

# Review of the Florida Lottery, 2021

Report 22-02

January 2022



# OPPAGA

Office of Program Policy Analysis and Government Accountability

# Review of the Florida Lottery, 2021

## EXECUTIVE SUMMARY

Lottery transfers to the Educational Enhancement Trust Fund increased in Fiscal Year 2020-21 to \$2.24 billion, \$328 million (17%) more than the prior year. This increase is due to large jackpots and the introduction of new scratch-off games and play options.

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

In a number of other states, product distribution methods have been expanded to include lottery courier services. A lottery courier service purchases tickets on behalf of players, typically through a website or mobile application (app). Several lottery courier services are operating in other states, with and without statutory authority. Three courier services have attempted to operate in Florida since 2017, but the Department of the Lottery stopped the couriers' operations. OPPAGA's review of Florida statutes did not identify any law specifically authorizing or prohibiting courier services.

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

OPPAGA reviewed department procedures for terminating retailers and monitoring and addressing player issues with the Florida Lottery mobile app as well as use of social media to promote the Lottery.

- The retailer termination process includes accounting for unused scratch-off ticket inventory and other lottery equipment and materials.
- The new mobile app was launched in June 2020, and the department provides avenues for players to relay mobile app issues. The department also implements quality assurance testing before updating the mobile app.
- Social media accounts have a large following and emphasize player fun, education, and responsible play.

### REPORT SCOPE

As directed by the Legislature, OPPAGA examined the Department of the Lottery and assessed options to enhance its earning capability and improve its efficiency.<sup>1,2</sup>

<sup>1</sup> Section 24.123, F.S., requires an annual financial audit of the 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.

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

# BACKGROUND

The Department of the Lottery generates funds for education by selling draw, scratch-off, and fast play games. Draw games (also known as terminal games) allow players to select from a range of numbers on a play slip. Draw game tickets are printed by terminals that are connected to the Lottery's contracted terminal-based gaming system for a drawing at a later time. Scratch-off games are tickets with removable covering that players scratch off to determine instantly whether the players 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 2021-22, the Legislature appropriated \$198 million from Lottery sales revenue and authorized 418.5 positions for department operations.<sup>3</sup> Prizes and retailer commissions are paid directly from sales revenues and do not appear in the department's appropriation.

In Fiscal Year 2020-21, prizes totaled \$6.135 billion and retailer commissions totaled \$509.5 million.<sup>4</sup> Total ticket sales for this period were \$9.076 billion. Florida ranked the highest among U.S. lotteries in total sales and seventh highest among U.S. lotteries in per capita sales for Fiscal Year 2020-21.

Since its inception, the Lottery has outsourced some functions to produce, advertise, and sell tickets. The department allocated approximately \$153 million (77%) of its Fiscal Year 2021-22 appropriation to produce and advertise draw and scratch-off games.<sup>5</sup> Vendor contracts include those listed below.

- A contract with PP+K, Inc., for general market advertising services as well as multilingual services, including those in Spanish. This contract expires in October 2022. The department may elect to contract for additional renewal periods not to exceed five years. The department has already renewed for one of the possible 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.

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<sup>3</sup> Chapter [2021-36](#), *Laws of Florida*.

<sup>4</sup> To sell its products, the Lottery contracts with a wide range of retailers across the state, such as supermarkets, convenience stores, gas stations, and newsstands. Retailers receive commissions for selling lottery products at a rate of 5% of the ticket price and 1% of the prize value for winning tickets the retailers redeem less than \$600. Retailers also can receive bonuses for selling select winning tickets and performance incentive payments.

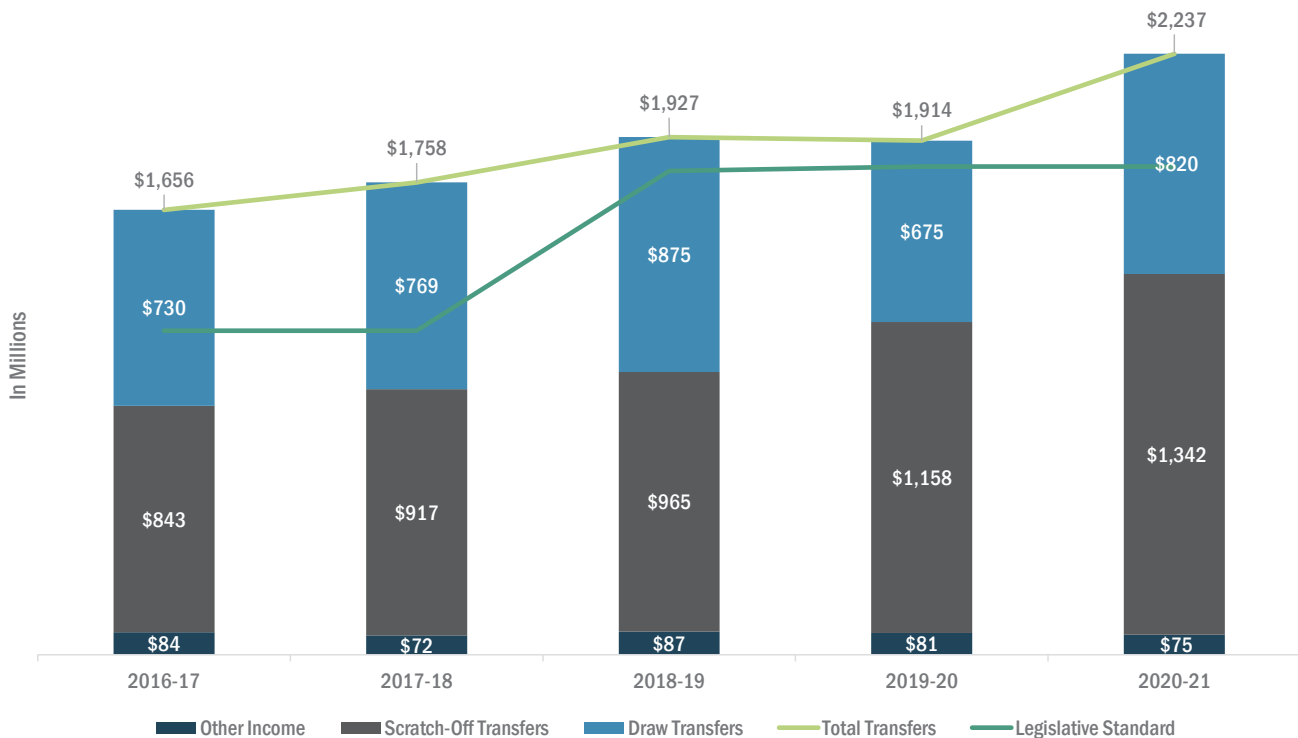
<sup>5</sup> Of the \$153 million, approximately \$113.7 million was allocated to produce draw and scratch-off games and \$39.2 million was allocated to advertising for Fiscal Year 2021-22.

