

# Review of the Florida Lottery, 2019

Report No. 20-03

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# OPPAGA

Office of Program Policy Analysis and Government Accountability

## Review of the Florida Lottery, 2019

### EXECUTIVE SUMMARY

Lottery transfers to the Educational Enhancement Trust Fund increased in Fiscal Year 2018-19 to \$1.927 billion, \$168.7 million more than the prior year. This increase is primarily due to higher Mega Millions draw game transfers, as well as higher scratch-off game transfers. Several additional game and product distribution options are available to further increase transfers to education. However, some options could represent expanded gambling.

The Department of the Lottery continues to outperform the legislative performance standard for its operating expense rate, which is the second lowest in the nation. In addition, the department reports achieving efficiencies and savings from new contracts but has not yet launched the new Lottery mobile app. According to department administrators, they adjusted the contracted security study request for proposals to address our prior recommendation to include an evaluation of its security measures for fast play games in the scope of the study.

The department continues to implement its retailer integrity program, and player protection should be further enhanced once the department implements the ticket scanning function in the new mobile app. The department halted the final phase of its plan to bolster and enhance the prevention of underage play and no longer plans to conduct underage sting operations. However, the department is exploring age verification functionality for vending machines.

#### REPORT SCOPE

As directed by the Legislature, OPPAGA examined the Department of the Lottery and assessed options to enhance its earning capability and improve its efficiency.<sup>1,2</sup>

### BACKGROUND

The Department of the Lottery generates funds for education by selling draw, scratch-off, and fast play games. Draw games (also known as terminal games) allow players to select from a range of numbers on a play slip. Draw game tickets are printed by terminals that are connected to the Lottery's contracted terminal-based gaming system for a drawing at a later time. Scratch-off games are tickets with removable covering that players scratch off to determine instantly whether they have won. Fast play games incorporate aspects of both terminal-based and instant games. Fast play tickets print on demand by the terminals connected to the gaming system but can be played immediately to determine if the ticket is a winner.

The Lottery is self-supporting and receives no general revenue funds. For Fiscal Year 2019-20, the Legislature appropriated \$200.4 million in the General Appropriations Act from Lottery sales revenue

<sup>1</sup> Section 24.123, F.S., requires an annual financial audit of the Lottery, which is to include recommendations to enhance the Lottery's earning capability and efficiency. The Joint Legislative Auditing Committee directed OPPAGA to assess revenue enhancement and efficiency and the Auditor General to conduct the financial audit.

<sup>2</sup> A complete list of prior OPPAGA reports that identify revenue enhancement and operational efficiency options for the Department of the Lottery is available on OPPAGA's [website](#).

and authorized 418.5 positions for department operations.<sup>3</sup> Prizes and retailer commissions are paid directly from sales revenues and do not appear in the department's appropriation.

In Fiscal Year 2018-19, prizes totaled \$4.638 billion and retailer commissions totaled \$398.2 million.<sup>4</sup> Total ticket sales for this period were \$7.151 billion, ranking Florida the third highest among U.S. lotteries in total sales and 11th highest among U.S. lotteries in per capita sales for Fiscal Year 2018-19.

Since its inception, the Lottery has outsourced some functions to produce, advertise, and sell tickets. The department allocated approximately \$157.5 million (79%) of its Fiscal Year 2019-20 appropriation to produce and advertise draw and scratch-off games.<sup>5</sup> These vendor contracts include those listed below.

- A contract with PP+K, Inc., for general market advertising services as well as multilingual services, including those in Spanish. This contract expires in October 2021. The department may elect an additional one or more renewal periods not to exceed five years.
- A contract with IGT Global Solutions Corporation to provide a terminal-based gaming system. The gaming system includes computer systems and retailer terminals, vending machines, telecommunications, and technical support services.<sup>6</sup> This contract expires in June 2032 (or 13 years from start-up of operations under the contract) with three 3-year renewal options.
- A contract with Scientific Games International, Inc., to print, market, and distribute scratch-off game tickets. This contract has a conversion period that expires in March 2020 followed by a seven-year fully-operational period (expiring in March 2027). The department may elect an additional one or more renewal periods not to exceed seven years.

## REVENUE PERFORMANCE

In Fiscal Year 2018-19, lottery sales increased to \$7.151 billion compared to the prior year's sales of \$6.701 billion (an increase of \$450.4 million). The increase was primarily due to higher sales of scratch-off games. Scratch-off game sales increased by \$285.5 million to \$4.938 billion, while draw game sales increased by \$164.9 million to \$2.213 billion.

The trend in Lottery transfers to the Educational Enhancement Trust Fund (EETF) is positive. Lottery transfers for Fiscal Year 2018-19 were \$1.927 billion, \$168.7 million (9.6%) more than the prior year. (See Exhibit 1.) Scratch-off transfers increased by \$48.3 million and draw game transfers increased by \$105.5 million, while other income such as unclaimed prizes increased by \$14.9 million. Draw game transfers increased primarily due to increased sales of the multi-state Mega Millions jackpot game. Transfers to the EETF for Fiscal Year 2018-19 exceeded the legislative standard of \$1.801 billion.<sup>7</sup>

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<sup>3</sup> Chapter [2019-115](#), *Laws of Florida*.

