

## REVENUE ESTIMATING CONFERENCE

TAX: Lottery/Educational Enhancement Trust Fund  
ISSUE: Instant Ticket Vending Machines (ITVMs)  
BILL NUMBER(S): HB 5001 (General Appropriations Act)  
SPONSOR(S):  
MONTH/YEAR COLLECTION IMPACT BEGINS: October 2010  
DATE OF ANALYSIS: June 2, 2010

### SECTION 1: NARRATIVE

#### a. Current Situation:

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 FY 2009-10 Appropriations Act authorized funding for the leasing of 1,000 ITVMs. These were manufactured then installed in retail locations around the state. These machines have been in operation since mid-October 2009.

Looking at sales by retail location—so that shifting between the counter and the ITVMs is considered--ITVM retailers have seen an 18.82% over-the-year increase in sales since installation was completed in mid-October of last year. During that same period, retailers without ITVMs saw a 2.77% decline.

#### b. Change:

The FY 2010-11 General Appropriations Act (HB 5001) addressed the Lottery's potential expanded use of ITVMs in two ways in appropriation line 2802 (Special Categories, Lottery Instant Ticket Vending Machines, Operating Trust Fund)

1. "From the funds provided in Specific Appropriation 2802, the department shall not purchase an instant ticket vending machine or expend in excess of \$329 per month for each instant ticket vending machine by means of a lease agreement." (The line amount was increased by \$987,000 which is the result of multiplying this monthly amount times 250 machines times twelve months).

**Special Note:** At this point, it must be noted that the supplier of the ITVMs has stated that its minimum lease fee covering manufacturing, installation and maintenance of the ITVMs would be \$450 per ITVM per month. Under the gaming system contract in place, Lottery leasing of ITVMs during this contract year would be twice that amount. Because of the \$329 per month limit in the proviso language, the Lottery cannot move ahead with this ITVM expansion at this point. **Solely for the purpose of this analysis, it is assumed that this price issue will be resolved by July 1.**

2. HB 5001 also authorizes the Lottery to submit budget amendments to acquire up to 750 additional ITVMs. Prior to submitting such amendments, the Lottery must have a plan for the distribution of the machines as well as an REC determination that increasing the number of these machines will cover machine costs and generate additional revenues for the state.

**Only the first of these two appropriations elements are addressed in this impact statement.**

### SECTION 2: DESCRIPTION OF DATA AND SOURCES

- The data used in this analysis is almost entirely from the Florida Lottery's gaming and financial accounting systems. Weekly Scratch-off Game sales by retail location for the nearly 1,000 retailers with ITVMs installed during 2009 form the primary basis for the analysis.
- Retail location sales (the net combination of over-the-counter and ITVM sales) for a 32-week period since all ITVMs were installed (October 18, 2009 through the week ending May 23, 2010) is compared to sales during the analogous time period in the previous year. This percentage sales change then drives the percentage change assumptions in the impact forecasts.
- In addition, average weekly Scratch-off Game sales were calculated for the 250 retail locations planned for ITVM installation in the coming months.
- Finally, estimates and input factors from the February 2010 Lottery Revenue Estimating Conference were used to convert the forecasted sales changes to changes in revenues for the Educational Enhancement Trust Fund.

**REVENUE ESTIMATING CONFERENCE**

TAX: Lottery/Educational Enhancement Trust Fund  
 ISSUE: Instant Ticket Vending Machines (ITVMs)  
 BILL NUMBER(S): HB 5001 (General Appropriations Act)  
 SPONSOR(S):  
 MONTH/YEAR COLLECTION IMPACT BEGINS: October 2010  
 DATE OF ANALYSIS: June 2, 2010

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

See attached tables.