# REVENUE PERFORMANCE

In Fiscal Year 2020-21, lottery sales increased to \$9.076 billion compared to the prior year's sales of \$7.505 billion (an increase of \$1.571 billion, or 21%). Both scratch-off and draw game sales increased. Scratch-off game sales increased by \$1.163 billion to \$6.828 billion, while draw game sales increased by \$408 million to \$2.248 billion.

Lottery transfers to the Educational Enhancement Trust Fund (EETF) also increased in Fiscal Year 2020-21 compared to the prior year. Lottery transfers for Fiscal Year 2020-21 were \$2.24 billion, \$323 million (17%) more than the prior year. (See Exhibit 1.) The department reports that large Mega Millions and Powerball jackpots contributed to higher draw game sales. Specifically, Mega Millions reached a \$1 billion jackpot and Powerball reached \$865 million. In addition, the department reports that the introduction of new scratch-off games contributes to the increase in scratch-off sales. The transfer rate for draw games is about twice as much as for scratch-off games.<sup>6</sup> Total transfers to the EETF for Fiscal Year 2020-21 exceeded the legislative standard of \$1.817 billion.<sup>7</sup>

**Exhibit 1**  
**Fiscal Year 2020-21 Scratch-Off and Draw Transfers Increased<sup>1</sup>**



<sup>6</sup> In Fiscal Year 2020-21, an average of 35% of sales for draw games was transferred to the EETF, compared to 20% for scratch-off games.

<sup>7</sup> The Lottery's legislatively approved performance standards are reported in *Florida Lottery Long Range Program Plan Fiscal Years 2022-23 through 2026-27*, September 30, 2021.

# REVENUE ENHANCEMENT

During Fiscal Year 2020-21, the Lottery continued to take steps to increase sales and transfers to the Educational Enhancement Trust Fund. For instance, the Lottery enhanced its product mix, launched a scratch-off merchandizing pilot program with Winn Dixie, and used LED signs to increase brand awareness. To further increase sales and transfers, the Lottery could implement new

games, introduce new ticket sales methods, or increase its retailer network. However, some of these options could represent an expansion of legalized gambling and could produce negative social costs.<sup>8,9</sup>

OPPAGA 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 the options' 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. 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 2020-21, the Department of the Lottery expanded product distribution, enhanced its product mix, and strengthened brand awareness to increase sales. For example, the department implemented an in-lane scratch-off ticket pilot project at 23 Winn-Dixie stores in which scratch-off tickets are being sold at checkout lanes from specially-designed dispensers. Customers can purchase scratch-off tickets with their groceries rather than making a separate purchase at a customer service counter or vending machine. According to the department, the growth in scratch-off ticket sales at these locations exceeds the statewide growth rate by 5.9%.

### 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.)

<sup>8</sup> For more information on negative social costs, see *Lottery Profits Flat; Increasing Retailer Outlets Is Critical to Increasing Sales*, OPPAGA [Report 10-16](#), January 2010, and *Gambling Impact Study*, Spectrum Gaming Group, October 2013.

<sup>9</sup> Fiscal impact estimates presented in this report do not account for negative social costs and shifts of other taxable economic activity.

The Department of the Lottery also reports that enhancements to its product mix contributed to increased sales. For example, the department introduced three families of scratch-off ticket games, along with bonus play (second chance) opportunities, which it attributes to helping increase scratch-off sales by more than \$1.2 billion compared to the prior year.

The department also implemented an LED sign pilot project in which it placed 109 signs in stores. The signs display the Florida Lottery logo with the intent of increasing brand awareness. The department reports that stores with the LED signs experienced sales increases that exceeded other stores within the stores' districts by 2% compared to the prior year. In a similar pilot, the department placed 140 branded point of sale displays at gas pumps in 128 retail locations. The department reports that these locations exceeded the stores' district sales growth rates by over 3% compared to the prior year.

### The Lottery Enhanced Product Distribution, Product Mix, and Brand Awareness to Increase Sales

#### Examples of Steps to Increase Sales in Fiscal Year 2020-21

- Implemented an in-lane scratch-off ticket pilot project
- Added three families of scratch-off games
- Implemented brand awareness pilot projects with LED signs and point of sale displays at gas pumps

## New lottery games could generate additional revenues<sup>10</sup>

To maintain and increase sales, lotteries need to continually review and refresh the 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.<sup>11</sup> In this game, the player purchases an instant play, instant win ticket that a clerk prints from a lottery terminal or the player prints from a self-service vending machine. In some versions of this game, the player chooses the play amount and in others, the lottery sets a single price point. 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.

### New Games Could Increase Lottery Revenues

#### Examples of New Game Options

- Implementing progressive jackpot fast play games could generate \$13.65 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, and monitor games.

As noted in OPPAGA's 2021 review, a reported 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. OPPAGA estimates that implementing progressive jackpot fast play games in Florida could generate approximately \$13.65 million in additional transfers during the first full year of implementation.<sup>12</sup>

<sup>10</sup> Unless otherwise noted, all estimates in this report use the projected Fiscal Year 2022-23 EETF transfer rates from the July 2021 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.

<sup>11</sup> OPPAGA identified 15 state lotteries that offer one or more progressive jackpot fast play game—Arizona, Connecticut, Idaho, Illinois, Indiana, Iowa, Kentucky, Michigan, Montana, New Hampshire, New Mexico, North Carolina, Ohio, Pennsylvania, and Virginia.

<sup>12</sup> OPPAGA estimated a range of potential progressive jackpot fast play game transfer revenue (\$860,000 to \$683.48 million, with a median of \$13.65 million) based on the highest and lowest per capita sales in states that offer fast play progressive games, which was applied to Florida's estimated population for 2022. Due to insufficient data, OPPAGA excluded four states—Connecticut, Illinois, North Carolina, and Ohio—from the analysis. The estimate assumes a transfer rate to the EETF of 18.55%, and that 10% of the sales would be shifted from existing game sales.

Another new game option OPPAGA included in the 2021 report and which the department implemented early January 2022 is Cash Pop, whereby players choose one or more numbers from 1 to 15 and can purchase tickets for different play amounts. The player's ticket prints with a randomly assigned prize amount based on the play amount. If the player's number is chosen, the player wins the prize amount printed on the ticket.

The price points for Cash Pop game are \$1, \$2, and \$5. Prizes vary based on price point ranging from \$5 to \$1,250. The department conducts drawings for Cash Pop five times a day. Department administrators anticipate sales will be between \$74 million and \$114 million in the game's first full year.

## Other states use additional product distribution methods

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 selling lottery draw games in grocery check-out lanes.