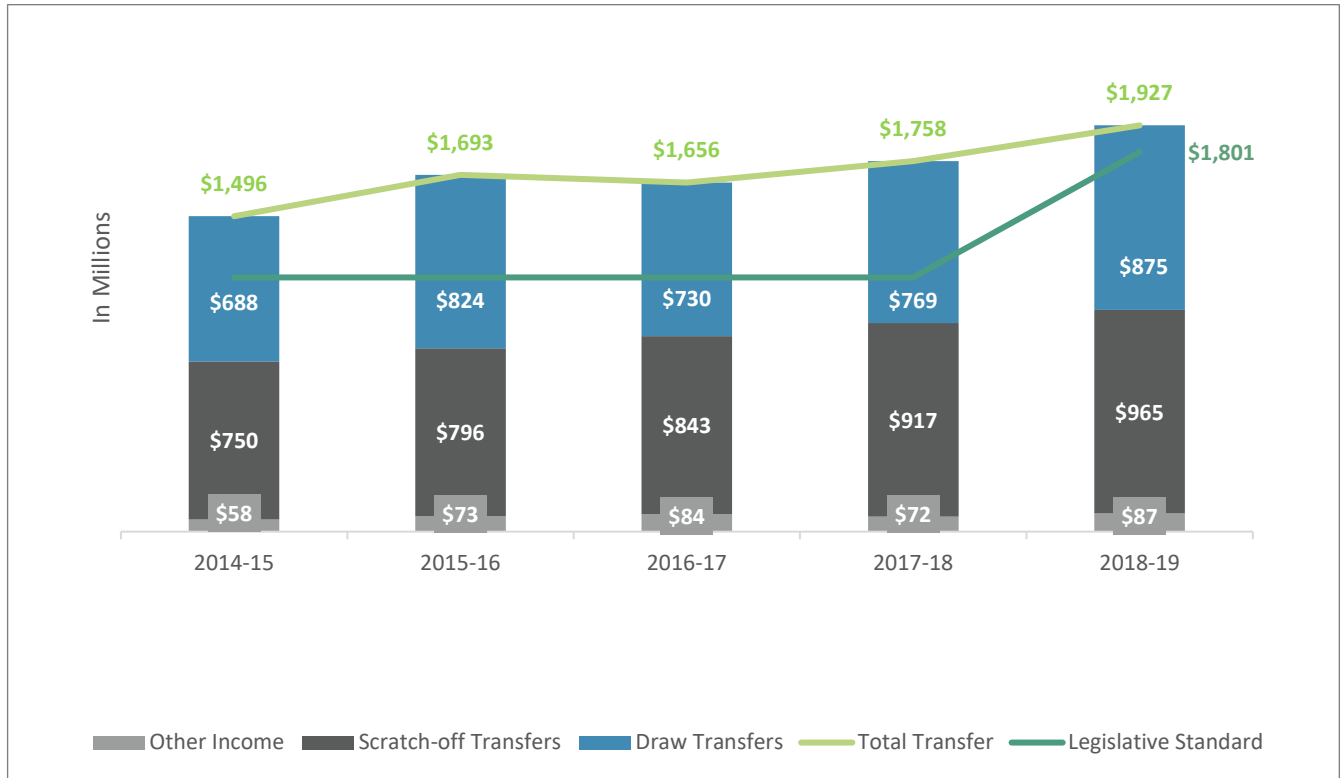
<sup>4</sup> To sell its products, the Lottery contracts with a wide range of retailers across the state, such as supermarkets, convenience stores, gas stations, and newsstands. Retailers receive commissions for selling lottery products at a rate of 5% of the ticket price and 1% of the prize value for winning tickets they redeem less than \$600. Retailers also can receive bonuses for selling select winning tickets and performance incentive payments.

<sup>5</sup> Of the \$157.5 million, approximately \$118.3 million was allocated to produce draw and scratch-off games and \$39.2 million was allocated to advertising for Fiscal Year 2019-20.

<sup>6</sup> The contract restricts the use of the Lottery to a maximum of 2,500 vending machines, including 1,500 full-service vending machines with the terminal game functionality disabled and 1,000 full-service vending machines with the terminal game functionality enabled.

<sup>7</sup> The Lottery's legislatively approved performance standards are reported in its Long Range Program Plans, *Florida Lottery Long Range Program Plan Fiscal Years 2020-21 through 2024-25*, September 30, 2019.

**Exhibit 1**  
**Fiscal Year 2018-19 Scratch-Off and Draw Game Transfers Increased<sup>1</sup>**



<sup>1</sup> The legislative standard for transfers to the EETF was \$1.206 billion for Fiscal Years 2014-15 through 2017-18. This standard increased to \$1.801 billion in Fiscal Year 2018-19.

Source: Florida Lottery financial statements and Department of the Lottery Long Range Program Plans.

## REVENUE ENHANCEMENT

During Fiscal Year 2018-19, the Lottery continued to take steps to increase its sales and transfers to the Educational Enhancement Trust Fund. For instance, the Lottery increased its sales by enhancing its existing product mix and increasing the number of scratch-off game facings at sales counters with new ticket dispensers.<sup>8</sup> To further increase sales and transfers, the Lottery could implement new games, introduce new ways of selling tickets, or increase its retailer network. However, some of these options could represent an expansion of legalized gambling and could produce negative social costs.<sup>9,10</sup>

### Several Options Could Enhance Lottery Revenues

#### Options Based on Other State Lotteries

- Introduce new games
- Implement new ways of selling tickets
- Increase the retailer network

(See Appendices A and B for more detailed information.)

We identified several options that could enhance lottery revenues based on game and product distribution methods that other U.S. lotteries have implemented. Appendix A details additional new game options and Appendix B lists additional product distribution options, along with their advantages

<sup>8</sup> Increasing the number of game facings adds more spaces to display additional scratch-off tickets.

<sup>9</sup> For more information on negative social costs, see *Lottery Profits Flat; Increasing Retailer Outlets Is Critical to Increasing Sales*, OPPAGA Report No. 10-16, January 2010 and *Gambling Impact Study*, Spectrum Gaming Group, October 2013.

<sup>10</sup> Fiscal impact estimates presented in this report do not account for negative social costs and shifts of other taxable economic activity.

and disadvantages. As noted in the appendices, several of the options would require legislative authority to implement.

The fiscal impact estimates in the appendices assume lottery customers and retailers would be educated and ready to play as soon as new games or product distribution options were made available. These estimates also assume that Florida's sales experience would be similar to that of other U.S. lotteries. However, Florida's sales experience may differ depending on a variety of factors, including how the Florida Lottery implements the option. The revenue estimates also assume that some of the sales from new games or product distribution options would be the result of shifts from existing game sales.

## The Lottery took steps to increase sales

In Fiscal Year 2018-19, the Department of the Lottery increased product distribution and enhanced its product mix to increase sales. The Lottery added a new corporate chain retailer, Wal-Mart Supercenters, via a 17-store pilot project in the Florida panhandle. According to Lottery officials, this addition will be rolled out in phases ultimately resulting in Lottery sales at approximately 220 Wal-Mart Supercenters statewide. The pilot has resulted in \$7.9 million in additional revenue during Fiscal Year 2018-19. The Lottery also expanded statewide scratch-off dispenser facings at both corporate and independent retailers, adding approximately 40,000 product facings during Fiscal Year 2018-19, which are expected to increase revenue.

