

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 1143 w/CS Relating to State Lottery

SPONSOR(S): Kilmer

TIED BILLS: **IDEN./SIM. BILLS:** CS/SB 174

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Subcommittee on Gaming & Pari-mutuels</u>	<u>6 Y, 0 N</u>	<u>Gallen</u>	<u>Liepshutz</u>
2) <u>Business Regulation</u>	<u>34 Y, 0 N w/CS</u>	<u>Gallen</u>	<u>Liepshutz</u>
3) <u>Appropriations</u>	<u></u>	<u>Belcher</u>	<u>Baker</u>
4) <u></u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

The bill directs 80 percent of all unclaimed prize money to be deposited in the Educational Enhancement Trust Fund (EETF) to provide funding for grades K-12, and provides that the remaining 20 percent will be added to the pool to provide for future prizes or special prize promotions. Currently all unclaimed prize money is added to the pool to provide for future prizes or special prize promotions.

The bill modifies the allocation of gross revenues derived from the sale of on-line lottery tickets; providing that variable percentages of the gross revenue from the sale of on-line tickets will be deposited into the EETF and that variable percentages will be returned to the public in the form of prizes. Currently, at least 39% of the gross revenue from on-line ticket sales is deposited in the EETF, and as nearly as practical, at least 50 percent is returned to the public in the form of prizes.

The variable percentages deposited into the EETF and used for prize payouts will be established by the Department of Lottery in a manner designed to maximize the amount of funds deposited into the EETF.

The bill is expected to significantly increase funding for the EETF.

The bill takes effect July 1, 2004.

This document does not reflect the intent or official position of the bill sponsor or House of Representatives.

STORAGE NAME: h1143c.ap.doc

DATE: March 30, 2004

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

- | | | | |
|--------------------------------------|------------------------------|-----------------------------|---|
| 1. Reduce government? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. Lower taxes? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. Expand individual freedom? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. Increase personal responsibility? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. Empower families? | 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. EFFECT OF PROPOSED CHANGES:

Present Situation

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

The state lottery offers two styles of games: on-line games, which entail picking numbers that are randomly drawn and include such games as Lotto, Mega Money, Fantasy 5, Play 4, and Cash 3; and instant games, which include various scratch-off tickets.

Florida Statute specifies that as nearly as practical at least 50 percent of the gross revenue from the sale of on-line lottery tickets and variable percentages, as determined by the Department of Lottery (department), from the sale of instant lottery tickets must be returned to the public in the form of prizes¹.

Likewise, 39 percent of the gross revenue from on-line sales and variable percentages from instant ticket sales is to be deposited in the Educational Enhancement Trust Fund [EETF], and the funds remaining are 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 revenues transferred to the EETF must 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, the School Capital Outlay Bond Program or the Class Size Reduction Lottery Revenue Bond Program².

Lottery revenue has been obligated to fund several major public education initiatives, such as the Bright Futures Scholarship Program. Funds in the EETF are allocated annually to the Bright Futures Scholarship Program prior to equitable distribution to public schools, community colleges, or state universities.

Prizes are constituted as unclaimed if a valid claim is not made within the applicable time period; 180 days from the drawing date to claim prizes for any on-line games and 60 days from the announced end of an instant game.

Currently, all unclaimed prize money must be added back into the pool for future prizes or used for special prize promotions. Historically, unclaimed prize money has primarily been used to increase the prize payout on instant tickets. Over the years, unclaimed prize money has also been used to

¹ s. 24.121, F.S.

² s. 1013.68, 1013.70, 1013.737, F.S

guarantee holiday or other special jackpots for Lotto, operate the "Lotto Mobile" and other special promotions.

The Department of Lottery estimates that there was \$41,000,000 in unclaimed prize money for fiscal year 2001-2002.

During the 2003 Legislative Special Session E, HB 43E transferred \$30 million, a one-time unclaimed Lotto Jackpot, into the EETF and appropriated these funds to community colleges and state universities to match private donations received under the provisions of s. 1011.85 and 1011.94, Florida Statutes.

Effect of Proposed Changes

The bill directs 80 percent of all unclaimed prize money to be deposited in the Educational Enhancement Trust Fund (EETF) to provide funding for grades K-12, and provides that the remaining 20 percent will be added to the pool to provide for future prizes or special prize promotions. Currently all unclaimed prize money is added to the pool to provide for future prizes or special prize promotions.

