

SECTION 6 - GENERAL GOVERNMENT

2705A SPECIAL CATEGORIES  
 ADVERTISING AGENCY FEES  
 FROM OPERATING TRUST FUND . . . . . 3,486,945

2705B SPECIAL CATEGORIES  
 COMPULSIVE GAMBLING PROGRAM  
 FROM OPERATING TRUST FUND . . . . . 1,119,000

From the funds provided in Specific Appropriation 2705B, the Department of the Lottery shall contract with an appropriate Florida organization to conduct a compulsive gambling program.

2706 SPECIAL CATEGORIES  
 PAID ADVERTISING AND PROMOTION  
 FROM OPERATING TRUST FUND . . . . . 30,263,508

From the funds provided in Specific Appropriation 2706, the Department of the Lottery shall not expend in excess of \$200,000 for the development, publication and distribution of any report by the department for the purpose of carrying out the provisions of section 24.1215, Florida Statutes.

2707 SPECIAL CATEGORIES  
 ONLINE GAMES CONTRACT  
 FROM OPERATING TRUST FUND . . . . . 30,340,321

The Department of the Lottery is authorized to submit budget amendments in accordance with chapter 216, Florida Statutes, to increase Specific Appropriation 2707 in the event on-line sales are greater than the projected sales used to calculate the amount appropriated.

The Department of the Lottery is authorized to submit budget amendments in accordance with chapter 216, Florida Statutes, to increase Specific Appropriation 2707 to acquire up to 500 additional ticket terminals. Prior to the submission of any budget amendment that increases the size of the lottery retailer network, the Revenue Estimating Conference shall determine if sales will increase sufficiently to cover the cost of the machines, offset any losses to the existing network, and generate additional revenue that benefits the state. The budget amendments will be contingent upon the agency's submission of a plan that includes not only a positive Revenue Estimating Conference impact analysis, but also identifies the specific terminal needs and a plan for distribution of the additional terminals.

2707A SPECIAL CATEGORIES  
 LOTTERY INSTANT TICKET VENDING MACHINES  
 FROM OPERATING TRUST FUND . . . . . 3,900,000

2708 SPECIAL CATEGORIES  
 RETAILER INCENTIVES  
 FROM OPERATING TRUST FUND . . . . . 1,750,000

2709 SPECIAL CATEGORIES  
 RISK MANAGEMENT INSURANCE  
 FROM OPERATING TRUST FUND . . . . . 319,768

2710 SPECIAL CATEGORIES  
 SALARY INCENTIVE PAYMENTS  
 FROM OPERATING TRUST FUND . . . . . 21,060

2711 SPECIAL CATEGORIES  
 TRANSFER TO DEPARTMENT OF MANAGEMENT  
 SERVICES - HUMAN RESOURCES SERVICES  
 PURCHASED PER STATEWIDE CONTRACT  
 FROM OPERATING TRUST FUND . . . . . 175,249

TOTAL: PROGRAM: LOTTERY OPERATIONS  
 FROM TRUST FUNDS . . . . . 139,115,845  
 TOTAL POSITIONS . . . . . 438.00  
 TOTAL ALL FUNDS . . . . . 139,115,845

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TOTAL ALL FUNDS . . . . . 139,115,845

REVENUE ESTIMATING CONFERENCE

TAX: Lottery/Educational Enhancement Trust Fund
ISSUE: Instant Ticket Vending Machines (ITVMs)
BILL NUMBER(S): SB 2600 (General Appropriations Act)
SPONSOR(S):
MONTH/YEAR COLLECTION IMPACT BEGINS: August 2009
DATE OF ANALYSIS: May 28, 2009

SECTION 1: NARRATIVE

a. Current Law: The Florida Lottery is authorized under F.S. 24.105 to utilize player-activated terminals or Instant Ticket Vending Machines (ITVMs) to sell scratch off tickets. The Florida Lottery does not currently own or lease ITVMs.
b. Proposed Change: The Lottery will be leasing 1000 ITVMs from GTECH Corporation at \$329.00 per month for each machine. The Lottery currently has commitments from five major corporate supermarket chains and a number of high-volume independent retailers to place all 1,000 units. All of these businesses are existing Florida Lottery retailers. The need to manufacture the ITVMs, to train multiple retailer staff members from each location and to install these machines will mean that the first ITVMs will begin operations in mid-August. The Lottery and GTECH have agreed to the schedule of ITVM installation shown in TABLE 1.

