

## REVENUE ESTIMATING CONFERENCE

TAX: Lottery Revenues/Educational Enhancement Trust Fund

ISSUE: Television Broadcasts of Lottery Game Drawings

BILL NUMBER(S): Appropriations

SPONSOR(S):

MONTH/YEAR COLLECTION IMPACT BEGINS: July/2010

DATE OF ANALYSIS: February 25, 2010

### SECTION 1: NARRATIVE

#### a. Current Situation:

Each week, the Lottery conducts a total of 39 drawings, using ball machines, to determine the winning numbers for five different On-line Lottery Games: Florida Lotto (two drawings per week), Mega Money (two), Fantasy 5 (seven), Play 4 (fourteen) and Cash 3 (fourteen). The drawings for Lotto, Mega Money and Fantasy 5 are broadcasted on fifteen local television stations. Cash 3 and Play 4 drawings are not broadcasted on the eleven English-language or "general market" stations. Instead, these stations graphically display the results during other programming. Cash 3 and Play 4 drawings are broadcasted on the four Spanish-language stations, currently using a split screen.

The Lottery does not pay these stations to broadcast these drawings. However, because these particular stations are among the leaders in each market, the Lottery separately purchases varying amounts of advertising in other time slots.

#### Drawing and Broadcast Costs/Potential Savings

The annual cost to the Lottery of conducting and broadcasting the On-line Game drawings amounts to approximately \$1.3 million per year when both direct and indirect costs are considered. These costs are summarized for the current and next fiscal years in the attached TABLE 1. It is important to note that a substantial portion of the costs would remain even after television broadcasts of the drawings ceased.

At some point during the fourth quarter of the current fiscal year, the Lottery will move the drawings from an offsite studio operated by a contractor to the Lottery's new studio within the headquarters building. A competitive purchasing process recently concluded with the selection of a production services vendor to provide the equipment and equipment operation for the in-house studio.

#### Benefits of Televised Drawings

The television broadcasts of game drawings benefit the Lottery, and its mission of generating educational enhancement funding, in a number of ways:

**Public Transparency:** Subparagraph 24.105(9)(d), F.S., in providing the Lottery with authority to adopt rules governing the method of selecting winning tickets, states in part: "However, if a lottery game involves a drawing, the drawing shall be public . . ." By televising the drawings, the Lottery enables far more people around the state to witness the drawing and judge for themselves the fairness and integrity of the winning number selection. A 2009 monthly survey of Florida adults found that 80% of Florida adults were aware that the Lottery broadcasts its drawings. The year before, a more detailed survey found that fifty-seven percent of respondents said that watching the televised drawings increased their belief that the drawings were fair and honest and that 63% felt that the broadcasted drawings added to the credibility of the games.

**Entertainment Value:** A big part of the enjoyment of playing a Lottery On-line Game is the anticipation that culminates with the drawing of the winning numbers. For the On-line Game player, watching the drawing is analogous to the Scratch-off Game player's scratching the ticket.

**Marketing/Promotional Opportunities:** The 30-60 seconds of air time for each drawing provide the Lottery with a vehicle for promotional messages making players—and potential players—aware of new games, jackpot levels and special promotions. In the same 2008 survey results referenced previously, 22% of respondents said that they watched the drawings to learn about new games. As advertising professionals see it, each of these "mentions" that come with the drawing broadcasts serves as a reminder to the public of the Lottery brand. This opportunity is enhanced by the fact that the stations carrying the drawings serve diverse regional markets. These stations feature the drawings within a local broadcast format and often conduct local promotions featuring the Lottery product line.

**A Local Presence:** The game drawing broadcasts provide our customers with another way to stay connected with the

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Lottery. Carrier stations help localize the Lottery by featuring the drawings within a local setting, and through local promotions with the stations within the diverse markets they serve.

### b. Proposed Change:

It is assumed in this analysis that the Lottery's appropriation for Paid Advertising/Promotions would be reduced by an amount equal to the cost savings realized from ending the drawing broadcasts. TABLE 5 presents two scenarios (Low Savings Model and High Savings Model) for what those cost savings might be.