OPPAGA identified 12 U.S. lotteries that offer lottery products over the internet.<sup>13</sup> 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.<sup>14</sup>

Lotteries that sell products over the internet require players to be at least 18 years of age and located within the state when making a lottery purchase. Based on other states' experiences, OPPAGA estimates the potential revenue from implementing internet sales in Florida is approximately \$10.6 million to \$72.1 million per year in additional recurring transfers to education depending on whether only draw games or both draw and instant games are offered, respectively.<sup>15,16</sup>

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.<sup>17</sup> The state would need to comply with federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state.<sup>18</sup>

### Offering Lottery Products Over the Internet Could Increase Revenues

#### Internet Sales

- Potential revenue from implementing internet sales in Florida could be as high as \$72.1 million per year.
- Implementing this distribution method would require statutory changes to address several issues.

<sup>13</sup> The 12 U.S. lotteries are the District of Columbia lottery and state lotteries in Georgia, Illinois, Kentucky, Michigan, New Hampshire, New York, North Carolina, North Dakota, Pennsylvania, Rhode Island, and Virginia.

<sup>14</sup> New York offers subscription-only internet sales.

<sup>15</sup> OPPAGA estimated potential transfers from implementing internet sales by using available sales data from seven states that offer internet sales—Georgia, Kentucky, Michigan, New Hampshire, North Carolina, North Dakota, and Virginia. Due to insufficient 2020 sales data, OPPAGA used 2019 sales data for these states. The analysis excluded Illinois, New York, Pennsylvania, Rhode Island, and the District of Columbia due to insufficient information. The estimate assumes a transfer rate to the EETF of 38.17% for draw only internet sales and 23.25% for both draw and instant internet sales. The estimate also assumes that 5% of sales would be shifted from existing game sales.

<sup>16</sup> 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 pay for the swipe fees.

<sup>17</sup> 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.

<sup>18</sup> Although a U.S. Department of Justice opinion reversed a previous opinion that provided the basis for U.S. lottery internet sales, the New Hampshire Lottery filed a lawsuit regarding the reversal. The New Hampshire Lottery prevailed in both the lower court and on appeal.

Another product distribution method some states are currently implementing is to sell draw game tickets in check-out lanes rather than at customer service counters. This approach is somewhat similar to the Florida Lottery’s in-lane pilot project for selling scratch-off tickets at Winn Dixie grocery store check-out lanes. For example, the Texas Lottery is pilot-testing two methods for selling draw game tickets in this manner. One method, being implemented at Dollar General stores, is called quick ticket. With quick ticket, customers select a card similar to a gift card that can be used to purchase sets of randomly generated numbers with a pre-set dollar amount for tickets in the check-out lane by having a clerk scan the card at the register. The player’s receipt shows that the card was activated. The numbers on the card are entered into the next drawing of the game. The second method, being implemented at a chain of grocery stores, is called receipt ticket. With receipt ticket, customers can ask for lottery tickets as they purchase groceries, and ticket numbers print on the register receipt at the checkout lane.

Potential revenue from implementing in-lane sales options is likely positive but indeterminate, given that implementation in other states is generally in the pilot-testing phase. This sales method is a convenience for players because they can purchase lottery tickets in the same transaction with other purchases. In addition, in-lane sales might enhance retailer recruitment because new retailer types, such as home improvement stores or additional big box retailers, would have the opportunity to sell lottery tickets without having to use a traditional lottery terminal or lottery display. The department could also use this method to provide players with additional points of sale at current lottery retailers. Implementation of this option might be facilitated if statutes were amended to lower the minimum dollar purchase amount of other goods and services to use a credit card or other instrument issued by a bank to purchase lottery products. The current statutory minimum of \$20 may limit the number of customers who can use this option.<sup>19</sup>

<b>Selling Lottery Draw Games In-Lane Could Increase Revenues</b>	
<b>In-Lane Sales</b>	
•	Potential revenue from implementing this option is likely positive but indeterminate.
•	Implementing this distribution method would be facilitated with statutory changes to allow for purchase via credit/debit card.

Some disadvantages of in-lane sales include that it would require retailers to program lottery ticket purchase systems to work with checkout registers, which could be onerous. Another issue with receipt ticket is that there may be limited merchandising opportunities available in the store for making players aware they can purchase tickets in the checkout line, requiring alternate ways of alerting players. Also, while in-lane sales allow retailers to sell lottery products without having lottery terminals, current technology limitations prevent these retailers from validating tickets and paying prizes without a traditional lottery terminal.

## **Lottery courier services operate in other states; three have attempted to operate in Florida**

Lottery courier services purchase tickets on behalf of players, typically through a website or mobile app. OPPAGA identified multiple courier services operating in other states, including Minnesota, New Hampshire, New Jersey, New York, Ohio, and Texas. A typical courier service arrangement involves the courier company either partnering with a lottery retailer or having a license as a lottery retailer. The

<sup>19</sup> Section [24.118\(1\)](#), F.S.



courier service usually sets up website accounts into which players deposit funds. Players direct the courier to purchase tickets on the players' behalf, which the courier purchases from a partner retailer or prints from courier terminals if the courier has a retailer contract. The courier retains the tickets for a record of the purchases and typically provides players with scanned copies. The courier may credit players' accounts for lower tier prizes, but if a player wins a higher tier prize and needs a ticket to redeem it, the player can either pick up the ticket from the courier service or have it sent to them. The fee arrangement in some states involves players paying the courier a percentage of the funds they deposit in their account and a fee each time they add funds to their account.

The statutory arrangements under which the courier services operate in these states varied widely. In New Jersey, statutes direct the New Jersey Lottery to regulate courier services. The New Jersey regulatory process involves a comprehensive background screening and financial review similar to the process the state uses for casinos, which is conducted at the expense of the courier service. The state lottery conducts ongoing monitoring of the courier service's operations. In Minnesota, statutes authorize courier services and the courier service operates as a lottery retailer. In New York, the state gaming commission, which oversees the state lottery, established regulations for issuing courier services temporary one-year licenses. In New Hampshire, Ohio, and Texas, there are no statutes to either specifically authorize or prohibit courier service operations. In two of these three states, Ohio and Texas, courier services operate without regulation since the state lottery has no ongoing role in courier service operations. In the third of the three states, New Hampshire, the courier has a lottery retailer contract, but the state lottery does not oversee its courier operations.

OPPAGA's review of Florida statutes did not identify any law specifically authorizing or prohibiting courier services. Department of the Lottery administrators report that three courier services attempted to operate in Florida from 2017 to 2021. In each case, the department stopped the courier from operating, either by cancelling the contract of the retailer that partnered with the courier service or by persuading the courier service to cease operations. According to the department, the grounds for cancelling the retailer contracts was violation of Florida Lottery retailer rules requiring use of Florida Lottery-approved or printed play slips, and in one case, for engaging in conduct prejudicial to public confidence in the Lottery.