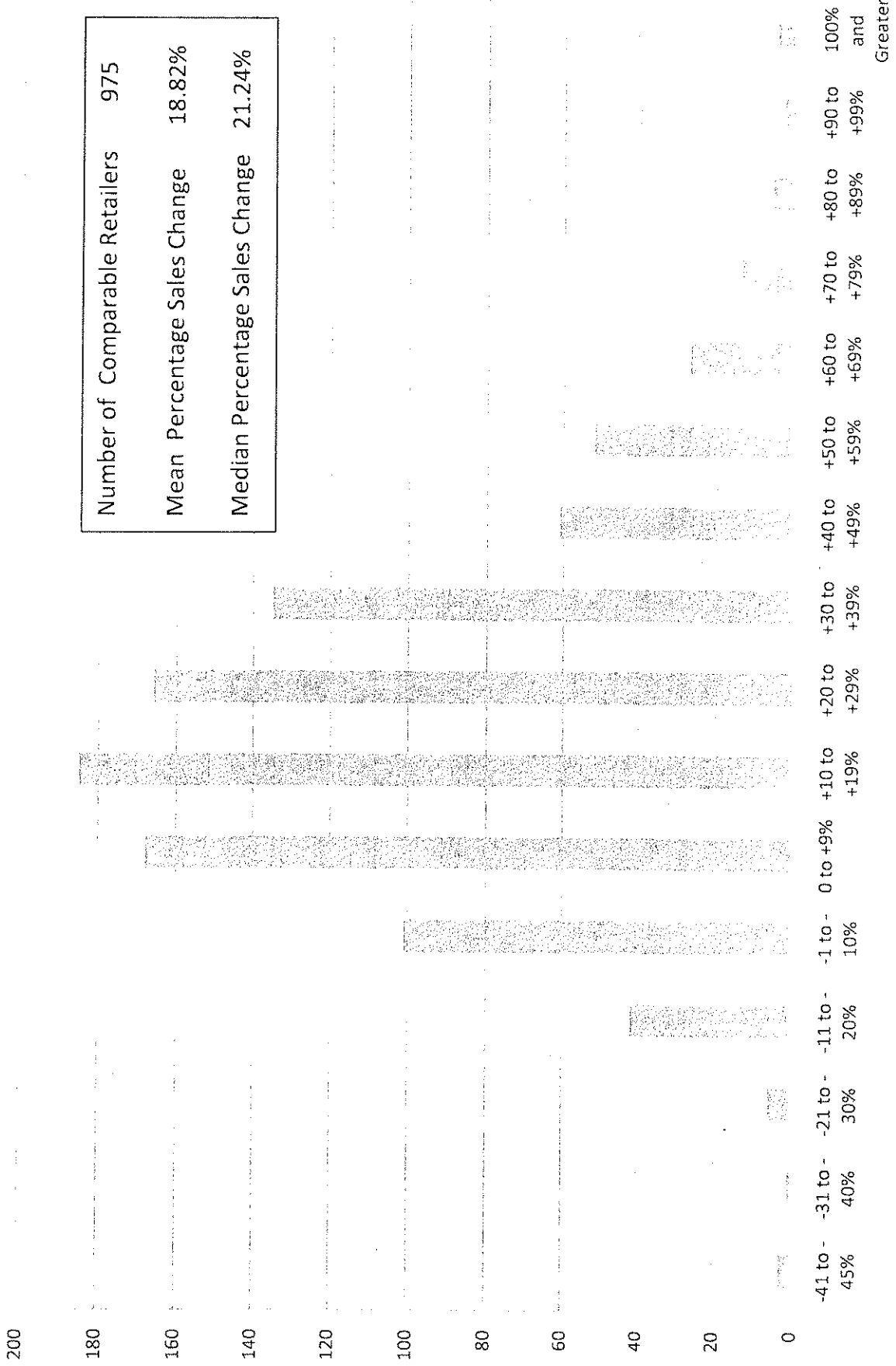
**SECTION 4: PROPOSED FISCAL IMPACT (IN MILLIONS)**

State Impact: All Funds	FY 2010-11 Annualized	FY 2010-11 Cash	FY 2011-12 Cash	FY 2012-13 Cash	FY 2013-14 Cash
High	1.2	0.8	1.2	1.2	1.2
Middle	0.8	0.6	1.1	1.1	1.1
Low	0.5	0.4	0.8	0.8	0.8

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

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

**CHART 1: Distribution of ITVM Retailers by Over-the-Year Change in Scratch-off Game Sales: Before vs After ITVM Installation**



