

STORAGE NAME: h369.ei

DATE: March 7, 1997

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
EDUCATION INNOVATION
BILL ANALYSIS & ECONOMIC IMPACT STATEMENT**

BILL #: HB 369

RELATING TO: Lottery/Unclaimed Prize Money

SPONSOR(S): Representative Ritter

STATUTE(S) AFFECTED: s. 24.115, F.S.

COMPANION BILL(S): None

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) EDUCATION INNOVATION
- (2) REGULATED SERVICES
- (3) EDUCATION APPROPRIATIONS
- (4)
- (5)

I. SUMMARY:

HB 369 provides that unclaimed lottery prize money is distributed proportionally among public schools according to the number of students. The money is to be used to enhance educational programs for public school students in kindergarten through grade twelve rather than used for future prizes and special prize promotions as is currently done. The principal, in consultation with faculty and parent-advisory organizations, would have discretion in use of the fund.

Without use of the unclaimed prize money, the department could not increase the prize payout percentage for lottery games above the 50 percent level required in s. 24.121, F.S.; consequently, players will experience lower and fewer prizes and interest and sales in these games will decrease. The amount of revenue available to the state for education is dependent upon lottery ticket sales; the more tickets that are sold, the more revenue generated for education. The amount available for education would decrease not only from the decline in the sales of tickets, but also from the loss of the additional amount generated and the loss of interest earned on the unclaimed prize money. No longer would the \$1.00 of unclaimed prize money generate the additional 26% (\$.26) for education.

Historically, the Legislature has appropriated lottery money as follows: 70 percent to kindergarten through grade twelve; 15 percent to community colleges; and 15 percent to the state university system. All of the 70 percent for kindergarten through grade twelve is distributed through the local district. This bill will change that distribution.

The total fiscal impact is indeterminate at this time. However, the loss to the Educational Enhancement Trust Fund would be approximately \$36 million. Although \$30 million of this would be distributed to the public schools, the estimated net loss to education is in excess of \$6 million. This estimate could be higher in future years if sales continued to decline due to the lack of higher valued and more frequent prizes.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Lottery Unclaimed Prize Money

Florida's Constitution was amended in 1986 to allow state operated lotteries. The Florida Public Education Lottery Act, Chapter 24, Florida Statutes, was enacted in 1987 to provide statutory framework for the state lottery.

Section 24.115(1), F.S., defines unclaimed prize money as any prize which is not claimed by the winning ticket holder within the specified time period of 180 days after the drawing, or, in the case of an instant game, at the end of the game. Additionally, unclaimed prize money includes any prize for a winning ticket purchased in violation of law. Section 24.115(2), F.S., states that unclaimed prize money is to be added to the pool from which future prizes are to be awarded or used for special prize promotions.

Although the Department of the Lottery estimates that the unclaimed lottery will amount to approximately \$30 million for the 1996-1997 fiscal year, the total of unclaimed money is never available at any one time. The amount of unclaimed prize money fluctuates on a daily basis as it flows into the amount as "unclaimed money" and flows out as prize supplements for other games or prize promotions. The department uses the unclaimed prize money primarily to supplement the prize pool for instant games and for prize promotions such as the increased LOTTO jackpot promotion conducted during December and other special marketing promotions such as the lottomobile promotions.

The department does not use the interest earned on unclaimed prize money for supplementing prizes or special promotions. The interest on unclaimed lottery prize money is actually part of the total interest earned on the department's Administrative Trust Fund. The interest is included in the lottery revenue when calculating the amount to be deposited in the Educational Enhancement Trust Fund. The department estimates that the interest on unclaimed prize money is approximately \$140,000 per year.

Section 24.121, F.S., requires that, as nearly as practical, at least 50 percent of the gross revenue from the sale of lottery tickets shall be returned to the public in the form of prizes paid by the department or retailers. The department believes that more money can be generated to enhance educational programs for public school students by reinvesting unclaimed prize money in the lottery game prize pools and funding special promotions rather than distributing the unclaimed money proportionally among the schools. Reinvesting the unclaimed prizes helps to provide prize payouts greater than 50 percent on some games, and the increase in prize amounts and frequency of wins results in increased sales of tickets. The amount of revenue for education increases in proportion to the sales increase.