The Legislature may wish to consider authorizing or prohibiting the operation of lottery courier services. Based on the experiences of other states, courier services could increase Lottery revenues by reaching players who are interested in purchasing tickets online. If the Legislature wishes to authorize courier services, the enabling legislation could authorize the Department of the Lottery to establish additional rules to protect players and the integrity of the Florida Lottery. In addition, rules may include limiting how much a courier service can charge players. Alternatively, the Legislature may wish to expressly prohibit courier services.

# Increasing the retailer network could also enhance revenues

Another option that could increase sales is for the department to expand its retailer network. In Fiscal Year 2019-20, the top two southeast U.S. lotteries ranked by per capita sales—Georgia and South Carolina—had an average of 1,286 residents per retailer.<sup>20</sup> The two states had higher per capita sales (\$433 and \$404, respectively) than Florida (\$345). During that period, the Florida Lottery averaged 1,624 residents per retailer. Adding 3,515 new retailers to Florida’s retailer network would meet the Georgia and South Carolina lotteries’ market penetration and could generate about \$103 million annually in additional transfers to the Educational Enhancement Trust Fund. A more modest growth of 200 retailers would generate about \$5.9 million annually in transfers.<sup>21</sup>

## 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.
- Adding 200 more retailers could generate \$5.9 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 2022-23 through 2026-27 recognizes that there is an opportunity to increase the retailer network via non-traditional trade styles (retailer types) outside of grocery, convenience, and liquor. The department achieved a record high retailer count in Fiscal Year 2019-20 at 13,382 retailers. This is an increase of 118 retailers compared to 13,264 retailers in Fiscal Year 2018-19.

According to the department, factors related to the COVID-19 pandemic present challenges to retailer recruitment and retention. One reported issue is that some retailers are experiencing labor shortages. As a result, the department reports that these retailers do not want to add a new service such as lottery sales. In addition, labor shortages have led to business closures for some former retailers. The department attempted to retain retailers by allowing a longer time for retailers to settle scratch-off ticket books. If a retailer does not sell all scratch-off tickets in an activated book, the retailer will need to reimburse the department for the remaining tickets. The department lengthened the amount of time retailers have to provide that reimbursement from 60–90 days to 90–120 days. The department loosened these settlement restrictions from April 2020 to October 2020.

## OPERATIONS

The Department of the Lottery continues to keep its expenses as a percentage of revenue below the legislative standard and low relative to other states. To examine current operational initiatives, OPPAGA reviewed the Lottery’s retailer termination process, mobile app performance, and social media presence.

<sup>20</sup> For this analysis, OPPAGA analyzed data for six southeastern states with lotteries—Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee (Alabama does not have a lottery). The analysis 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 because Tennessee did not report the number of retailers, so for this measure, OPPAGA compared the Florida Lottery’s performance to the four remaining states.

<sup>21</sup> OPPAGA 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 2020-21. The estimate assumes all 200 new retailer terminals are active for a full year and that 20% of sales would be shifted from existing retailers.

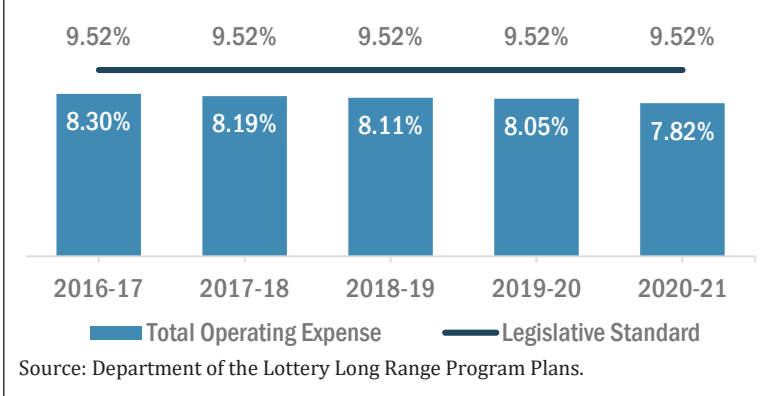
## The Lottery's operating expense rate is lower than the legislative standard

The Department of the Lottery's operating expenses in relation to revenue continue to be lower than the legislative standard. (See Exhibit 2.)<sup>22</sup>

Furthermore, compared to other U.S. lotteries, the Florida Lottery had the third lowest operating expense rate in Fiscal Year 2020-21, behind West Virginia and Massachusetts.<sup>23</sup> According to department administrators, a primary reason for the low operating expense rate is that the department has maintained stable operating expenses while ticket sales have increased.

**Exhibit 2**

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



## The department's process for terminating retailers includes accounting for unused scratch-off ticket inventory

The department terminates retailers' contracts for a variety of reasons. The reasons include those initiated by the department, such as when a retailer is unable to provide funds to cover ticket sales, or those initiated by a retailer, such as when a retailer has sold a business.

When a retailer's contract is terminated, a department sales representative goes to the location to take an inventory of all Lottery equipment and products. When accounting for unused scratch-off ticket inventory, the sales representative first generates an inventory report from the retailer's terminal. The sales representative matches the scratch-off tickets at the retailer location to the inventory report and reconciles it. Scratch-off books a retailer accepts to sell are settled for payment to the Florida Lottery using one of three methods: (1) settlement by the retailer; (2) when 90 days have elapsed since the retailer activated the book to sell or 90% of the lower tier prizes in the book have been redeemed; or (3) during an inventory conducted by a Florida Lottery representative that finds a book is no longer in the retailer's inventory. At the end of the inventory process, the sales representative and the retailer sign a form documenting the results.

The sales representative collects any unused tickets and sends them to the Scientific Games warehouse. Scientific Games processes the return; full, unused ticket books are redistributed to other retailers and partial ticket books are destroyed. Scientific Games maintains records of book returns, shipments to retailers, and ticket destruction.

<sup>22</sup> Operating expenses include payments to gaming vendors and retailer commissions.

<sup>23</sup> Florida Lottery's ranking is based on the latest fiscal year data available from *La Fleur's 2021 World Lottery Almanac*. Operating expense rates include administrative expenses and retailer commissions.

Once the sales representative has reconciled the scratch-off ticket inventory to sales data, the representative contacts the department's Lottery Games Administration unit, which shuts down the retailer's ticket terminal and informs IGT, the department's gaming system vendor. IGT staff collect the lottery ticket terminal and related equipment. The department sales representative is responsible for collecting point-of-sale items, including the Florida Lottery play station, and any other lottery-related inventory.