**TABLE 1**  
**Calculation of ITVM Sales Phase-in Factor**  
**for FY 2010-11**  
*2-Jun-10*

Note: ITVMs considered fully operational in the week following installation

First Week of Operations. Week Ending:	# of ITVMs Made Fully Operational	Days Remaining in Fiscal Year	ITVM Sales Days (# of Remaining Days X # of Machines)
October 14, 2010	60	255	15,300
October 31, 2010	80	248	19,840
November 7, 2010	110	241	26,510
<b>TOTAL</b>	<b>250</b>		<b>61,650</b>
<b>Total Possible ITVM Sales Days in Fiscal Year</b>			<b>91,250</b>
<b>Phase-in %</b>			<b>68%</b>

TABLE 2

Base Scratch-off Game Sales of Retailers Selected to  
Receive ITVMs in FY 2010-11

2-Jun-10

	Number of Locations	Average Weekly Sales Per Retailer	Projected Net Scratch-off Sales for FY 2010-11
Corporate Chains	200	3000	\$ 31,200,000
Independent Stores	50	4000	\$ 10,400,000
Total	250		\$ 41,600,000

TABLE 3

Calculation of Estimated Scratch-off Sales Impacts of 250 ITVMs: FY 2010-11 and FY 2011-12

2-Jun-10

	FY 2010-11 Full Year	FY 2010-11 Phase-in	FY 2011-12 Full Year
<b>High Estimate</b>			
Based on a percentage increase in location sales that is 20% higher than the mean used in the "Middle Estimate."	\$ 9,394,944	\$ 6,388,562	\$ 9,470,104
<b>Middle Estimate</b>			
Based on <b>MEAN PERCENTAGE INCREASE</b> in location sales (net of service counter and ITVM sales) during 32 weeks since all ITVMs have been installed, compared to the corresponding period in the preceding year	\$ 7,829,120	\$ 5,323,802	\$ 7,891,753
<b>Low Estimate</b>			
Based on a percentage increase in location sales that is 20% lower than the mean used in the "Middle Estimate."	\$ 6,263,296	\$ 4,259,041	\$ 6,313,402

Calculation Factors	
<u>Number of ITVMs Authorized</u>	250
<u>Assumed Change in Scratch-off Sales</u>	
High Estimate	22.58%
120% of the Middle Estimate	
Middle Estimate	18.82%
Mean of over-the-year Scratch-off Game sales change for 32 weeks after ITVM installation	
Low Estimate	15.06%
80% of the Middle Estimate	
<u>Phase-in Assumption (First Year Cash)</u>	68%
<u>REC-Forecasted Scratch-off Game Sales Growth from FY 2010-11 to FY 2011-12</u>	0.80%

TABLE 4

Estimated EETF Impacts for FY 2010-11  
2-Jun-10

	Adopted REC 2/10 (\$MMs)	With Installation of ITVMs (\$MMs)	Change (\$MMs)
<b>High</b>			
Sales Forecast	2,042.3	2,051.7	9.4
Contribution to EETF	388.7 19.03%	389.8 19.00%	1.2
<b>Middle</b>			
Sales Forecast	2,042.3	2,050.1	7.8
Contribution to EETF	388.7 19.03%	389.5 19.00%	0.8
<b>Low</b>			
Sales Forecast	2,042.3	2,048.6	6.3
Contribution to EETF	388.7 19.03%	389.2 19.00%	0.5

TABLE 5

Estimated EETF Impacts for FY 2011-12  
2-Jun-10

	Adopted REC 2/10 (\$MMs)	With Installation of ITVMs (\$MMs)	Change (\$MMs)
<b>High</b>			
Sales Forecast	2,058.5	2,068.0	9.5
Contribution to EETF	391.8 19.03%	393.0 19.00%	1.2
<b>Middle</b>			
Sales Forecast	2,058.5	2,066.4	7.9
Contribution to EETF	391.8 19.03%	392.9 19.02%	1.1
<b>Low</b>			
Sales Forecast	2,058.5	2,064.8	6.3
Contribution to EETF	391.8 19.03%	392.6 19.01%	0.8