TABLE 1
Schedule for Delivery of ITVMs to GTECH
Warehouse
May 12, 2009

Table with 4 columns: Fiscal Week #, Week Ending, Weekly # of ITVMs, and Cumulative # of ITVMs. Rows show weekly delivery schedules from August 16, 2009 to October 11, 2009, totaling 1,000 ITVMs.

Section 2: Description of Data and Sources:

Background

ITVMs are much like a typical vending machine. Money is inserted into the machine; a button is pushed for the desired product which is then delivered into the bin at the bottom. In order to comply with state statute, ITVMs do have the ability to be remotely disabled to prevent underage gambling. Another innovation is the ability for the machine to transmit sales in real-time, allowing for accounting and tracking of tickets. Along with expanding the number of ticket bins, these innovations are fairly recent enhancements.

Currently 29 out of 42 U.S. lotteries utilize ITVMs. In FY 2007-08, there were over 28,000 ITVMs operating in U.S. lotteries or one machine for every 8,020 residents in those jurisdictions. In that same year, 57% of ITVM sales were in grocery stores. TABLE 2 provides data on ITVM presence and sales in the largest Scratch-off Game sales states as well as three state recently installing ITVMs.

**REVENUE ESTIMATING CONFERENCE**

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**TABLE 2**  
**ITVMs and Sales in Large Scratch-off Lotteries and Lotteries Recently Installing**  
**ITVMs: FY 2007-08**  
 26-May-09

| US Lottery | Population (Millions) | Number of ITVMs | Ratio ITVMs to Population (One in ) | Total Scratch-off Sales (Millions) | Scratch-off Sales Through ITVMs (Millions) | Per Capita ITVM Sales | Average Weekly ITVM Sales (Millions) |
|------------|-----------------------|-----------------|-------------------------------------|------------------------------------|--|-----------------------|--------------------------------------|
| Texas      | 23.9                  | 1,460           | 16,370                              | \$ 2,783.8                         | \$ 180.98                                  | \$ 7.57               | \$ 3.48                              |
| Florida    | 18.8                  | 1,000           | 18,800                              | \$ 2,368.8                         | PLANNED                                    |                       |                                      |
| California | 36.6                  | 3,900           | 9,385                               | \$ 1,551.1                         | \$ 599.46                                  | \$ 16.38              | \$ 11.53                             |
| Ohio       | 11.5                  | 1,450           | 7,931                               | \$ 1,366.5                         | \$ 138.68                                  | \$ 12.06              | \$ 2.67                              |
| Illinois   | 12.9                  | 3,450           | 3,739                               | \$ 1,114.5                         | \$ 425.85                                  | \$ 33.01              | \$ 8.19                              |
| Arizona    | 6.5                   | 407             | 15,971                              | \$ 252.5                           | \$ 70.60                                   | \$ 10.86              | \$ 1.36                              |
| Colorado   | 4.9                   | 520             | 9,423                               | \$ 336.0                           | \$ 53.80                                   | \$ 10.98              | \$ 1.03                              |

Data Sources

A variety of data sources were used to prepare this analysis. The *La Fleur's 2009 World Lottery Almanac* was the source of the sales and distribution data in TABLE 2. Other sales performance data was obtained directly from other U.S. lotteries and from the Florida Lottery's own ITVM Pilot Study in the Spring of 2007. The February 2009 Lottery Revenue Estimating Conference was the source of several of the assumptions used in the calculations, e.g., the EETF contribution rate for Scratch-off Game sales.

**SECTION 3: METHODOLOGY (INCLUDE ASSUMPTIONS AND ATTACH DETAILS)**

Lottery Pilot Study

The Department of the Lottery conducted a thirteen-week pilot study, in the Spring of 2007, by locating ITVMs in ten stores within two corporate grocery chains. Service counter sales continued at these locations, and the Lottery tracked net sales changes for each store—not just sales through the ITVM. The average weekly Scratch-off Game sales increase, for each retailer in the study, was \$ 1, 862, or an average increase of 36 percent. During this same period, average weekly sales for the scratch-off product STATEWIDE declined 0.048%. It also should be noted that the corporate chains involved in this study did not include the Lottery's best-performing corporate chain, a company that will be providing the locations for over 500 ITVMs. So the study results, summarized in TABLE 3, might well be conservative.

**TABLE 3**  
**Results of Florida Lottery Sales Pilot Study of ITVMs in**  
**Grocery Stores: Spring 2007**  
 26-May-09

|                                   | Average Weekly Sales | Percentage Change from Preceding Period |
|-----------------------------------|----------------------|---|
| Pilot Sites 13 Weeks BEFORE Study | \$ 5,215             |   |
| Pilot Sites 13 Weeks DURING Study | \$ 7,077             | 36%                                     |
| Pilot Sites 13 Weeks AFTER Study  | \$ 5,303             | -25%                                    |

**REVENUE ESTIMATING CONFERENCE**

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Other States Recently Adding ITVMs

In addition, an analysis done by GTECH of La Fleur's data for three states implementing an ITVM program found that scratch-off sales per retailer increased anywhere from 15 to 36 percent. One year after installing ITVMs the following percentage increases in scratch off ticket sales were realized in stores located in these states as shown in Table 4.

**TABLE 4**  
**Sales Impacts of ITVMs: Recent Installations**  
 26-May-09

|                | Percentage Change in Store Sales One Year After ITVM Installation | ITVM Sales as a Percentage of Total Scratch Sales | Average Weekly ITVM Sales Per Store |
|----------------|---|---|-------------------------------------|
| Arizona        | 22%   | 34%   | \$ 2,466                            |
| Colorado       | 15%   | 16%   | \$ 1,258                            |
| Idaho          | 36%   | 28%   | \$ 750                              |
| Florida Pilot* | 36%   | 39%   | \$ 2,898                            |

\*Figures represent 13 weeks of ITVM sales rather than one year

High, Middle and Low Estimates

To estimate the impact of the ITVMs on these sales levels, the results of the Florida Lottery Pilot Test and the experiences of other states were used. Specifically, the net gain in retailer Scratch-off sales in the pilot study was applied to the projected FY 2008-09 sales of the 1,000 retailers selected to receive ITVMs to calculate the "high" estimate. (This fiscal year sales projection was, in turn, based on sales by those retailers during this fiscal year to date, annualized using a cumulative sales ratio--TABLE 6). Similarly, the percentages of net sales increases from ITVM installations recorded by Arizona and Colorado were used to develop the "middle" and "low" estimates, respectively.

**TABLE 5**  
**Base Sales of Retailers Selected to Receive ITVMs**  
 28-May-09

|                    | Number of Locations | Projected Net Scratch-off Sales for FY 2008-09 |
|--------------------|---------------------|--|
| Corporate Chains   | 939                 | \$ 245,000,000                                 |
| Independent Stores | 61                  | \$ 24,000,000                                  |
| <b>Total</b>       | <b>1000</b>         | <b>\$ 269,000,000</b>                          |

**REVENUE ESTIMATING CONFERENCE**

TAX: Lottery Educational Enhancement Trust Fund  
 ISSUE: Instant Ticket Vending Machines (ITVMs)  
 BILL NUMBER(S): SB 2600 (General Appropriations Act)  
 SPONSOR(S):  
 MONTH/YEAR COLLECTION IMPACT BEGINS: August 2009  
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Phase-in During FY 2009-10

For the first year of ITVM operations, FY 2009-10, it was necessary to calculate a phase-in or "cash" factor. That was done based on the installation schedule presented in TABLE 1. TABLE 6 shows that calculation. To be conservative, it was assumed that the ITVMs to be installed each week would not be fully functional until the following week.