Retailers are responsible for the sales revenue for tickets retailers have sold. The department's banking vendor "sweeps" retailer bank accounts to collect sales revenues owed to the Lottery. If the amount available in a retailer account is insufficient to cover the amount owed, a second sweep attempt is made automatically.<sup>24</sup> If a retailer whose contract is being terminated does not have sufficient funds in its account to pay what it owes, the department's collections staff try to recover the funds. If the collections staff are unsuccessful after 120 days, they may send the case to a collection agency.

## The department monitors mobile app issues

The Department of the Lottery launched a new mobile app in June 2020. The mobile app undergoes periodic updates to refresh games, but the department has not added any additional features since those noted in OPPAGA's January 2021 report. These features include allowing 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 mobile app offers digital play slips, digital fast play barcodes, and a ticket self-checker. The digital play slip allows players to pre-select numbers for ticket purchase at a Lottery retailer and the digital fast play barcode allows users to pre-select fast play games for purchase from a Lottery retailer.

Between July 1, 2020, and June 30, 2021, the department reports that players used the mobile app digital play slip function 980,967 times, resulting in \$2.3 million in sales. The ticket self-checker allows users to determine if a ticket is a winner. During the same period, players used the mobile app to scan 112.5 million tickets.

The department provides avenues for players to relay mobile app issues and implements quality assurance testing before updating the mobile app. Players can report mobile app issues in Google and Apple reviews, through the department's customer service email or call center, and through the department's social media chat boxes. The department completes monthly ad hoc inspections of mobile app reviews to identify issues. OPPAGA reviewed 254 player-reported mobile app reviews from August 24, 2021, to September 22, 2021. OPPAGA identified 25% of reviews as positive, 71% as

### Players Use the New Mobile App to Fill Play Slips and Check Tickets

#### Mobile App Usage

- As of August 2021, the mobile app has 337,546 users.
- Between July 2020 and June 2021, there were 980,967 sales made using the digital play slip function.
- Between July 2020 and June 2021, the mobile app was used to scan 112.5 million tickets.

<sup>24</sup> For a retailer with insufficient funds whose contract is not already being terminated, the department turns off the retailer's terminal and suspends its ability to order scratch-off tickets until the sales revenues are collected. For a first and second delinquency in a 12-month period, the retailer must pay all funds owed plus a service charge to turn the terminal back on and be able to order scratch-off tickets. For a third delinquency in a 12-month period, the retailer must pay all funds owed, plus a service charge, and post a bond or certificate of deposit of up to twice the retailer's average weekly ticket sales. The department considers terminating the contract of any retailer with a fourth delinquency in a 12-month period.

negative, and 4% as neutral. Out of the players who reported a negative experience, players most frequently have issues with the app freezing or not loading (32%). In addition, players reported issues with scanning functionality (20%). To refresh the games on the mobile app, the department updates the mobile app approximately every six weeks. As part of this refresh, players must update the mobile app before use, which can require re-downloading the app. From August 24, 2021, to September 22, 2021, 14% of negative reviews mentioned installing and reinstalling the app and 11% of negative reviews mentioned experiencing an issue related to a recent mobile app update.

## **The department's social media goals emphasize player fun, education, and responsible play**

The Department of the Lottery has a social media operating budget of \$1.65 million, 5% of the total advertising budget, which the department uses exclusively for advertising purchases from the advertising vendor, PP+K, Inc. To gather information about the use of social media by state lotteries, OPPAGA interviewed Florida Lottery officials and lottery administrators in Idaho, Kansas, and New Hampshire. Like New Hampshire, which contracts with a vendor for its advertising, the Florida Lottery contracts with PP+K, Inc., to develop all social media advertisements. The Florida Lottery has a formal process where the department reviews the social media advertisements from PP+K, Inc., and provides feedback or approves them for posting.

Florida Lottery administrators report that the main social media goals are emphasizing player fun, education, and responsible play. The department attempts to incorporate these three features into all social media advertisements. One way of emphasizing player fun is through social media campaigns that highlight lottery winners and players having fun while playing responsibly. An example of promoting education on social media is the inclusion of Bright Futures recipients and their stories. While the department attempts to incorporate responsible play into all social media ads, it also conducts responsible play campaigns a few times a year (e.g., Responsible Gaming Week from September 13–19, 2020, and Gambling Awareness Month in March).

The Florida Lottery has built a large social media presence with over 400,000 Facebook followers. The department is emphasizing engagement with existing customers while maintaining goals to attract new players. In addition to advertising, the department engages with followers through social media promotions such as Facebook live events and giveaways. The department reports hosting one to two promotional giveaways per month on social media, where people can comment on a Facebook post and have a chance to win a prize. Prizes include electronics, Florida Lottery merchandise, and gift cards that range in value from \$25 to \$500.

Similar to Florida, the three other state lotteries interviewed had active social media accounts with high public engagement or engaged in social media promotions that included live events and giveaways. However, unlike the other state lotteries interviewed, Florida's contract with PP+K, Inc., includes a comprehensive, mixed-marketing, return-on-investment analysis of the impact of advertising (including social media), on ticket sales.

## OPTIONS

While the Department of the Lottery has taken steps to increase sales, additional actions could enhance sales and ultimately increase transfers to education.

For example, 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 implementation timeframes, 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.

In addition, the Legislature may wish to consider authorizing or prohibiting the operation of lottery courier services. Based on the experiences of other states, courier services could increase Lottery revenues by reaching players who are interested in purchasing tickets online. If the Legislature wishes to authorize courier services, the enabling legislation also could authorize the Department of the Lottery to establish additional rules to protect players and the integrity of the Florida Lottery. In addition, rules could include limiting how much a courier service can charge players. Alternatively, the Legislature may wish to expressly prohibit courier services.

## AGENCY RESPONSE

In accordance with the provisions of s. 11.51(2), *Florida Statutes*, OPPAGA submitted a draft of this report to the Secretary of the Department of the Lottery for review and response. The Secretary's written response is in Appendix C.

# APPENDIX A

## New Lottery Game Options

OPPAGA reviewed U.S. lottery resources and research to identify games offered by other state lotteries but not currently available in Florida. OPPAGA identified, for further analysis, options that could generate additional revenues. To obtain information on these games, OPPAGA researched other state lottery websites, used data from *La Fleur's World Lottery Almanac*, surveyed other U.S. lotteries, interviewed other U.S. lottery officials, and used interviews and documentation from Florida Lottery officials.