The Department of the Lottery also increased its sales by enhancing its product mix. For example, the department introduced its second \$30 price point scratch-off ticket, \$15,000,000 GOLD RUSH SPECIAL EDITION, which has generated \$327.2 million in sales and over \$60.6 million in transfers to education. The game was the top-selling game in the lottery industry, with a single week of sales that exceeded \$29.5 million.

### The Lottery Enhanced Its Product Mix to Increase Sales

#### Examples of New Lottery Products in Fiscal Year 2018-19

- Introduced second \$30 scratch-off ticket, \$15,000,000 GOLD RUSH SPECIAL EDITION
- Added 37 new scratch-off games
- Launched \$5 price point Fast Play tickets
- Introduced a new draw game, JACKPOT TRIPLE PLAY with an add-on feature, Combo

The Lottery continued to increase sales of its scratch-off games through product implementation and marketing strategies. The department reported 13 straight weeks of scratch-off sales over \$100 million after the launch of its second \$30 scratch-off game, which is a record high for scratch-off sales in Florida. The Lottery broke a national record with \$126 million in scratch-off sales during a single week in Fiscal Year 2018-19. The department also reported that for the eighth year, the Lottery achieved an all-time scratch-off sales record of \$4.938 billion in Fiscal Year 2018-19, which is an increase of 6.1% compared to the prior year. According to the department, sales were driven by 37 new scratch-off games.

The department also realized increased sales of terminal-based games compared to the previous fiscal year. It attributes some of this increase to the change of evening draw times from 7:57 p.m. to 9:45 p.m., which results in a longer sales window for evening draws, allowing retailers to capitalize on evening foot traffic. The department offered six fast play games at the \$1, \$2, and \$5 price points. In total, the six games produced \$20.9 million in sales and \$8.8 million in transfers to education during Fiscal Year 2018-19. These sales were an increase of over \$3 million compared to Fiscal Year 2017-18.

The department expanded its draw game offerings by adding a brand new draw game, JACKPOT TRIPLE PLAY. This draw game replaced the jackpot game LUCKY MONEY. The department included a \$1 add-on feature, Combo, with JACKPOT TRIPLE PLAY, which is now the most popular add-on

feature offered by the Lottery. JACKPOT TRIPLE PLAY accounted for \$32.8 million in sales for Fiscal Year 2018-19. In addition, the department offered seven terminal game promotions such as FANTASY 5 Bonus Cash Fridays, Fast Play Replay Second Chance, and FLORIDA LOTTO’s Lotto Cash promotion. It also offered second chance drawings to support scratch-off games and several retailer promotions throughout the year to promote awareness of both scratch-off and terminal games.

## New lottery games could generate additional revenues

To maintain and increase sales, lotteries need to continually review and refresh their product mix. The Legislature and the department could consider adding one or more new games, such as draw games that offer different play styles, as the department retires games that have peaked in popularity and are in a period of declining sales. One example of a new game is All or Nothing, with drawings held multiple times per day. We identified four state lotteries that currently offer an All or Nothing game—Arizona, Georgia, Massachusetts, and Texas. Tickets are \$1 or \$2 per play, and players win prizes by matching none, some, or all of the numbers drawn. For example, in Texas, players select 12 numbers from 1 to 24 and win a top prize of \$250,000 by matching all 12 numbers drawn or by matching none of the numbers drawn; drawings are four times a day. According to the Florida Lottery’s market research vendor, the game tested well with players. However, based on experience with similar games, department administrators believe that such a game may have a limited life cycle with initial sales increases that later decline. We estimate that implementing the All or Nothing game could generate approximately \$6 million in additional transfers during the first full year of implementation.<sup>11</sup>

### New Games Could Increase Lottery Revenues

#### Examples of New Game Options

- The All or Nothing game could generate \$6 million in additional transfers during the first full year of implementation.
- Oversized scratch-off tickets could generate \$12.8 million in additional transfers during the first full year of implementation.
- New games tend to have a limited life cycle with initial sales increases that later decline.
- Appendix A provides information on additional new game options, including Fast Keno, Daily Keno, and monitor games.

Another option is to offer oversized scratch-off tickets. Florida Lottery tickets are currently four inches wide and vary in height from two and one-half inches to nine inches. We identified 19 state lotteries that currently offer or, in the past, offered oversized scratch-off tickets.<sup>12</sup> For example, in April 2015, Texas first launched Super Ticket 7’s, an 8- by 12-inch scratch-off game. For \$10, the ticket offered four games to play. During Fiscal Year 2017-18, Texas offered nine oversized scratch-off games with sales of \$996.9 million. One drawback of oversized scratch-off tickets is that because of their dimensions, tickets cannot be dispensed through standard vending machines or standard counter dispensers. Therefore, lotteries typically must use special ticket dispensers for on-counter visibility and distribution. Florida Lottery officials evaluated the possibility of introducing an oversized scratch-off ticket and found that the long-term viability of the option might be limited. Typical sales patterns in other states for oversized scratch-off games were positive in the first launch, but subsequent launches fell flat or under-performed when compared to standard scratch-off games. We

<sup>11</sup> We estimated a range of potential All or Nothing transfer revenue (\$2.3 million to \$10.7 million, with a median of \$6 million) based on the highest and lowest per capita sales in states that offer All or Nothing, which we applied to Florida’s estimated population for 2020. The estimate assumes a draw game transfer rate to the EETF of 39.39%, based on the August 2019 Revenue Estimating Conference projected transfers for Fiscal Year 2020-21 and that 10% of the sales would be shifted from existing game sales.