**TABLE 6  
 Calculation of ITVM Sales Phase-in Factor for FY  
 2009-10  
 26-May-09**

Note: ITVMs considered fully operational in the week following installation

| Week Ending                  | # of ITVMs Made Fully Operational | Cumulative Number of Fiscal Year Days | Days Remaining in Fiscal Year         | ITVM Sales Days (# of Remaining Days X # of Machines) |
|------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|---|
| August 23, 2009              | 63                                | 47                                    | 318                                   | 20,034  |
| August 30, 2009              | 63                                | 54                                    | 311                                   | 19,593  |
| September 6, 2009            | 126                               | 61                                    | 304                                   | 38,304  |
| September 13, 2009           | 126                               | 68                                    | 297                                   | 37,422  |
| September 20, 2009           | 126                               | 75                                    | 290                                   | 36,540  |
| September 27, 2009           | 126                               | 82                                    | 283                                   | 35,658  |
| October 4, 2009              | 126                               | 89                                    | 276                                   | 34,776  |
| October 11, 2009             | 126                               | 96                                    | 269                                   | 33,894  |
| Oct 12, 2009 - June 30, 2010 | 118                               | 103                                   | 262                                   | 30,916  |
| <b>TOTAL</b>                 | <b>1000</b>                       |                                       |                                       | <b>287,137</b>  |
|                              |                                   |                                       | <b>Total Possible ITVM Sales Days</b> | <b>365,000</b>  |
|                              |                                   |                                       | <b>Phase-in %</b>                     | <b>79%</b>  |

Attached TABLES 7, 8 and 9 present specific assumptions and calculations for deriving the high, middle and low estimates. Estimates for Fiscal Years 2011-12 and 2012-13 were derived simply by applying the population growth rates from the February 2009 Demographic Forecast to

**SECTION 4: PROPOSED FISCAL IMPACT**

| State Impact:<br>All Funds | FY 2009-10<br>Annualized | FY 2009-10<br>Cash | FY 2010-11<br>Cash | FY 2011-12<br>Cash | FY 2012-13<br>Cash |
|----------------------------|--------------------------|--------------------|--------------------|--------------------|--------------------|
| High                       | 13.9                     | 11.7               | 13.7               | 13.8               | 14.0               |
| Middle                     | 6.9                      | 6.0                | 6.8                | 6.8                | 6.9                |
| Low                        | 3.5                      | 3.1                | 3.4                | 3.4                | 3.5                |

**REVENUE ESTIMATING CONFERENCE**

**TAX:** Lottery/Educational Enhancement Trust Fund

**ISSUE:** Instant Ticket Vending Machines (ITVMs)

**BILL NUMBER(S):** SB 2600 (General Appropriations Act)

**SPONSOR(S):**

**MONTH/YEAR COLLECTION IMPACT BEGINS:** August 2009

**DATE OF ANALYSIS:** May 28, 2009

**SECTION 5: CONSENSUS ESTIMATE (ADOPTED)**

|                    | FY 2009-10<br>Annualized | FY 2009-10<br>Cash | FY 2010-11<br>Cash | FY 2011-12<br>Cash | FY 2012-13<br>Cash |
|--------------------|--------------------------|--------------------|--------------------|--------------------|--------------------|
| General Revenue    |                          |                    |                    |                    |                    |
| State Trust        |                          |                    |                    |                    |                    |
| Total State Impact |                          |                    |                    |                    |                    |
| Total Local Impact |                          |                    |                    |                    |                    |
| Total Impact       |                          |                    |                    |                    |                    |

TABLE 7

| FY 2009-10: Calculations of Estimated Impacts of 1000 ITVMs (Full Year)  |                           |                          |                             |                  |  |
|--|---------------------------|--------------------------|-----------------------------|------------------|--|
|  | Nominal Gain in Net Sales | Preliminary Gain in EETF | Less Additional Vendor Fees | Net Gain in EETF |  |
| <b>Break-Even Point</b>  | \$ 21,479,869             | \$ 3,948,000             | \$ 3,948,000                | \$ -             |  |
| <b>High Estimate</b><br>Based on a 36% increase in sales experienced in the 2007 Florida pilot study, applied to the 1,000 retailer locations slated to be ITVM sites. | \$ 96,840,000             | \$ 17,799,192            | \$ 3,948,000                | \$ 13,851,192    |  |
| <b>Middle Estimate</b><br>Based on a 22% increase in sales (Arizona Lottery experience), applied to the 1,000 retailer locations slated to be ITVM sites.              | \$ 59,180,000             | \$ 10,877,284            | \$ 3,948,000                | \$ 6,929,284     |  |
| <b>Low Estimate</b><br>Based on a 15% increase in sales (Colorado Lottery experience), applied to the 1,000 retailer locations slated to be ITVM sites.                | \$ 40,350,000             | \$ 7,416,330             | \$ 3,948,000                | \$ 3,468,330     |  |

| Calculation Factors                        |               |
|--|---------------|
| <u>Number of ITVMs to be Requested</u>     | 1,000         |
| <u>Additional Costs Per ITVM Per Month</u> | \$ 329.00     |
| <u>Phase-in Assumption</u>                 | 100%          |
| <u>ITVM Costs (Full Year)</u>              | \$ 3,948,000  |
| <u>EETF Contribution Rate</u>              | <b>18.38%</b> |



TABLE 8

**FY 2009-10: Calculations of Estimated Impacts of 1000 ITVMs: Considering Phase-in of Impacts Based on Manufacturing and Installation Schedule**

|   | Nominal Gain in Net Sales | Preliminary Gain in EETF | Less Additional Vendor Fees | Net Gain in EETF |
|---|---------------------------|--------------------------|-----------------------------|------------------|
| <b>Break-Even Point</b>   | \$ 16,969,097             | \$ 3,118,920             | \$ 3,118,920                | \$ -             |
| <b>High Estimate</b><br>Based on a 36% increase in sales experienced in the 2007 Florida pilot study, applied to the 1,000 retailer locations slated to be ITVM sites | \$ 76,503,600             | \$ 14,856,999            | \$ 3,118,920                | \$ 11,738,079    |
| <b>Middle Estimate</b><br>Based on a 22% increase in sales (Arizona Lottery experience), applied to the 1,000 retailer locations slated to be ITVM sites.             | \$ 46,752,200             | \$ 9,079,277             | \$ 3,118,920                | \$ 5,960,357     |
| <b>Low Estimate</b><br>Based on a 15% increase in sales (Colorado Lottery experience), applied to the 1,000 retailer locations slated to be ITVM sites.               | \$ 31,876,500             | \$ 6,190,416             | \$ 3,118,920                | \$ 3,071,496     |

| <b>Calculation Factors</b>                 |               |
|--|---------------|
| <u>Number of ITVMs to be Requested</u>     | 1000          |
| <u>Additional Costs Per ITVM Per Month</u> | \$ 329 00     |
| <u>Phase-in Assumption</u>                 | <b>79%</b>    |
| <u>ITVM Costs (Full Year)</u>              | \$ 3,948,000  |
| <u>EETF Contribution Rate</u>              | <b>18.38%</b> |

TABLE 9

| FY 2010-11: Calculations of Estimated Impacts of 1000 ITVMs (Full Year)   |                           |                          |                             |                  |  |
|---|---------------------------|--------------------------|-----------------------------|------------------|--|
|   | Nominal Gain in Net Sales | Preliminary Gain in EETF | Less Additional Vendor Fees | Net Gain in EETF |  |
| <b>Break-Even Point</b>   | \$ 21,479,869             | \$ 3,948,000             | \$ 3,948,000                | \$ -             |  |
| <b>High Estimate</b><br>Based on a 36% increase in sales experienced in the 2007 Florida pilot study, applied to the 1,000 retailer locations slated to be ITVM sites | \$ 95,968,440             | \$ 17,638,999            | \$ 3,948,000                | \$ 13,690,999    |  |
| <b>Middle Estimate</b><br>Based on a 22% increase in sales (Arizona Lottery experience), applied to the 1,000 retailer locations slated to be ITVM sites.             | \$ 58,647,380             | \$ 10,779,388            | \$ 3,948,000                | \$ 6,831,388     |  |
| <b>Low Estimate</b><br>Based on a 15% increase in sales (Colorado Lottery experience), applied to the 1,000 retailer locations slated to be ITVM sites.               | \$ 39,986,850             | \$ 7,349,583             | \$ 3,948,000                | \$ 3,401,583     |  |

| Calculation Factors  |              |
|--|--------------|
| <u>Number of ITVMs to be Requested</u>   | 1,000        |
| <u>Additional Costs Per ITVM Per Month</u>   | \$ 329.00    |
| <u>Phase-in Assumption</u>   | 100%         |
| <u>February 2009 REC Forecast for Scratch-off Sales Growth: FY 2010 to FY 2011</u> | -0.90%       |
| <u>ITVM Costs (Full Year)</u>  | \$ 3,948,000 |
| <u>EETF Contribution Rate</u>  | 18.38%       |