New games that attract new players could increase revenues to education, but some games could be considered an expansion of gambling. Exhibit A-1 lists new game options, the options' advantages and disadvantages, and estimated revenues where OPPAGA was able to develop reasonable estimates. Some of the sales from new games would be the result of sales shifts from existing games; the estimates include a component to address a sales shift.<sup>25</sup> 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 of a rapid play style that may be more addictive than other types of games.<sup>26</sup> 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 (EETF) need to meet or exceed the transfer rates specified in the bond covenants. Annual revenue estimates assume full implementation by July 1, 2022. However, some options would require additional time to implement, such as launching a keno or monitor game. In addition, unless otherwise noted, all estimates use the projected Fiscal Year 2022-23 EETF transfer rates from the July 2021 Revenue Estimating Conference. Transfer rates differ based on game type (i.e., draw or scratch). Transfers resulting from implementing new game options may differ based on the transfer rates at the time of implementation. Actual transfers in Florida may differ from the estimates due to factors such as population demographics, the mix of lottery games available, and lottery games available in neighboring states. If these new games were considered for implementation in Florida, further analysis would be necessary to determine the potential impact on revenue sharing terms of any gaming compact between the State of Florida and the Seminole Tribe of Florida.

### Exhibit A-1

#### New Games Could Increase Revenues to Education, But May Be Considered an Expansion of Gambling

Option	Advantages	Disadvantages
<b>All or Nothing</b> For \$1 or \$2, players select 10 to 12 numbers from up to 24 numbers and win the top prize by matching all numbers drawn or by matching none of the numbers drawn; drawings are held multiple times per day. <sup>1</sup>	<ul style="list-style-type: none"><li>• Could generate approximately \$9 million in transfers to education during the first full year of implementation<sup>2</sup></li></ul>	<ul style="list-style-type: none"><li>• May have a limited life cycle after which sales decline</li></ul>

<sup>25</sup> If any of these options were implemented, further study of the sales shift (also referred to as the cannibalization rate) would be needed.

<sup>26</sup> Lottery games can be addictive for some players. Some research has shown that the higher or more rapid the event frequency, the more likely it is that the gambling activity will cause problems for the player, particularly if the player is predisposed to gambling addiction. Because fast keno has a more rapid play style than the Florida Lottery's existing draw games, fast keno has the potential to be more addictive than the other draw games. Fast keno drawings are every four to five minutes, compared to one to five times a day for the Florida Lottery's daily games and two or three times a week for its other draw games.

Option	Advantages	Disadvantages
<p><b>Daily Keno</b> 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.<sup>3</sup></p>	<ul style="list-style-type: none"> <li>• Could generate approximately \$7.1 million per year in additional recurring transfers to education<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>• May have a limited life cycle after which sales may decline</li> </ul>
<p><b>Fast Keno</b> Players choose from 10 to 12 numbers from a panel of 80 numbers with the hope of matching their choices to 20 numbers drawn by the central computer at the Lottery headquarters; it may be played frequently (e.g., every four to five minutes); players watch a monitor at a retailer location to determine if they have won or leave the premises and check the Lottery’s website for the winning numbers.<sup>5</sup></p> <p>Implementing this option may require legislative budget approval for additional gaming system equipment and legislative action to modify the requirements for a drawing to be public, witnessed by an accountant, and include inspecting the drawing equipment before and after each drawing, given that electronic drawings could occur every four to five minutes (s. <a href="#">24.105(9)(d)</a>, F.S.).</p>	<ul style="list-style-type: none"> <li>• Could generate approximately \$66.13 million per year in additional recurring transfers to education<sup>6</sup></li> <li>• 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 determine if they have won</li> <li>• Would help the Lottery recruit new retailers in social venues</li> </ul>	<ul style="list-style-type: none"> <li>• May be addictive due to its rapid play style</li> <li>• 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</li> <li>• Long term sales gains are dependent on new retailer participation</li> </ul>
<p><b>Monitor Games</b> 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.<sup>7</sup></p> <p>Implementing this option may require legislative budget approval for additional gaming system equipment and legislative action to modify the requirements for a drawing to be public, witnessed by an accountant, and include inspecting the drawing equipment before and after each drawing, given that electronic drawings could occur frequently (s. <a href="#">24.105(9)(d)</a>, F.S.).</p>	<ul style="list-style-type: none"> <li>• Could generate approximately \$31.8 million per year in additional recurring transfers to education<sup>8</sup></li> <li>• Could appeal to emerging markets of lottery players that have grown up playing computer games</li> <li>• Allows the Lottery to recruit new retailers in social venues such as bars and restaurants</li> <li>• Could be limited to pari-mutuel facilities or social settings, such as bars and restaurants</li> </ul>	<ul style="list-style-type: none"> <li>• May be addictive due to its rapid play style</li> </ul>
<p><b>Progressive Jackpot Fast Play</b> 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.<sup>9</sup></p>	<ul style="list-style-type: none"> <li>• Could generate approximately \$13.65 million per year in additional recurring transfers to education<sup>10</sup></li> <li>• The excitement of a progressive jackpot serves as a sales driver</li> <li>• A progressive jackpot offers stronger differentiation from scratch-off products</li> </ul>	<ul style="list-style-type: none"> <li>• Strong participation to drive sales and grow the jackpot is necessary for success</li> <li>• 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</li> </ul>

<sup>1</sup> OPPAGA identified four state lotteries that offer an All or Nothing game—Georgia, Massachusetts, Texas, and Wisconsin. In Massachusetts, All or Nothing is also a monitor game and is therefore included in both the All or Nothing and monitor games sections of in this appendix.

<sup>2</sup> OPPAGA estimated a range of potential All or Nothing transfer revenue (\$1.6 million to \$18.3 million, with a median of \$9 million) based on the highest and lowest per capita sales in states that offer All or Nothing, which was applied to Florida’s estimated population for 2022. The analysis assumes a draw game transfer rate to the EETF of 38.17% and that 10% of the sales would be shifted from existing game sales.



<sup>3</sup> OPPAGA identified three U.S. lotteries that offer Daily Keno—Michigan, New York, and Washington.

<sup>4</sup> OPPAGA estimated a range of Daily Keno transfer revenue (\$6.2 million to \$12.67 million, with a median of \$7.1 million) based on the highest and lowest per capita sales in states that offer Daily Keno, which was applied to Florida's estimated population for 2022. Due to insufficient 2020 sales data, OPPAGA used other state 2019 sales and population data for these estimates. The estimate assumes a draw game transfer rate to the EETF of 38.17% based on the July 2021 Revenue Estimating Conference projected transfers for Fiscal Year 2022-23 and that 5% of the sales would be shifted from existing game sales. Due to insufficient data,

<sup>5</sup> OPPAGA identified 22 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, the U.S. Virgin Islands and West Virginia. Michigan and the U.S. Virgin Islands were excluded from the analysis due to insufficient information.

<sup>6</sup> OPPAGA estimated a range of potential Fast Keno transfer revenue (\$8.32 million to \$625.52 million, with a median of \$66.13 million) based on the highest and lowest per capita sales in states that offer Fast Keno, which was applied to Florida's estimated population for 2022. The estimate assumes a transfer rate to the 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.