The bill modifies the allocation of gross revenues derived from the sale of *on-line* lottery tickets; providing that variable percentages of the gross revenue from the sale of on-line tickets will be deposited into the EETF and that variable percentages will be returned to the public as prize payouts. The variable percentages will be established by the department in a manner designed to maximize the amount of funds deposited into the EETF.

Authorizing the department to allocate variable percentages of gross revenue from on-line ticket sales will enable the department to increase prize payouts to an optimal level in order to increase sales and maximize revenues for education.

The 2002 Legislature, through HB 2011, implemented similar changes to the state lottery's allocation of revenue. The legislation authorized the department to vary prize payout percentages for its instant games, therefore, eliminating the statutory requirement to transfer a set percentage of lottery revenues to the EETF. According to the department, this change significantly increased instant game sales by \$411 million and transfers to education by \$26.9 million in FY 2002 – 03.

Currently, as nearly as practical, at least fifty percent of the gross revenue from the sale of on-line tickets and variable percentages of the gross revenue from the sale of instant tickets is returned to the public in the form of prizes. Additionally, existing law requires that at least 39 percent of gross revenue from the sale of on-line lottery tickets and variable percentages of the gross revenue from the sale of instant lottery tickets is deposited into the EETF each fiscal year.

The bill will give the department the same flexibility to vary prize payout percentages for its on-line games as it does for its instant games, thereby, enabling the department to maximize revenues for education.

C. SECTION DIRECTORY:

Section 1: Amends s. 24.115, Florida Statutes, providing that 80 percent of all unclaimed prize money will be deposited in the EETF and the remaining 20 percent will be added to the pool for future prizes or special prize promotions.

Section 2: Amends s. 24.121, Florida Statutes, providing variable percentages of the gross revenue from on-line tickets will be returned to the public in the form of prizes; providing that variable percentages of the gross revenue from the sale of on-line tickets will be deposited in the EETF.

Section 3: Amends s. 1010.70, Florida Statutes, providing that variable percentages of gross revenue from the sale of on-line and instant tickets will be deposited in the EETF.

Section 4: Provides the bill will take effect July 1, 2004.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

By increasing prize payout on on-line games, the revenue generated for education is expected to increase.³ Currently, as nearly as practical, at least 50 percent of the gross revenue from on-line ticket sales is used for prize payout.

Fiscal Year	Average Prize Payout	Additional Revenue for Education
FY 2004-05 (beginning mid-year)	Increases from 50% to 53%	\$2 million
FY 2005-06	Increases from 53% to 54%	\$61.4 million

2. Expenditures:

In the Department of the Lottery, Administrative Trust Fund, variable costs will increase with increases in on-line ticket sales. Fixed costs should remain unchanged.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

Increasing transfers to the EETF will enable programs for school bond funding to be sustained at the current level and may increase funding for such programs or other educational funding, thereby, creating a potential positive impact on local revenue.

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill will result in increased ticket sales and increased winnings on on-line lottery games.

³ Revenue projections provided by the Office of Economic & Demographic Research, The Florida Legislature, Revenue Impact Conference on HB 1174 and SB 174, April 2, 2004.

D. FISCAL COMMENTS:

The bill is expected to significantly increase transfers to the Educational Enhancement Trust Fund. (See chart above relating to fiscal impact on state government)

Fiscal data is based on the result of a Revenue Impact Conference [on HB 1143 and SB 174] held on April 2, 2004. [Office of Economic & Demographic Research, Florida Legislature]

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable because the bill does not require the counties or cities to spend funds or take an action requiring the expenditure of funds.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None

C. DRAFTING ISSUES OR OTHER COMMENTS:

According to the Department of Lottery, in recognition of the relationship between prize payout percentage and sales, the 2002 Legislature passed HB 2011. The legislation authorized the department to vary prize payout percentages for its instant games, therefore, eliminating the statutory requirement to transfer a set percentage of lottery revenues to the EETF. According to the department, this change significantly increased instant game sales by \$411 million and transfers to education by \$26.9 million in Fiscal Year 2002/03.

The department states that research has indicated that if the department were given the same flexibility to vary prize payout percentages on its on-line games, it would be able to increase revenue to education based on projected increase in on-line sales due to higher payouts.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

On March 24, 2004, the Committee on Business Regulation adopted an amendment to the bill that provides that the unclaimed prize money deposited into the EETF will be used to provide funding for grades K-12.