

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 841

State Lottery

**SPONSOR(S):** Coley

**TIED BILLS:**

**IDEN./SIM. BILLS:** SB 482

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REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Business Regulation Committee	_____	Morris	Liepshutz
2) Education Appropriations Committee	_____	_____	_____
3) Commerce Council	_____	_____	_____
4) _____	_____	_____	_____
5) _____	_____	_____	_____

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### SUMMARY ANALYSIS

The bill has two corresponding components.

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

Second, the bill authorizes the Department of Lottery [Department] to establish variable percentages for on-line games prize payouts and transfers to the EETF. Currently, as nearly as practical, at least 50 percent is returned to the public in the form of prizes and at least 39% of the gross revenue from on-line ticket sales is deposited in the EETF. The Department was given authority in 2002 to establish variable percentages for instant ticket prize payouts and EETF transfers and that change has been credited with doubling instant ticket sales.

The bill is expected to generate an additional \$31.1 million in FY 2005-06 and an additional \$80.1 million in FY 2006-07 for the Educational Enhancement Trust Fund.

The bill takes effect July 1, 2005.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

The bill does not appear to implicate any of the House principles.

#### 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 Department of the Lottery was also created at that time.

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.

Section 24.121(1), Florida Statutes, 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, from the sale of instant lottery tickets must be returned to the public in the form of prizes.

Likewise, 39 percent of the gross revenue from on-line sales and variable percentages from instant ticket sales is required to be deposited in the 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.

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 Program<sup>1</sup>. 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 distribution to public schools, community colleges, or state universities.

Prizes are considered 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 game and 60 days from the announced end of an instant game.

Currently, all unclaimed prize money from on-line games must be added back into the prize pool for future prizes or used for special prize promotions. Unclaimed prize money is the only resource currently available to increase the prize payout percentage for on-line games. According to the Department research suggests that the optimal prize payout level needed to maximize revenues for education is between 55% and 60%; however, historical data indicates that using all available unclaimed prize money to increase on-line game prize payout percentages will only increase these payouts to a maximum of 53%.

Over the years, unclaimed prize money has also been used to guarantee holiday or other jackpots for Lotto and Mega Money when the cash available in the jackpot pool is insufficient to yield the

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<sup>1</sup> ss. 24.121, 1013.68, 1013.70, 1013.737, F.S

announced estimated jackpot value. The Department maintains that having the ability to make these adjustments is important in preserving player confidence in the games.

For the past several years unclaimed prize money from on-line ticket sales has averaged \$31.55 Million annually, with the exception of FY 2003-04 when an extraordinary large jackpot went unclaimed. The following chart shows the amount of unclaimed prize money from both on-line and instant ticket sales for Fiscal Years 1999-2000 through 2003-04.

	Fiscal Year <u>1999-00</u>	Fiscal Year <u>2000-01</u>	Fiscal Year <u>2001-02</u>	Fiscal Year <u>2002-03</u>	Fiscal Year <u>2003-04</u>
On-Line Games	33.3	32.1	29.6	31.2	59.5
Instant Games	10.0	10.9	11.3	11.8	1.7
Total	43.3	43.0	40.9	43.0	61.2

The 2002 Legislature passed similar legislation, HB 2011, which authorized the Department to vary prize payout percentages for its *instant games* and eliminated the statutory requirement to transfer a set percentage of lottery revenues to the EETF. According to the Department in the first full fiscal year [2002-03] after implementation of HB 2011, the weighted prize payout percentage for scratch-off games increased to 67%. Although the *percentage* of net revenues from scratch-off ticket sales transferred to the EETF decreased to 26%, net scratch-off ticket sales doubled from \$662.6 million to \$1.36 billion, resulting in a gain of \$27.5 million in direct transfers to the EETF for FY 2002-03 and \$75.1 million for FY 2003-04.

In contrast to scratch-off games whose sales have doubled, the Department reports that sales for on-line games have increased only 14% since FY 1998-99 -- from \$1.5 billion to \$1.72 billion.