The department's historical data indicates that for each \$1.00 of unclaimed prize money reinvested in prizes and promotions an average of \$3.32 is generated in sales. Of this amount, an average of \$1.26 is deposited in the Education Enhancement Trust Fund. Other state lottery departments that reinvest unclaimed prize money show similar results. Of the 37 other states with lotteries, 27 use unclaimed prize money for increasing their prize pools. The department claims that its current use of unclaimed

prizes has consistently returned more to education than the value of the unclaimed prizes.

Disbursement of Education Funds

During the 1995-1996 budget year, the amount of lottery revenue which went to the EETF amounted to \$829 million dollars. Lottery revenues amounted to 2.1 percent of the total state budget. The Legislature appropriated the lottery money using the same formula as in previous years; approximately 70 percent (\$580 million) to kindergarten through grade 12, 15 percent to the state university system, and 15 percent to the state community colleges.

The funds for kindergarten through grade 12 were approximately 4.5 percent of the total amount allocated for kindergarten through grade twelve and were disbursed to the local school boards for use at the local level, primarily at the discretion of the local school board. The Legislature does not direct local school boards how the majority of this money is to be spent at the local level. Of the \$580 million which went to kindergarten through grade twelve, 82 percent (\$476 million) was distributed directly to local school boards for use in enhancements at the complete discretion of the local school boards. The remaining 18 percent (\$104 million) was earmarked by the Legislature for funding preschool programs at the local level.

Article IX, Section 4 of the Florida Constitution provides that the local school district school board shall operate, control and supervise all free public schools within the district. The Department of Education apportions all state school funds to the district, per s. 229.80, F.S. State funds designated for public schools are allocated to each district, who distributes the money to each school. Section 237.02(4)(a), F.S., provides that the school board is responsible for the administration and control of all local school funds derived by any public school from all sources.

B. EFFECT OF PROPOSED CHANGES:

Unclaimed lottery prizes would no longer be used as prizes in other games and special promotions but would be distributed to the public schools. This would have a substantial negative impact on ticket sales. Without use of the unclaimed prize money, the department cannot increase the prize payout percentage for lottery games above the 50 percent level required in s. 24.121, F.S.; consequently, players will experience lower and fewer prizes and interest and sales in these games will decrease. The amount of revenue available to the state for education is dependent upon lottery ticket sales; the more tickets that are sold, the more revenue generated for education. The amount available for education would decrease not only from the decline in the sales of tickets, but also from the loss of the additional amount generated and the loss of interest earned on the unclaimed prize money. No longer would the \$1.00 of unclaimed prize money generate the additional 26% (\$.26) for education.

Since the use of unclaimed prize money is considered when the department calculates the 50 percent of gross revenue which must be used for prizes, an adjustment would be required to all prize pools to meet the 50 percent required in s. 24.121, F.S.

The bill provides that the public schools would use the funds to provide additional materials, equipment, or services to enhance the educational programs to kindergarten through grade twelve students. The principal would have the discretion to decide where to spend the money within the above categories. He is to consult with the faculty and parent-advisory organizations when making these decisions.

The funds could be disbursed, as other lottery funding to public schools, through the local district, which would allocate to each school based on the K-12 population of that school.

However, disbursing all of the funds from the unclaimed prize money to the public schools for students in kindergarten through grade twelve is a departure from the historical split of lottery funds with 70 percent going to public schools, 15 percent to community colleges, and 15 percent to the state university system.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

The State Board of Education, per s. 229.053(1), F.S., has the general power to adopt rules to carry out the Florida School Code, or all the laws of Florida relating to public education, as defined in s. 228.001, F.S. Direct authority is not given in HB 369.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

If the funds are appropriated according to the historical method of allocating funds to the local school districts, new work is not created. However, if funds are appropriated based on actual K-12 student population in individual schools, there would be an increase in the workload of all staff involved with the appropriations process.

The Department of the Lottery would have the responsibility of closing out all games with increased prize payouts and developing and implementing new games to meet the 50 percent level.

(3) any entitlement to a government service or benefit?

Not applicable.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

The school principal would have the responsibility of designating how the unclaimed prize money would be used in his local school.

(2) what is the cost of such responsibility at the new level/agency?

Not applicable.

(3) how is the new agency accountable to the people governed?

Not applicable.