Not addressed here is the possibility that the Legislature would direct the Lottery, perhaps through proviso language in the Appropriations Act, to stop televising drawings but, rather than reducing the Lottery's budget, require that cost savings be re-directed to media placement for paid advertising. In that case, the EETF return from paid advertising would not be reduced and might well be increased by what OPPAGA recently found was a better return from media spending than from production spending.

### SECTION 2: DESCRIPTION OF DATA AND SOURCES

Lottery spending information from the Lottery's Finance & Budget unit, Marketing unit and advertising agencies provide the major data sources for this analysis. This is supplemented by information collected from the monthly tracking survey conducted by Ipsos-Reid, Inc., for the Lottery. Analyses of the relationship between Lottery advertising spending and Lottery generation of EETF were taken from previous Impact Analyses adopted by the REC and from a January 2010 OPPAGA report.

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

The methodology used in this analysis centered on estimating a paid advertising or media value equivalent to the television air time that results from the Lottery's broadcast of over 2,000 drawings annually. Two different sets of calculations were done to estimate the annual value of the game drawing air time and messaging.

The Lottery analyzed the monthly cost of Lottery paid advertising per 30-second increment of air time for the current fiscal year, then applied that average cost to the air time used in Lottery drawing broadcasts. TABLES 2 and 3 show how that calculation yielded an annual media value figure of \$2.9 million.

Similarly, but independently, the Lottery's General Market advertising agency, St. John & Partners, analyzed the media value of the current Lottery advertising on a middle-sales, middle media-cost television station in Jacksonville (TABLE 4). That analysis yielded an annual media value for airing the Lottery drawings (excluding the Powerball drawings) of \$164,000 for that one station. Taking this value as an average, the media value of the drawing broadcasts over the fifteen carrier stations statewide would be estimated at \$2.5 million.

Once a value for televising the draws was estimated, the task of calculating the potential cost savings remained. Here too, two approaches were used. The first assumed that the Lottery would produce broadcast-quality recordings of the drawings but make them available only by downloading from the Lottery website (Low Savings Model in TABLE 5). The second approach assumed that the Lottery would record the drawings solely to fulfill security and auditing purposes (High Savings Model in TABLE 5).

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**SECTION 4: PROPOSED FISCAL IMPACT**

State Impact: All Funds	FY 2010-11 Cash	FY 2010-11 Annualized	FY 2011-12 Cash	FY 2012-13 Cash	FY 2013-14 Cash
High	(9.1)	(9.1)	(9.1)	(9.1)	(9.1)
Middle	(3.7)	(3.7)	(3.7)	(3.7)	(3.7)
Low	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)

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

	FY 2010-11 Cash	FY 2010-11 Annualized	FY 2011-12 Cash	FY 2012-13 Cash	FY 2013-14 Cash
General Revenue					
State Trust					
Total State Impact					
Total Local Impact					
Total Impact					

**TABLE 1**  
**Annual Costs of Conducting and Broadcasting Lottery**  
**On-line Game Drawings**

	FY 09-10	FY 10-11
<b>Direct Costs</b>		
Draw Talent	\$ 96,000	\$ -
Producers/Directors	\$ 76,300	\$ -
Transponder	\$ 30,000	\$ -
Satellite Uplink	\$ 104,400	\$ 104,400
Production Svcs (Physical & Digital)	\$ 571,020	\$ 770,360
Auditors	\$ 268,200	\$ 270,000
Ball Machine	\$ 40,020	\$ 40,020
Ball Sets	\$ 6,500	\$ 6,500
Direct Costs	\$ 1,192,440	\$ 1,191,280
<b>Indirect Costs (Covered from Dept. Expenses)</b>		
Security Agents Hours	\$ 58,200	\$ 50,700
HQ Studio Lease Allocation	\$ 10,273	\$ 62,237
HQ Utility Allocation	\$ 2,040	\$ 12,250
Admin. Staff time for payment of all vendors	\$ 18,790	\$ 7,400
Indirect Costs	\$ 89,303	\$ 132,587
<b>Total Cost (Direct and Indirect)</b>	<b>\$ 1,281,743</b>	<b>\$ 1,323,867</b>

**Special Notes**

- Does not include the costs of On Location Live Draws (Promotions) avg. cost \$25,000 - \$30,000
- Does not include expenses for Powerball drawings as MUSL covers those expenses
- Does not include all expenses for a Raffle drawing as those are not broadcasted so they are recorded by internal staff; they do not have ball machines or ball sets.
- The HQ Studio Lease Allocation and utility costs are currently being paid as part of the HQ office costs and will only begin being allocated to the Draw Studio upon utilization of the space.