<sup>7</sup> OPPAGA identified five U.S. lotteries that offer monitor games— the District of Columbia, Kansas, Maryland, Massachusetts, and Rhode Island. The monitor game in Rhode Island is sold at a limited number of retailers; therefore, Rhode Island was excluded from the analysis. In Massachusetts, All or Nothing is also a monitor game and is therefore included in both the All or Nothing and monitor games sections of in this Appendix.

<sup>8</sup> OPPAGA estimated a range of potential monitor game transfer revenue (\$4.7 million to \$ 167.5 million, with a median of \$ 31.8 million) based on the highest and lowest per capita sales in states that offer monitor games, which was applied to Florida's estimated population for 2022. The 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.

<sup>9</sup> OPPAGA identified 15 state lotteries that offer one or more progressive jackpot fast play game—Arizona, Connecticut, Idaho, Illinois, Indiana, Iowa, Kentucky, Michigan, Montana, New Hampshire, New Mexico, North Carolina, Ohio, Pennsylvania, and Virginia.

<sup>10</sup> OPPAGA estimated a range of potential progressive jackpot fast play game transfer revenue (\$860,000 to \$683.48 million, with a median of \$13.65 million) based on the highest and lowest per capita sales in states that offer fast play progressive games, which was applied to Florida's estimated population for 2022. Due to insufficient data, OPPAGA excluded Connecticut, Illinois, North Carolina, and Ohio from the analysis. The estimate assumes a transfer rate to the EETF of 18.55%, 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

OPPAGA reviewed U.S. lottery resources and research to identify product distribution methods offered by other state lotteries but not currently available in Florida. OPPAGA identified, for further analysis, options that could generate additional revenues. To obtain information on these games, OPPAGA researched other state lottery websites, used data from *La Fleur's World Lottery Almanac*, surveyed other U.S. lotteries, interviewed other U.S. lottery officials, and used interviews and documentation from Florida Lottery officials.

Making lottery products more accessible and convenient for players by expanding product distribution could increase revenues to education, but some options could be considered an expansion of gambling. Exhibit B-1 lists product distribution options that could increase lottery sales and education transfers, the options' advantages and disadvantages, and estimated revenues where OPPAGA was 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.<sup>27</sup> Actual transfers in Florida may differ from the estimates due to factors such as population demographics, the mix of lottery games available, and lottery games available in neighboring states. In addition, unless otherwise noted, all estimates use the projected Fiscal Year 2022-23 Educational Enhancement Trust Fund (EETF) transfer rates from the July 2021 Revenue Estimating Conference. Transfer rates differ based on game type (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. Annual revenue estimates assume full implementation by July 1, 2022. However, some options would likely require additional time to implement. If these additional product distribution methods were considered for implementation in Florida, further analysis would be necessary to determine the potential impact on revenue sharing terms of any gaming compact between the State of Florida and the Seminole Tribe of Florida.

### Exhibit B-1

#### Expanding Product Distribution Could Increase Revenues to Education, but May Be Considered an Expansion of Gambling

Option	Advantages	Disadvantages
<p><b>Increase Retailer Network</b> Add additional corporate and independent lottery retailers in both traditional locations, such as convenience and grocery stores, and non-traditional locations, such as chain drug stores, mass merchandisers, home improvement centers, bars, and restaurants.</p> <p>This option may require legislative budget approval for more terminals, depending on the extent of growth.</p>	<ul style="list-style-type: none"><li>• Adding 200 new retailers could generate approximately \$5.9 million per year in additional recurring transfers to education<sup>1</sup></li><li>• Florida has been below average in terminal density compared to other successful lottery states, so increasing its network could improve per capita sales</li><li>• Could increase product distribution and awareness, making products available to new players who do not shop where products are currently being sold</li></ul>	<ul style="list-style-type: none"><li>• The non-traditional lottery business model may require the development of different products, compensation frameworks, and distribution strategies</li><li>• May require additional lottery staff to service new accounts</li></ul>

<sup>27</sup> If any of these options were implemented, further study of the sales shift would be needed.

Option	Advantages	Disadvantages
<p><b>In-Lane Draw Game Sales</b>            Would allow players to buy lottery draw game tickets as the players go through the individual checkout lanes in locations such as grocery stores, convenience stores, and other retailer types.</p> <p>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 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. In addition, retailers may have a self-standing terminal close to the point-of-sale checkout terminal.<sup>2</sup></p> <p>Implementation of this option might be facilitated if statutes were amended to lower the minimum dollar purchase amount of other goods and services to use a credit card or other instrument issued by a bank to purchase lottery products. The current statutory minimum of \$20 may limit the number of customers who can use this option. (s. <a href="#">24.118</a>, F.S.)</p>	<ul style="list-style-type: none"> <li>• Would increase player convenience by enabling customers to purchase lottery tickets in the same line as the customers purchase other items such as groceries</li> <li>• May help with retailer recruitment by allowing new retailer types, 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</li> <li>• Would expose players to lottery products at additional points of sale in existing retail locations</li> </ul>	<ul style="list-style-type: none"> <li>• May require a great deal of work by retailers to program systems to work with the retailer's check-out registers</li> <li>• Depending on the option implemented, there may be limited merchandising opportunities, requiring alternate ways of making players aware of the game option</li> <li>• While this option allows retailers to sell lottery products without having lottery terminals, current technology limitations prevent these retailers from validating tickets and paying prizes without a traditional lottery terminal</li> </ul>
<p><b>Internet Sales</b>            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. <a href="#">24.105</a>, F.S.).</p> <p>Unless payment is limited to bank account transfers, implementing this option would also require amending statutes that require a 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. <a href="#">24.118</a>, 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"> <li>• Adding internet sales could generate approximately \$10.6 million to \$72.1 million per year in additional recurring transfers to education depending on whether only draw games or both draw and instant games are offered, respectively; the median transfer estimate for offering both instant and draw games online is \$33.7 and the median transfer estimate for offering only draw games online is \$13.1<sup>3,4</sup></li> <li>• The Lottery would receive revenues from subscription sales in advance of drawings</li> <li>• Could increase retail sales at brick and mortar stores</li> <li>• Would provide more convenience to players who prefer to purchase their lottery products from their personal computer or cellular device</li> <li>• Key benefits for the consumers would be no missed draws, no waiting in lines, and ease of prize claims</li> <li>• Offers touch-free method of play from each player's personal device while allowing social distancing play when needed</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• As has happened in other states, current lottery retailers may oppose this option due to concerns that the retailers 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</li> <li>• Game changes after subscription tickets are purchased would require communication with players and possibly a replacement ticket</li> <li>• Could reduce unclaimed prize funds, as prizes may be automatically credited to players</li> <li>• 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 providing the legal basis for such sales, the</li> </ul>