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

Not applicable.

d. Does the bill reduce total fees, both rates and revenues?

Not applicable.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

- b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. Individual Freedom:

- a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

Not applicable.

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

No.

5. Family Empowerment:

- a. If the bill purports to provide services to families or children:

Not applicable.

(1) Who evaluates the family's needs?

(2) Who makes the decisions?

(3) Are private alternatives permitted?

(4) Are families required to participate in a program?

(5) Are families penalized for not participating in a program?

- b. Does the bill directly affect the legal rights and obligations between family members?

Not applicable.

- c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

- (1) parents and guardians?

Although the principal has the discretion of use of the funds, he is to consult with faculty and parent-advisory organizations.

- (2) service providers?

The principal uses the funds at his discretion for either additional materials, equipment, or services to enhance the educational programs in K-12.

- (3) government employees/agencies?

Not applicable.

D. SECTION-BY-SECTION ANALYSIS:

Section 1 Amends s. 24.115, F.S., to require that all unclaimed prize money be distributed to the public schools according to the number of students and used to enhance educational programs for students in kindergarten through grade twelve and deletes the language requiring that unclaimed prize money be added to future prize pool or used for special prize promotions.

Section 2 Provides for an effective date of July 1, 1997.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

According to The Department of the Lottery, a negative fiscal impact to the EETF would result from unclaimed prize money not being reinvested. The average annual amount of unclaimed prizes is approximately \$30 million; however, the current reinvestment use results in a total of approximately \$36 million being deposited in the EETF. Consequently, this is a loss of \$6 million into the EETF. This does not take into account the loss in sales. However, the \$30 million would be distributed to the public schools. The loss to education would be \$6 million.

If unclaimed prize money had not been reinvested, the department's estimation of loss to the EETF for fiscal years 1991 through 1996 is \$61,546,000 or an average annual loss of \$10,257,667.

Colorado reduced their prize pool by 4.5 percent and subsequently realized a 22 percent decline in instant game sales.

The interest earned on unclaimed prize money is part of the total interest earned on the department's Administrative Trust Fund. This interest is included as revenue in calculating amounts to be transferred to the EETF. The department estimates that the portion of total interest applicable to the unclaimed prize money is approximately \$140,000 annually. If the unclaimed prize money is transferred directly to EETF, this interest would be lost.

3. Long Run Effects Other Than Normal Growth:

The long term reduction in sales and corresponding reduction in revenue transfers to the EETF is indeterminate.

4. Total Revenues and Expenditures:

The Educational Enhancement Trust Fund would have a loss of approximately \$36 million. However, \$30 million of this would be distributed to the public schools. The total loss to education is indeterminate at this time, although the estimate due to the lack of reinvestment of the unclaimed prize money is \$6 million and the estimate of interest earned on the money while it is in the Administrative Trust Fund is \$140,000 annually. These estimates could be higher if sales continued to decline due to the lack of higher valued and more frequent prizes.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

The amount of lottery revenue in the EETF disbursed to local school districts would be reduced, as would the amounts disbursed to community colleges and state universities. However, the local public schools would recapture part of this loss from the distribution of the unclaimed prize money. As lottery sales declined due to lack of reinvestment of this money, the amount distributed from this source could be less and less each year.

3. Long Run Effects Other Than Normal Growth:

None.

C. **DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

1. Direct Private Sector Costs:

Lottery retailers are paid a 5 percent commission plus other incentives on tickets they sell; therefore, any decrease in lottery sales reduces the amount lottery retailers receive. If the changes made by this bill result in a reduction of ticket sales, lottery retailers will receive less in retailer commissions.

2. Direct Private Sector Benefits:

Not applicable.

3. Effects on Competition, Private Enterprise and Employment Markets:

Not applicable.

D. **FISCAL COMMENTS:**

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. **APPLICABILITY OF THE MANDATES PROVISION:**

This bill does not require counties or municipalities to expend funds.

B. **REDUCTION OF REVENUE RAISING AUTHORITY:**

This bill does not reduce the authority of counties or municipalities to raise revenue.

C. **REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:**

This bill does not reduce the authority of counties or municipalities to raise revenue.

V. COMMENTS:

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

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VII. SIGNATURES:

COMMITTEE ON EDUCATION INNOVATION:

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