<sup>12</sup> The state lotteries are Arizona, California, Georgia, Idaho, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Carolina, Ohio, South Carolina, Tennessee, Texas, Virginia, Washington, and Wisconsin. However, we excluded Tennessee and Missouri from our analysis due to insufficient information.



estimate that implementing the oversized scratch-off ticket could generate approximately \$12.8 million in additional transfers during the first full year of implementation.<sup>13</sup>

## Other states use additional product distribution methods

We identified 10 U.S. lotteries that offer lottery products over the internet. The product mix the lotteries offer online varies, including subscriptions to game drawings for up to one year in advance, tickets for single drawings of draw games, and/or instant games.<sup>14</sup>

Lotteries that sell products over the internet require that players be at least 18 years of age and located within the state when making a lottery purchase. Based on the experience of other states, we estimated the potential revenue from implementing internet sales in Florida is approximately \$7.9 million to \$23.8 million per year in additional recurring transfers to education depending on whether only draw games or both draw and instant games are offered, respectively.<sup>15</sup>

Offering lottery products over the internet would require statutory revisions. Florida law currently restricts the use of player-activated terminals and does not authorize the use of credit cards or other instruments issued by a bank for lottery purchases without a purchase of \$20 in other goods.<sup>16</sup> The state would need to comply with federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state. In addition to Florida-specific concerns related to internet sales, the viability of using this distribution method is now in question given a recent U.S. Department of Justice opinion.

While several states began offering internet sales of lottery tickets in response to a 2011 opinion from the U.S. Department of Justice (DOJ) Office of Legal Counsel providing the legal basis for such sales, the department reversed that view in 2018. The 2011 opinion found that interstate transmission of wire communications that do not relate to a sporting event or contest fall outside the reach of the Wire Act, and because state lottery internet sales proposals did not involve wagering on sporting events or contests, the Wire Act does not prohibit them. However, in 2018, the DOJ issued another opinion stating that the statutory prohibitions are not uniformly limited to gambling on sporting events or contests and apply to non-sports-related betting or wagering. In February 2019, the New Hampshire

### Offering Lottery Products Over the Internet Could Increase Sales

#### Internet Sales

- Potential revenue from implementing internet sales in Florida could be as high as to \$23.8 million per year.
- Implementing this distribution method would require statutory changes to address several issues.
- Although other states sell lottery tickets over the internet, the practice is the subject of an ongoing legal case.

<sup>13</sup> We estimated a range of potential oversized scratch-off ticket transfer revenue (\$3.3 million to \$118.1 million, with a median of \$12.8 million) based on the highest and lowest per capita sales in states that offer oversized scratch-off tickets, which we applied to Florida's estimated population for 2020. The estimate assumes a scratch-off game transfer rate to the EETF of 18.62%, based on the August 2019 Revenue Estimating Conference projected transfers for Fiscal Year 2020-21, additional estimated dispenser costs of \$197,000, additional printing costs of \$650,000, and that 15% of the sales would be shifted from existing game sales.

<sup>14</sup> The two subscription-only lotteries are Virginia and New York. Delaware offers online play only in casinos and is excluded from the analysis.

<sup>15</sup> We estimated a range of potential internet transfer revenue (\$5.3 million to \$57 million, with a median of \$7.9 million to \$23.8 million depending on whether only draw games or both draw and instant games are offered, respectively) based on the highest and lowest per capita sales in states that offer internet sales, which we applied to Florida's estimated population for 2020. We estimated potential transfers from implementing internet sales by using available sales data from nine states that currently offer internet sales. We excluded Pennsylvania from our analysis, as it is the lone state that offers only instant games online. Our estimate assumes a transfer rate to the EETF of 39.39% for draw only internet sales and 24.32% for both draw and instant internet sales based on the August 2019 Revenue Estimating Conference draw game and scratch-off projected transfers for Fiscal Year 2019-20. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

<sup>16</sup> Section 24.105(9)(a), *F.S.*, restricts the use of player-activated machines and s. 24.118(1), *F.S.*, requires the purchase of no less than \$20 of other goods and services in order to use a credit card or other instrument issued by a bank to purchase lottery products.

Lottery filed a lawsuit regarding the 2018 DOJ opinion. As a result, a New Hampshire court held that the Wire Act was only applicable to sports gambling. Following these findings, DOJ filed an appeal on August 16, 2019, but the court has not ruled on the appeal. Because the effect of the latest DOJ opinion has not been fully resolved, more information would be needed if Florida were to move forward with this option.

## Increasing the retailer network could also enhance revenues

Another option that has the potential to increase sales is for the department to increase its retailer network. In Fiscal Year 2017-18, the top two southeast U.S. lotteries ranked by per capita sales—Georgia and South Carolina—had an average of 1,248 residents per retailer.<sup>17</sup> The two states had higher per capita sales (\$407 and \$344, respectively) than Florida (\$315). During that period, the Florida Lottery averaged 1,521 residents per retailer. Adding 3,055 new retailers to Florida’s retailer network would meet the Georgia and South Carolina lotteries’ market penetration and has the potential to generate about \$78.2 million annually in additional transfers to the Educational Enhancement Trust Fund. More modest growth of 200 retailers would generate about \$5.1 million annually in transfers.<sup>18</sup>

### Increasing the Retailer Network Could Increase Lottery Revenues

#### Increasing the Retailer Network

- Florida ranks behind Georgia and South Carolina in terms of per capita lottery.
- The size of Florida’s lottery retailer network has been relatively flat over the past five years.
- Adding 200 more retailers could generate \$5.1 million in additional transfers to the Educational Enhancement Trust Fund per year.

The Department of the Lottery’s Long Range Program Plan for Fiscal Years 2020-21 through 2024-25 recognizes that there is an opportunity to increase the retailer network, particularly among underrepresented minorities. However, the number of retailers in the network has remained relatively flat over the past five years, from 13,195 as of June 30, 2014, to 13,013 as of July 1, 2019. For Fiscal Year 2018-19, department administrators reported a 1.3% increase in corporate retailers and a .06% increase in independent retailers, reflecting an increase in both corporate and independent retailers. The increase is likely due to the addition of more than 100 Walmart Supercenter locations and to the efforts of the Lottery’s sales force to recruit and sign contracts with independent and minority-owned businesses as retailers.

## OPERATIONS

The Department of the Lottery continues to keep its expenses as a percentage of sales low and below the legislative standard. The department plans to upgrade the Lottery mobile app and add new features, but the launch date is still to be determined. The department reports achieving efficiencies from its new gaming system. The department has multiple layers of security to ensure the integrity of lottery games and included an evaluation of its security measures for fast play games in the scope of its most recent contracted security study. The department could expand the methods it uses to prevent

<sup>17</sup> For this analysis, we analyzed data for five southeastern states with lotteries—Georgia, Kentucky, North Carolina, South Carolina, and Tennessee (Alabama does not have a lottery and Mississippi only recently passed legislation to start a state lottery). We compared the Florida Lottery’s per capita sales to all five lotteries. However, data were not available for the Tennessee Lottery’s retailer-to-population ratio, so for this measure, we compared the Florida Lottery’s performance to the four remaining states.

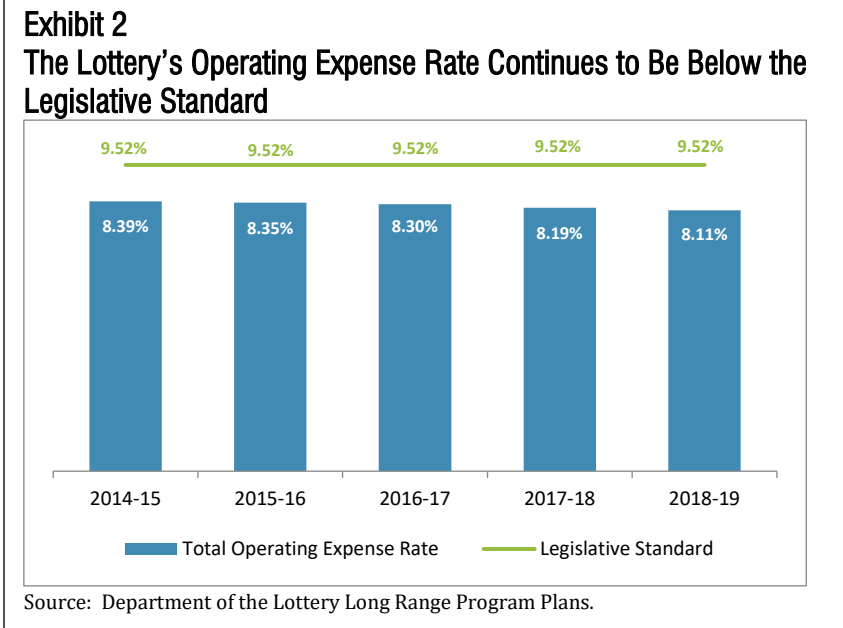
<sup>18</sup> We estimated potential transfer revenues from increasing the retailer network by assuming that the 200 new retailers would achieve at least the average weekly gross sales new retailers achieved in Fiscal Year 2018-19. The estimate assumes all 200 new retailer terminals are active for a full year and that 20% of their sales would be shifted from existing retailers.



underage sales and should continue its ongoing efforts to protect against retailer theft of tickets and ticket brokering.

## The Lottery’s operating expense rate is lower than the legislative standard

The Department of the Lottery’s operating expenses in relation to its ticket sales continue to be lower than the legislative standard.<sup>19</sup> (See Exhibit 2.) Furthermore, compared to other U.S. lotteries, the Florida Lottery had the second lowest operating expense rate in Fiscal Year 2017-18, behind Massachusetts.<sup>20</sup> According to department administrators, a primary reason for the low operating expense rate is that the department has maintained stable operating expenses while ticket sales have increased.



## A new mobile app will include additional features; however, the launch date is still to be determined

The department is planning to launch a new Lottery mobile app. The app is part of the department’s new gaming system contract, which includes creating and maintaining a mobile convenience application that allows players to check winning numbers and jackpots; check past winning numbers, prize levels, and payout amounts; select numbers and search whether that combination of numbers has ever won in the past; view recently launched scratch-off tickets; watch Lottery videos; and find Florida Lottery retailers.

**The New App Will Include Additional Features**

**New Features**

- Digital play slip function for players to pre-select the numbers they would like to play in a draw game
- Digital fast play barcodes for faster retailer processing
- Ticket self-checker function for players to scan their tickets with their mobile device
- Player age self-identification function

The launch date for the new app is yet to be determined.

The new mobile app will include three additional features—digital play slips, digital fast play barcodes, and a ticket self-checker. The digital play slip function will allow players to pre-select the numbers they would like to play in a draw game and generate a code for the retailer to scan and print draw

<sup>19</sup> Operating expenses include payments to gaming vendors and retailer commissions.

<sup>20</sup> Florida Lottery’s ranking is based on the latest fiscal year data available from La Fleur’s *2019 World Lottery Almanac*. Operating expense rates include administrative expenses and retailer commissions.

tickets. The digital play slip functionality will be the same as current paper play slips. There will be no limitation on the number of digital play slips a player can submit to a retailer to purchase tickets for each drawing when using the new mobile app. This mirrors the use of paper play slips, which also have no limits on the number of play slips that a player can use to purchase tickets for a drawing. Players will also be able to pre-select fast play games and generate barcodes that are more quickly processed by the retailer for purchasing these games. The ticket self-checker function will enable players to scan their tickets with their mobile device to see if the tickets are winners.

The new app will also include an additional layer for age verification. While the newer app will still allow anyone to download the app, it will require players to verify their age by entering their date of birth prior to accessing the app's features. The new app will also include information about the Florida Council on Compulsive Gambling and the National Council on Problem Gambling.

However, players still will be unable to purchase Lottery tickets or games through the new mobile app. All lottery tickets and games will continue to remain paper based and sold at contracted retailers and Lottery district offices with the use of a terminal or Lottery vending machine. Similarly, payment of prizes cannot be made through the mobile app and must be claimed in person. At this time, Florida Lottery staff do not plan to advertise or promote non-lottery products or to include any mobile device games not associated with ticket purchasing through the mobile app, although these capabilities have been built into the new app. The launch date for the new app is yet to be determined.