Option	Advantages	Disadvantages
<p><b>Mail-In Subscriptions</b>            Would allow players to purchase draw game tickets through the mail for draws in various increments, such as 26, 52, or 104 draws. 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.<sup>5</sup> Unless payment is limited to checks or money orders, implementing this option would require statutory changes, as current statutes (s. <a href="#">24.118, F.S.</a>) 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"> <li>• Could generate approximately \$4.8 million per year in additional recurring transfers to education<sup>6</sup></li> <li>• Would increase player convenience by allowing customers to purchase draw game tickets from their home</li> <li>• The Lottery would receive revenues from subscription sales in advance of drawings</li> <li>• Key benefits for the consumers would be no missed draws and no waiting in lines</li> <li>• Offers social distancing method of play from each player’s home during times of pandemic or other times of at-home needs</li> </ul>	<p>Department of Justice recently reversed that view</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Might be limited to accepting checks or money orders as payment for subscriptions, potentially restricting player options</li> <li>• Allowing purchase via card would include additional swipe fees, which could affect the amount of transfers to education if the charge is assumed by the Lottery</li> <li>• Revenue estimates do not account for potential swipe fees associated with credit card transactions<sup>7</sup></li> <li>• 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</li> </ul>

<sup>1</sup> OPPAGA 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 independent retailers achieved in Fiscal Year 2020-21. The estimate assumes all 200 terminals being active for a full year and that 20% of sales would be shifted from existing retailers.

<sup>2</sup> Texas currently implements in-lane sales through draw game tickets printed on sales receipts at one grocery retail chain and through pre-printed cards (like a gift card) at one discount retailer chain. As of September 2021, there were between 1,800 and 1,900 active retailers with in-lane sales in Texas. The Idaho Lottery launched a pilot program for in-lane sales at one small grocery retail chain with 13 locations as of August 2021. Idaho implemented in-lane sales through self-standing terminals next to the point-of-sale checkout.

<sup>3</sup> OPPAGA estimated potential transfers from implementing internet sales by using available sales data from seven states that offer internet sales—Georgia, Kentucky, Michigan, New Hampshire, North Carolina, North Dakota, and Virginia. The range of potential transfers is \$10.6 million to \$72.1 million depending on whether only draw games or both draw and blended were offered, respectively. The median estimate for draw-game online internet sales implementation is \$13.1 million and the median for implementing both draw and blended is \$33.7 million. Due to insufficient 2020 sales data, OPPAGA used other state 2019 sales and population data for these estimates. The analysis excluded Illinois, New York, Pennsylvania, Rhode Island, and the District of Columbia due to insufficient information. The estimate assumes a transfer rate to the EETF of 38.17% for draw only internet sales and 23.25% for both draw and instant internet sales. The estimate also assumes that 5% of sales would be shifted from existing game sales.

<sup>4</sup> 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 pay for the swipe fees.

<sup>5</sup> Due to insufficient 2020 sales data, OPPAGA used other state 2019 sales and population data for these estimates. OPPAGA identified six state lotteries that offer mail-in subscription sales—Maine, Maryland, Massachusetts, New Hampshire, New York, and Vermont. Massachusetts and New York were excluded from the analysis due to insufficient information.

<sup>6</sup> OPPAGA estimated a range of potential transfer revenue from implementing mail-in subscription sales (\$2.9 million to \$90 million, with a median of \$4.8 million) based on the highest and lowest per capita sales in four states that offer mail-in subscription sales, which was applied to Florida’s estimated population for 2022. The estimate assumes a transfer rate to the EETF of 38.17%. The estimate also assumes that 5% of sales would be shifted from existing game sales.

<sup>7</sup> 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 the use of credit cards.

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

# APPENDIX C

## Agency Response

RON DE SANTIS  
Governor



JOHN F. DAVIS  
Secretary

January 26, 2022

PK Jameson, Coordinator  
Office of Program Policy Analysis and Government Accountability  
111 West Madison Street  
Tallahassee, Florida 32399-1475

Dear Coordinator Jameson:

Thank you for the opportunity to respond formally to your office's report: "Review of the Florida Lottery, 2021." 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 your team every step of the way 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 hard work in producing this thoughtful report.

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."**
  - Due to record sales, the Lottery set a record in contributions to education, transferring a total of \$2.2 billion to education in Fiscal Year 2020-21.
  - In total, the Lottery has contributed more than \$40 billion to education since 1988. The Lottery is also the primary funding source of the Bright Futures Scholarship Program, which has enabled more than 917,000 students to attend college in Florida since 1997.
- **"The Lottery's operating expense rate is lower than the legislative standard."**
  - As noted in the report, the Lottery had the third lowest operating expense rate among state lotteries.
  - This continues the trend of the Lottery being consistently ranked as one of the most efficient lotteries in the nation.
- **"The department monitors mobile app issues."**
  - The Lottery is proud of the growth and development of the mobile app, which as of August 2021, had 337,546 users. This is a remarkable achievement as the app launched in June 2020.

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- As referenced in the report, app reviews are regularly monitored by Lottery staff.
  - Feedback from our loyal players is welcomed and invaluable to the Lottery and IGT teams as they constantly review and improve the mobile app with each update.
  - Lottery staff will continue their regular review of feedback from app users and it, along with technical growth, will be important in the on-going effort of continuously improving the performance of the app.
- “The department’s social media goals emphasize player fun, education, and responsible play.”
    - As highlighted in the report, emphasizing player fun, education, and responsible play are the core goals of the Lottery’s social media advertising, and larger overarching marketing strategy. This includes spotlighting the real-life stories of the Bright Futures Scholarship recipients and sharing important messages on responsible play of lottery games. Responsible play messaging is incorporated in all Lottery marketing efforts and the Lottery’s *Players Guide*<sup>1</sup> website.

The positive findings in OPPAGA’s review reflect the dedication of the Lottery team to its mission of enhancing educational opportunities for Florida’s students and schools. We appreciate OPPAGA’s careful review of the Lottery and look forward to working together again in the future.

Respectfully,



John F. Davis  
Secretary

cc: Reginald Dixon, Chief of Staff  
Dane Dunson, General Counsel  
Andy Mompeller, Inspector General

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<sup>1</sup> <https://playersguide.flalottery.com>



# OPPAGA

Office of Program Policy Analysis and Government Accountability

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

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Project supervised by Kirsten Harvey (850/717-0507)  
Project conducted by Sean Millard and Becky Vickers  
David D. Summers (850/717-0555)  
Staff Director, Education Policy Area  
PK Jameson, OPPAGA Coordinator