#### Effect of Proposed Changes

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 allows variable percentages of gross revenue from the sale of on-line tickets to be deposited into the EETF and also allows variable percentages to be returned to the public in the form of prizes. The variable percentages will be established by the department in a manner designed to maximize the amount of funds deposited into the EETF.

Currently, all unclaimed prize money from on-line ticket sales is added to the prize pool to provide for future prizes or special prize promotions. This bill directs 80 percent of all unclaimed prize money to be deposited in the EETF and provides that the remaining 20 percent be added to the prize pool to provide for future prizes or special prize promotions.

A similar change implemented by the 2002 Legislature for instant ticket sales has proved successful. That legislation eliminated the statutory requirement to transfer a set percentage of lottery revenues from instant ticket sales to the EETF and authorized the department to vary prize payout percentages for its instant games. According to the Department, this change significantly increased instant game sales, doubling sales from \$662 million to \$1.36 billion last fiscal year.

Department research indicates that this same flexibility for on-line tickets sales and transfers, as provided for in this legislation, will allow for higher prize payouts for its line of on-line games and that in turn will significantly increase on-line ticket sales. The Department estimates that this change will increase transfers to the EETF by \$31.1 million for FY 2005-06 and by \$80.1 million for FY 2006-07.

The bill has an effective date of July 1, 2005.

C. SECTION DIRECTORY:

Section 1. Amends s. 24.115(2), F.S., specifying that 80% of unclaimed prize money shall be deposited into the EETF and the remaining 20% of unclaimed prize money be added to the prize pool from which future prizes are awarded.

Section 2. Amends subsections (1) and (2) of s. 24.121, F.S., to allow variable prize payouts for on-line games.

Section 3. Conforms s. 1010.70, F.S., to changes made in chapter 24.

Section 4. Provides that the act will take effect on July 1, 2005.

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The following revenue projections were prepared by the Department of the Lottery based upon a scenario of slow and sustainable growth in on-line game sales. In mid-fiscal year 2005-06, the Department would begin increasing the prize payout percentage of its on-line games in small increments. Increasing the on-line game prize payout percentages in this fashion is projected by the Department to generate additional revenue for education as follows:

FY 2005-06

Using the February 2004 Revenue Estimating Conference projections for FY 2005-06 on-line sales as a baseline, increasing the prize payout percentage from 50% to 53% mid-year is projected to generate an additional (above the baseline) \$161.1 million in on-line sales and an additional \$31.1 million dollars in transfers to the EETF.

FY 2006-07

Using the February 2004 Revenue Estimating Conference projections for FY 2005-06 on-line sales as a baseline, increased by 2% to accommodate projected population growth, increasing the prize payouts from 53% to 54% is projected to generate an additional (above the baseline) \$438.1 million in on-line sales and an additional \$80.1 million dollars in transfers to the EETF.

2. Expenditures:

Based on the above projections and current rate of vendor compensation, the Department estimates its on-line vendor would receive an additional \$2.31 million during FY 2005-06 and an additional \$6.31 million during FY 2006-07.

Lottery retailers receive a 5% commission on each ticket sold and a 1% cashing commission on the value of each winning ticket with a prize value less than \$600 cashed by them. Based on the above projections, the Department estimates its retailers would receive an additional \$8.86 million in commissions during FY 2005-06 and an additional \$24.1 million in commissions during FY 2006-07.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:  
None anticipated.
2. Expenditures:  
None anticipated.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Based on the above projections and current rate of vendor compensation, the Department's on-line vendor would receive an additional \$2.31 million during FY 2005-06 and an additional \$6.31 million during FY 2006-07.

Lottery retailers receive a 5% commission on each ticket sold and 1% of the value of each winning ticket redeemed at their store. Based on the above projections, the Department estimates that Lottery retailers would receive an additional \$8.86 million in commissions during FY 2005-06 and an additional \$24.1 million in commissions during FY 2006-07.

D. FISCAL COMMENTS:

None.

### III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not require counties or cities to spend funds or take an action requiring the expenditure of funds. This bill does not reduce the authority that cities or counties have to raise revenues in the aggregate. This bill does not reduce the percentage of a state tax shared with cities or counties.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

### IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES