

STORAGE NAME: h0013.br.doc
DATE: February 22, 2001

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
BUSINESS REGULATION
ANALYSIS**

BILL #: HB 13
RELATING TO: Lottery; unclaimed prize money
SPONSOR(S): Representative(s) Detert and Others
TIED BILL(S): None

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

- (1) BUSINESS REGULATION [SGC]
 - (2) EDUCATION INNOVATION [LLC]
 - (3) FISCAL POLICY & RESOURCES [FRC]
 - (4) COUNCIL FOR SMARTER GOVERNMENT
 - (5)
-

I. SUMMARY:

Unclaimed lottery prize money has historically been used to increase instant ticket sales by increasing the prize payout on instant tickets. This bill will require the transfer of all unclaimed lottery prize money into the Educational Enhancement Trust Fund to be distributed annually to public schools, public community colleges and state universities on a pro-rata basis, based upon the number of full-time students enrolled in each institution.

Passage of this legislation is estimated to result in a net annual reduction in transfers to the Educational Enhancement Trust Fund of approximately \$27 million.

The bill will take effect July 1, 2001.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|------------------------------|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

The Florida Lottery was established by the Legislature in 1987 [codified as Chapter 24, F.S.] in order to implement Article X, Section 15 of the State Constitution.

Section 24.121, Florida Statutes, specifies that as nearly as possible 50 percent of the gross revenue from the sale of lottery tickets shall be returned to the public in the form of prizes, 38 percent of the gross revenue is to be deposited in the Educational Enhancement Trust Fund [EETF], and the remaining 12 percent is to be held in the Administrative Trust Fund to be used by the department to cover administrative expenses. At the end of each fiscal year any unencumbered funds in the Administrative Trust Fund must be transferred to the EETF. The funds in the EETF are required to be used to the benefit of public education in accordance with the provisions of Chapter 24.

Lottery revenue has been obligated to fund several major public education initiatives, e.g., Bright Futures Scholarship Program. Beginning in fiscal year 1997-98 and for 30 years thereafter, a maximum of \$180 million of lottery revenues transferred to the EETF shall be reserved as needed and pledged to the payment of debt service on bonds issued by the state on behalf of the Classrooms First Program pursuant to s. 235.187, F.S., or the School Capital Outlay Bond Program pursuant to s. 235.2195, F.S. Section 24.121(5)(e), F.S., requires that all components of the Bright Futures Scholarship Program be funded annually from the EETF. Funds are allocated to the Bright Futures Scholarship Program prior to distribution to public schools, community colleges, or state universities.

Section 24.115(2), F.S., provides that all unclaimed prize money shall be added to the pool from which future prizes are to be awarded or used for special prize promotions. Historically, unclaimed prize money has been used primarily to increase the prize payout on instant tickets and has allowed the Lottery to increase the prize payout on its instant ticket games from 50% to approximately 58.5% [weighted by sales as of January 21, 2001]. Over the years, other uses have been to guarantee holiday time and other jackpots for Lotto, operate the "Lotto Mobile" promotion or other special promotions.

The availability of unclaimed prize money as a source of project funding has been the subject of discussion and numerous legislative proposals for several years. Unclaimed prize money for the past five fiscal years has averaged \$43 million per year; however, since the amount fluctuates due

to many factors, it may not be considered reliable as a dedicated funding source for projects requiring recurring funding. Actual unclaimed prize money revenues for the past five fiscal years were as follows:

FY 1995-1996	\$42,865,314
FY 1996-1997	\$45,586,398
FY 1997-1998	\$44,576,237
FY 1998-1999	\$39,167,880
FY 1999-2000	\$43,838,669

The desirability of using unclaimed prize money to increase the prize payouts for instant games has also been the subject of legislative, Department of the Lottery and independent reviews.

A 1995 report by the House Committee on Regulated Industries entitled, *The Use of Unclaimed Lottery Prize Money in Florida*, concluded that there is a direct relationship between the prize payout percentage and the sale of instant lottery tickets:

“Without unclaimed prize funds, all instant ticket games would be restricted to a 50 percent prize structure. Limiting or cutting back on the prize structure diminishes the perceived value of a game and, therefore, the public’s interest in that game and the sale of tickets for that game.”

A 1998 report by the National Council of Legislators from Gaming States, entitled *Summary of Survey Results on Lottery Unclaimed Prize Money* showed that 22 of 38 U. S. Lotteries return all or part of the unclaimed prize money to the prize pool. This study found that an increase in sales was experienced by a majority of the 22 states whose unclaimed prize money reverted, either totally or partially, to the prize pool.

