
- **“The department launched a new mobile app in June 2020”**
 - The Lottery is proud of the launch of the Florida Lottery mobile app this year. Since the launch in June, the app has been a great resource for players and retailers alike, and as the report indicates, has received positive feedback.

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

Again, I want to thank your team for producing this thoughtful document. We look forward to working together with you in the future.

Respectfully,



John F. Davis
Secretary

cc: Jodi Ryon, Chief of Games Administration
Dane Dunson, General Counsel
Justin Rock, Deputy Secretary of Product and Sales
Gina Ballard, Chief Financial Officer
Andy Mompeller, Inspector General

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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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