**TABLE 2**  
**Calculation of Lottery Paid Advertising Costs Per**  
**Minute of Air Time (English Only)**  
**25-Feb-10**

	Monthly Cost	Minutes Per Month	Cost Per Minute
Ft. Myers	\$ 12,063	22.45	\$ 537.33
Gainesville	\$ 5,950	6.89	\$ 863.57
Jacksonville	\$ 6,262	13.78	\$ 454.43
Miami	\$ 11,830	32.26	\$ 366.71
Orlando	\$ 6,998	9.79	\$ 714.81
Panama City	\$ 8,252	8.70	\$ 948.51
Pensacola	\$ 4,477	24.65	\$ 181.62
Sarasota	\$ 3,625	10.88	\$ 333.18
Tallahassee	\$ 7,083	10.51	\$ 673.93
Tampa (Excl. Digital)	\$ 8,330	41.84	\$ 199.09
West Palm Beach	\$ 7,627	31.61	\$ 241.28
<b>Total</b>	<b>\$ 82,497</b>	<b>213.36</b>	
Average Cost Per Minute			\$ 501.31
Average Cost Per Minute Weighted by Monthly Expenditure on Station			508.21

**TABLE 3**  
**Calculation of Annual Television Air Time and Media Value for**  
**25-Feb-10**

	Drawings Per Week	Potential Air Time Per Week Per Station (Seconds)	Number of Stations Broadcasting	Potential Air Time Foregone Per Year (Seconds)
Florida Lotto	2	60	15	(46,800)
Mega Money	2	60	15	(46,800)
Fantasy 5	7	210	15	(163,800)
Play 4*	14	420	4	(43,680)
Cash 3*	14	420	4	(43,680)
<b>Total</b>	<b>39</b>	<b>1170</b>	<b>4</b>	<b>(344,760)</b>
<b>Broadcast Time in Minutes</b>				<b>(5,700)</b>

**Annual Media Value**  
 Value of one minute of broadcast time (TABLE 2) multiplied by the annual broadcast time in minutes (above)      \$      **(2,900,000)**

**Assumption**

Broadcast Time Per Game Drawing (Seconds)	30
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\*Live broadcasts of drawings for these two games are carried only by the four Spanish stations, and they use "split-screens" to continue airing their regular programming. As an adjustment, the "Potential Air Time Foregone Per Year" numbers have been reduced by 50%.

**TABLE 4**  
**Jacksonville Carrier Station TV Contract Analysis**  
**25-Feb-10**

MEDIA ELEMENT	STATION	ANNUAL ESTIMATED NET VALUE
Morning Show - Weather to run 1x/day (Wed and Fri between 5-10a)	WTLV	\$11,492
Animated Billboard to run 1x/day (Wed and Fri between 5-630p)	WJXX	\$1,414
Animated Billboard to run 2x per week 7-8p Wheel/Jeopardy	WTLV	\$5,569
(5) :30 promos per week	WTLV	\$28,509
Station agrees to 1x Watch To Win promotion per quarter	WTLV & WJXX	\$34,034
Live Drawings / On Air Graphic:		\$0
10:59p Wednesday: Powerball	WTLV & WJXX	\$22,100
10:59p Saturday: Powerball	WTLV & WJXX	\$6,630
11:15p Wednesday: Lotto/Fantasy 5	WJXX	\$17,680
11:15p Saturday: Lotto/Fantasy 5	WJXX	\$17,680
11:15p Tuesday: Mega Money/Fantasy 5	WJXX	\$17,680
11:15p Friday: Mega Money/Fantasy 5	WJXX	\$17,680
11:15p Monday-Sunday: Fantasy Five	WTLV & WJXX	\$15,470
7:57p Monday-Sunday: Play4 & Cash 3	WTLV & WJXX	\$77,350
	Media Value:	\$273,288