## **The department reports that it has achieved efficiencies and savings from new contracts**

The department implemented a new gaming system in April 2019. It reports that the gaming system included all new state-of-the-art equipment, software, and reporting systems delivering modern functionality to the Lottery's operations. The new functionality includes new gaming servers, gaming software, retailer equipment, retailer displays, and a communications network that includes a new in-state call center to provide hotline services to retailers, as well as improved security, added anti-fraud measures, sales accounting, and mobile device support.

According to department administrators, the new gaming system has resulted in several efficiencies. For example, the added anti-fraud measures include the vendor's live alerts system, which has improved the Division of Security's ability to identify potentially problematic retailer behavior in a more timely and efficient manner, as discussed later in this report. In addition, the new system enables the Lottery to sell tickets, process claims, and pay prizes in a more secure manner.

In October, the department signed a new scratch-off vendor contract that it projects will generate an additional \$127.5 million to education over the next seven-and-a-half years. The vendor will continue to serve as the Lottery's primary scratch-off game provider through 2027, with extension options up to an additional seven years. The department expects that the new contract will generate at least an estimated \$17 million in additional contributions to the Educational Enhancement Trust Fund each year during the term of the initial agreement, based on the latest Revenue Estimating Conference projections.

# The department provides multiple layers of security to ensure the integrity of Florida Lottery game drawings

Florida law creates a Division of Security within the Lottery to promote and protect the integrity of and the public confidence in the state lottery.<sup>21</sup> The law requires the division to monitor game drawings.<sup>22</sup> The department has established a process for its Division of Security, which oversees drawings, and has adopted rules for game drawing procedures, created a draw studio that televises drawings, engaged an accountant to witness the drawings, and addressed the inspection of the equipment in its rules and procedures.<sup>23</sup> The department has also adopted a confidential draw management standard operating procedure manual that outlines the processes for drawings and the responsibilities of all personnel involved.

## The Lottery Provides Security in Multiple Ways to Help Ensure the Integrity of Lottery Drawings

### Lottery Security Measures

- The department has taken several steps to protect the integrity and public confidence in the Lottery.
- As required by statutes, in August 2019, the department issued an RFP for an independent, comprehensive security study of its operations.
- We recommended in our 2019 report that the next security study include an evaluation of the risks associated with fast play games.
- To address our recommendation, the department reports that it adjusted the RFP to specify that the next security study will include an evaluation of new game security.

Florida law also requires the department to engage an independent firm experienced in security procedures to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Lottery at least once every two years.<sup>24</sup> Accordingly, the department periodically engages an independent firm to conduct a comprehensive study and evaluation of Lottery security. The department issued a request for proposals (RFP) in August 2019 to obtain a vendor to conduct another security study.

We commented in our 2019 review that the department's most recently completed security study did not specifically examine risks associated with the fast play games because the study started months before the launch of the fast play games. Department officials stated that retailer identification of winning tickets and theft of the ticket is a known risk with the fast play style of games, but they have security measures in place to help ensure that theft or fraud by retailers does not happen. Department administrators reported that the 2018 security study was a comprehensive examination of their operations. We recommended that the department include an evaluation of its security measures for fast play games in the scope of its next contracted security study. To address this recommendation, the department reports that it amended the RFP language to specify that the next security study will include new game security within its scope.

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<sup>21</sup> Section [20.317\(2\)](#), *F.S.*

<sup>22</sup> Section [24.108\(6\)](#), *F.S.*

<sup>23</sup> Rule [53ER19-9](#), *F.A.C.*

<sup>24</sup> Section [24.108\(7\)\(c\)](#), *F.S.*, provides that studies of security shall be conducted as the department deems appropriate but must occur at least once every two years.

# The department halted its plan to conduct underage sting operations but is exploring age verification functionality for vending machines

Florida law prohibits any person from knowingly selling a lottery ticket to a minor.<sup>25</sup> Statutes also require the department to supervise and administer the operation of the Lottery in accordance with provisions of law and rules.<sup>26</sup> Department rules specify that selling a lottery ticket to a minor is grounds to suspend and terminate a retailer's contract.<sup>27</sup> Consistent with statutes and department rules, the Florida Lottery's standard retailer contract states that the retailer shall not sell lottery tickets to anyone under the age of 18 and requires the retailer to establish safeguards as necessary to ensure such a sale does not occur. The standard retailer contract for vending machines stipulates that vending machines shall be in the direct line of sight of store personnel. If a person under the age of 18 attempts to purchase lottery tickets from a vending machine, store personnel are required to deactivate the machine.<sup>28</sup>

## The Lottery Halted Its Plan for Sting Operations

### The Lottery's Current Approach to Preventing Underage Play

- The department had a three-part plan to prevent lottery sales to minors but ended implementation prior to the third phase, which would have involved underage sting operations.
- The department's methods to prevent underage sales are generally consistent with strategies that most other U.S. lotteries are implementing.
- The Legislature could consider requiring the department to configure some or all of its vending machines to verify age prior to purchase, which is a practice employed by two other U.S. lotteries for all machines and six lotteries for selected situations.

In January 2018, OPPAGA reported that the department relied on preventative measures but planned to implement additional efforts to address underage sales. To help prevent underage sales both at the counter and through vending machines, department officials stated that they relied on retailer training, messaging, placing vending machines in the line of sight of sales clerks, inspections, and investigating complaints. As stated in our January 2019 report, department officials said that they intended to conduct underage sting operations in the final phase of a three-part plan to prevent underage sales, potentially in partnership with the Florida Department of Business and Professional Regulation's Division of Alcoholic Beverages and Tobacco, beginning in May 2019. However, as of the publication of this report, the Lottery halted plans for conducting sting operations. One reason the department gave for halting underage sting operations was that Lottery administrators believe it is inappropriate to use underage undercover operatives to conduct stings. Instead, department administrators believe it is more effective to emphasize education and prevention to retailers and the community. As an alternative, the department is considering collaborating with school resource officers to provide education to minors in schools.

<sup>25</sup> Section [24.117](#), *F.S.*, provides that any person who knowingly sells a state lottery ticket to a minor is guilty of a misdemeanor of the first degree, punishable as provided in ss. [775.082](#) or [775.083](#), *F.S.*

<sup>26</sup> Section [24.105\(2\)](#), *F.S.*, requires the department to supervise and administer the operation of the Lottery in accordance with the provisions of this act and rules adopted pursuant thereto.

<sup>27</sup> Rule [53ER07-15](#), *F.A.C.*

<sup>28</sup> Section [24.112\(15\)](#), *F.S.*, provides that the vending machine must be capable of being electronically deactivated for a period of five minutes or more. In order to be authorized to use a vending machine to dispense lottery tickets, a retailer must locate the vending machine in the retailer's direct line of sight to ensure that purchases are only made by persons at least 18 years of age. The retailer must ensure that at least one employee is on duty when the vending machine is available for use.

We contacted 44 U.S. lotteries and asked them whether they conduct underage sting operations to reduce underage play. While 7 U.S. lotteries responded that they have conducted underage sting operations, 30 reported they have not. However, many use preventative measures similar to the Florida Lottery, such as retailer education and/or responsible gaming messaging or signage.

We also asked the other U.S. lotteries whether they use age verification on their vending machines to prevent underage sales. Age verification technology reads a driver's license or state identification card to determine the player's age. Although most of the lotteries with vending machines that responded to our questionnaire (25 of 33) do not use age verification technology, 2 reported that they configure their vending machines to require ID scanning prior to making a purchase and 6 reported their vending machines have ID scanning capabilities that are sometimes used. For example, the North Carolina Education Lottery does not use ID scanning functions on vending machines located in establishments that already require age verification for entry. The Illinois Lottery only requires ID scanning for vending machines that are not in the line of sight of the retailer, and the Louisiana Lottery requires each retailer to choose whether to utilize vending machines' ID scanning capabilities.

If the Legislature wishes to address the possibility that minors may purchase lottery tickets from vending machines, it could consider requiring the department to configure all of its vending machines to require age verification. Alternatively, it could require use of this technology in high traffic or other targeted areas. The department would incur some expense in reconfiguring its 2,500 vending machines for this functionality. The department reports that it is researching states that use lottery vending machine identification scanning and the capabilities of that functionality.

## The department has implemented a comprehensive retailer integrity program to protect players against ticket theft by retailers

All lotteries face the challenge of ensuring public confidence in the integrity of their operations. One significant threat to this confidence occurs when retailers or their employees steal winning tickets from players. Lotteries also face the potential for ticket brokers to buy winning tickets from players for less than the amount won to help people avoid paying state-owed debt or child support, losing eligibility for public assistance, and being identified as a retailer who is stealing winning tickets, etc.<sup>29</sup>

### The Lottery's Retailer Integrity Program Includes Multiple Components

#### Recent Retailer Integrity Activities

- Implementation of the new Lottery gaming system in April 2019 resulted in improvements to the department's ability to identify and investigate potentially fraudulent retailer behavior.
- The department's upgrade of the investigations case tracking system has not yet achieved the intended improvements in collaboration with other law enforcement agencies, but it has resulted in better access to prior Lottery security case reports.
- The new gaming system included additional ticket self-checkers for all retailers that can accommodate them and a ticket scanning function in the Lottery mobile app so that players can more easily determine for themselves whether a ticket is a winner. However, the planned launch date of the mobile app has been delayed.

<sup>29</sup> If a lottery winner owes money to the state, such as for taxes or fees, or owes child support, the department withholds the amount owed from the player's winnings if the amount won is \$600 or more (s. [24.115\(4\)](#), F.S.).

Theft of winning tickets and ticket brokering are crimes.<sup>30,31</sup> These actions also violate the terms of the Lottery's contracts with retailers, which provide that the Lottery may suspend or terminate the contract of a retailer for reasons such as engaging in conduct prejudicial to public confidence in the Lottery.

The Department of the Lottery's Division of Security has continued to implement its Retailer Integrity Program, which includes several components intended to address potential illegal retailer behavior. These components include analyzing data to identify suspicious patterns of behavior, following up on customer complaints, and conducting operations to identify retailers/clerks who steal winning tickets.<sup>32,33</sup> During Fiscal Year 2018-19, the department conducted 915 retailer compliance operations and opened 4,299 criminal investigations. The department also conducted 2,340 player reviews, which focused on players with suspicious patterns of wins based on a review of claimant data. These activities resulted in the department terminating 32 retailer contracts for security reasons in Fiscal Year 2018-19.

In addition, according to department officials, if Lottery staff substantiates that someone is stealing winning tickets or acting as a ticket broker, the department pursues an arrest. The department reported that during Fiscal Year 2018-19, its law enforcement officers made 36 arrests, of which 23 were clerks, 4 were owners or managers, 5 were players, and 4 were relatives or friends of a retailer. The individuals arrested were charged with offenses that included grand theft, conspiracy to commit fraud, and false claims. Division of Security Agents also assisted other law enforcement agencies with 24 additional arrests that included a wide variety of charges such as robbery, grand theft, burglary, homicide, racketeering, forgery, fraud, and running a gambling house.<sup>34</sup>

The department's upgrade of the investigations case tracking system has not yet achieved the intended improvements in department collaboration with other law enforcement agencies but has resulted in better access to prior reports. Department officials upgraded the case management system in January 2018 by participating in a new system along with other state law enforcement agencies. They previously reported that the new system would help strengthen their collaboration with other law enforcement agencies by increasing the efficiency of information sharing on cases and will improve their analytical capabilities by making it easier to identify whether a particular person or household is the subject of another investigation. However, department officials recently reported that these are long-term goals requiring discussion with other state law enforcement agencies. Nonetheless, the department reports achieving efficiencies from the system, such as providing an internal records management system and allowing Lottery agents enhanced access to prior Lottery security case reports.