In the 2000-01 General Appropriations Act, the Legislature authorized the Lottery to retain \$3.4 million related to the savings from the Lottery’s restructuring plan to increase prize payouts of instant Lottery games. The objective of the project was to monitor the reinvestment of unclaimed prize money into the instant game prize pool and analyze the incremental impact of such reinvestment on net revenues to education. The Lottery used the \$3.4 million in savings to increase the prize payout on all scratch-off games and to reorder a popular \$5 game with a 65% payout. Net sales of instant games increased by 10.6% between the first quarter of FY 1999-2000 and 2000-2001. This 10.6% increase in net sales is attributable to the use of the \$3.4 million to increase the prize payout percentage of instant games. The increase in net revenues of \$14.1 million for the first quarter of FY 2000-2001 resulted in an increase to the EETF of \$5.4 million over the same time period in the previous year.

The subsequent November 2000 Interim Project Report (2001-018) by the Senate Committee on Fiscal Resource entitled *Disposition of Unclaimed Prize Money – Florida Lottery* evaluated the resulting increase in ticket sales and associated revenues to education that result from such prize payment increases and concluded that Florida’s use of unclaimed prize money to supplement the instant game prize pool, “...generates significant additional instant ticket sales and revenues to the Education Enhancement Trust Fund.” The Senate Interim Project Report also documented the sales experience from seven other states: Texas, California, Colorado, Idaho, Kentucky, Ohio and Washington, whose success with increased prize payouts paralleled that of Florida.

Additional empirical data from the department substantiates their contention that increasing the prize payout on instant games results in an increase in demand and a corresponding increase in sales. The percentage of the prize payout is significant in that the higher this percentage, the more players win. Increased frequencies of winning have the effect of increasing the entertainment value

of the games and ultimately the sales of the games. Players win more lower-tier prizes, which are used in turn to buy more tickets. Players therefore return more of their winnings to the instant games. Historically, approximately 25 percent of unclaimed prize money is generated by scratch-off ticket games.

Department statistics, utilizing instant games launched in calendar years 1999 and 2000 data, demonstrate that for every \$1 of unclaimed prize money reinvested in this manner, there was a \$4.67 return in instant game ticket sales, of which \$1.77 was transferred to the EETF for educational enhancement.

C. EFFECT OF PROPOSED CHANGES:

This bill requires the transfer of all unclaimed prize money into the Educational Enhancement Trust Fund to be distributed to all public schools, public community colleges and state universities on a pro-rata basis, based upon the number of full-time students enrolled in each institution.

Based on the sales experience of Florida and other Lottery states, decreasing the prize payout on instant tickets will result in declining instant ticket sales. Declining instant ticket sales will result in reduced transfers to the Educational Enhancement Trust fund. A 2000 Revenue Estimating Conference estimated that the loss of unclaimed prize money as a source to supplement the instant ticket prize pool would result in a net annual reduction of revenue to the EETF of approximately \$27.1 million.

The bill will take effect July 1, 2001.

D. SECTION-BY-SECTION ANALYSIS:

Section 1. Amends s. 24.115, F.S., to require unclaimed prize money be distributed annually to public schools, public community colleges, and state universities on a pro rata basis based on the number of full-time students, rather than being added back to the prize pool to increase the payout on instant tickets or for special prize promotions.

Section 2. Provides that the act will take effect July 1, 2001.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

Utilizing a March 2000 Revenue Estimating Conference estimate of a similar bill, the loss of unclaimed prize money as a source of funds to supplement the instant ticket prize pool will result in a net annual reduction in the amount of money transferred to the EETF of \$27.1 million.

See D. FISCAL COMMENTS below.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

There are currently over 11,500 lottery retailers in the state. Lottery retailers receive a 5% commission on ticket sales and a 1% cashing bonus on prizes redeemed at their store. The estimated \$161.6 million annual loss in instant ticket sales resulting from passage of this legislation would result in an approximate \$8.9 million annual loss in revenues for Lottery retailers.

D. FISCAL COMMENTS:

During the 2000 Legislative Session, the Revenue Estimating Conference concluded that the loss of unclaimed prize money as a source of funds to supplement the instant ticket prize pool would result in a \$161.6 million loss in instant ticket sales, and a \$61.4 million loss in transfers to the EETF. When the amount of unclaimed prize money that would have been transferred into the EETF, \$34.3 million, was subtracted, the resulting net annual reduction in the amount of money transferred to the EETF would have been \$27.1 million. Similar losses were projected for FY 2001-2002.

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 spend funds or to take any action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not require counties or municipalities to spend funds or to take any action requiring the expenditure of funds.

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

This bill does not reduce the percentage of state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

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C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON BUSINESS REGULATION:

Prepared by:

Staff Director:

Janet Clark Morris

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