Live Drawings / On Air Graphic Annual Value for Drawings Excluding Powerball	\$164,000
<b>Estimated Annual Value of Air Time--Statewide</b>	<b>\$ 2,500,000</b>
<i>Expanding "Middle Sales/Middle Media Cost Situation to all 15 Markets</i>	

\*Analysis based on 1Q10 A18-49 rating estimates using Feb 07, Feb 08 and March 09 as a reference. Total annual amounts based on 1Q 2010 FL Lottery Planned CPPs by daypart.

**TABLE 5**  
**Lottery Cost Savings from Ending Television Broadcasting of Game**  
**25-Feb-10**

	Low-Savings Model	High-Savings Model
Draw Operator	\$ 45,630	\$ 45,630
Producers & Directors (Prod. Svcs)	\$ 91,537	\$ 22,884
Production Svcs (Equipment & Maint.)	\$ 456,653	\$ 114,163
Auditors	\$ 270,000	\$ 270,000
Ball Machines	\$ 40,020	\$ 40,020
Ball Sets	\$ 6,500	\$ 6,500
Security - Draw manager	\$ 50,700	\$ 50,700
HQ Studio Allocation	\$ 62,237	\$ 62,237
HQ Utility Allocation	\$ 12,250	\$ 12,250
Adminis. Support	\$ 7,400	\$ 7,400
<b>Total</b>	<b>\$ 1,042,927</b>	<b>\$ 631,784</b>

Previous Cost for Broadcast Abilities	\$ 1,323,866	\$ 1,323,866
<b>Cost Savings</b>	<b>\$ 280,939</b>	<b>\$ 692,082</b>



**TABLE 6**  
**Calculation of EETF Impact of Ending Television Broadcasts of Lottery Drawings**

25-Feb-10

	Annual Reduction in TV Broadcast Air Time	Advertising Value of Each Minute of Air Time	Annual Advertising Value of TV Broadcast Minutes Foregone	Estimated EETF Per Dollar of Advertising Spending Foregone	Estimated Decrease in EETF from Advertising Value Reduction	Cost Savings	Net Change in EETF from Proposal
<p><b>High:</b> 1) <u>EETF</u>: Used the ratio of EETF associated with each dollar of Lottery advertising funding spent as adopted by the REC Impact Conference on February 21, 2008. 2) <u>Cost Reductions</u>: Low Savings Model 3) <u>Annual Media Value</u>. Each minute of broadcast time equates to a \$500 purchase of advertising, based on FY 2009-10 advertising spending by the Lottery on Florida television stations</p>	(5,700)	\$ 500	\$ (2,850,000)	3.27	\$ (9,319,500)	\$ 280,939	\$ (9,038,561)
<p><b>Middle:</b> 1) <u>EETE</u>: Used the OPPAGA estimate that each advertising dollar spent on direct media buys returns \$1.57 to education (OPPAGA Report: "Lottery Jackpots, Retailer Density, and Advertising Drive Transfers to Education," January 2010). 2) <u>Cost Reductions</u>: Used the average of the "High Savings" and "Low Savings" figures 3) <u>Annual Media Value</u>. Used the average of the two calculations done by the Lottery and its General Market advertising agency.</p>	(5,700)	\$ 473	\$ (2,696,500)	1.57	\$ (4,233,505)	\$ 486,510	\$ (3,746,995)
<p><b>Low:</b> 1) <u>EETF</u>: Used the OPPAGA estimate that each advertising dollar spent on advertising returns \$1.15 to education (OPPAGA Report: "Lottery Jackpots, Retailer Density, and Advertising Drive Transfers to Education," January 2010). 2) <u>Cost Reductions</u>: High Savings Model. 3) <u>Annual Media Value</u>: Used the figure resulting from the analysis of media value in a single, typical market, expanding it statewide</p>	(5,700)	\$ 446	\$ (2,543,000)	1.15	\$ (2,924,450)	\$ 692,082	\$ (2,232,368)