Although long-term goals of the case management system are not yet realized, department officials reported that implementation of the gaming system has resulted in some improvements to their capabilities for identifying and investigating potential ticket theft or brokering by retailers. Previously, department personnel made multiple data queries when analyzing data to identify potential problems in retailer behavior. The department reports that it has improved this process with the implementation of the new gaming system in April 2019, which gave the department access to the gaming system vendor's live

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<sup>30</sup> The criminal penalty for stealing a winning ticket depends on the amount of the prize. All lottery tickets with a prize of \$600 or more must be redeemed at a district office or at Florida Lottery headquarters in Tallahassee. Theft of a ticket worth \$750 or more but less than \$20,000 is grand theft of the third degree and punishable by up to five years in prison. If a stolen ticket is worth \$20,000 or more but less than \$100,000, this is grand theft of the second degree and punishable by up to 15 years in prison. Theft of a ticket worth \$100,000 or more is first degree grand theft and punishable by up to 30 years in prison. For more information, see ss. [812.014](#) and [775.082](#), *F.S.*

<sup>31</sup> Ticket brokering violates s. [24.118\(2\)](#), *F.S.*, and is a first degree misdemeanor.

<sup>32</sup> Lottery staff identifies retailers for these operations based on customer complaints and other audit selection criteria.

<sup>33</sup> For additional information about the Retailer Integrity Program, see OPPAGA [Report No. 15-03](#), January 2015.

<sup>34</sup> The department has assisted other law enforcement agencies with investigations that involve lottery retailers or their employees who may have stolen lottery tickets or committed other offenses.



alerts functionality. Through live alerts, parameters can be set based on what the Lottery's Division of Security defines as suspicious activity. The system alerts the division whenever the parameter thresholds are met, which gives the division timely information more efficiently and allows for more immediate investigations of suspicious behavior.

Implementation of the new gaming system also includes additional ticket self-checkers for all retailer locations that can accommodate them and a ticket scanning function in the Lottery mobile app so that players can determine for themselves whether a ticket is a winner. The department reports that ticket self-checkers have been installed at 12,794 (97%) of active retailer locations.<sup>35,36</sup> However, as discussed earlier in this report, the new mobile app that was supposed to launch in conjunction with the gaming system launch has been delayed, and the department has not yet determined a new start date for the app.

## OPTIONS

While the Department of the Lottery and the Legislature have increased transfers to education, additional actions could increase sales and efficiency and ultimately further increase transfers to education. Moreover, additional steps could be taken to reduce underage sales and protect the integrity of the Florida Lottery.

**The Legislature** could consider authorizing the Lottery to expand its current games and product distribution methods to enhance revenues, as described in Appendices A and B. If the Legislature is interested in a particular option, it could direct the Department of the Lottery to provide a more detailed business analysis that includes timeframes for implementation and any necessary statutory changes.

If the Legislature wishes to address the possibility that minors could purchase lottery tickets, it could consider requiring the department to configure all of its vending machines to require age verification or only requiring use of this technology in high traffic or other targeted areas.

**The Department of the Lottery** should continue its ongoing efforts to protect the integrity of the Florida Lottery by providing a ticket scanning function in its mobile app so that players can determine for themselves whether a ticket is a winner.

## AGENCY RESPONSE

In accordance with the provisions of s. 11.51(2), *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of the Lottery for review and response. The Lottery's written response to this report is in Appendix C.

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<sup>35</sup> The department reported that as of December 9, 2019, it had 13,206 active lottery retailer locations. Of these, 12,794 (97%) had a ticket self-checker installed. The remaining 412 locations were comprised of 282 corporate locations that had plans to install ticket self-checkers, 16 locations that are pending installation, and 114 retail locations that the Lottery team has determined do not have adequate space or are not in a trade style that accommodates a ticket self-checker.

<sup>36</sup> According to department officials, some locations (e.g., drive-through convenience stores), may not be able to accommodate a ticket self-checker.

# APPENDIX A

## New Lottery Game Options

New games that attract new players have the potential to increase revenues to education but could be considered an expansion of gambling. Exhibit A-1 lists new game options, their advantages and disadvantages, and estimated revenues where we were able to develop reasonable estimates. Some of the sales from new games would be the result of sales shifts from existing games; our estimates include a component to address a sales shift. However, the estimated revenues are based on individual options; if multiple options were implemented concurrently, the fiscal impact of each would likely be smaller due to shifts in sales from one game to another. Some new games that could generate significant revenue, such as Fast Keno, could increase the negative social costs of gambling because their rapid play style may be more addictive than other types of games. In addition, implementing any new games with a higher prize payout would require careful analysis of the Lottery Revenue Bond rate floor, as transfers to the Educational Enhancement Trust Fund (EETF) need to meet or exceed the transfer rates specified in the bond covenants. Estimates of annual revenue assume full implementation by July 1, 2020. However, some options would require additional time to implement, such as launching a keno or monitor game.

### Exhibit A-1

#### New Games Have the Potential to Increase Revenues to Education but Could Be Considered an Expansion of Gambling

Option	Advantages	Disadvantages
<p><b>All or Nothing</b> For \$1 or \$2, players select 10 to 12 numbers from up to 24 numbers and win the top prize by matching all numbers drawn or by matching none of the numbers drawn; drawings are held multiple times per day<sup>1</sup></p>	<ul style="list-style-type: none"> <li>▪ Could generate approximately \$6 million in transfers to education during the first full year of implementation<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ May have a limited life cycle after which sales decline</li> </ul>
<p><b>Oversized Scratch-Off Tickets</b> Such as double the width of current tickets (e.g., 8" by 12")<sup>3</sup></p>	<ul style="list-style-type: none"> <li>▪ Could generate approximately \$12.8 million in transfers to education during the first full year of implementation<sup>4</sup></li> <li>▪ May attract new players who are interested in the niche appeal</li> <li>▪ Could be an appealing purchase for gift giving</li> <li>▪ Extra space allows for more games per ticket, which players may perceive as enhanced value</li> <li>▪ Unique game dispensers, sitting on top of the other merchandising towers, make players aware of the tickets and provide a means of distribution</li> </ul>	<ul style="list-style-type: none"> <li>▪ Vending machines' current ticket dispensers would be unable to dispense these tickets due to the size</li> <li>▪ Implementation would require retailers to agree to place special ticket dispensers in their stores</li> <li>▪ Would compete with similarly priced products</li> <li>▪ May have a limited life cycle, as shown by the performance experience of other U.S. lotteries</li> <li>▪ Additional cost to print due to irregular size of ticket</li> </ul>
<p><b>Fast Keno</b> Players choose from 10 to 12 numbers from a panel of 80 numbers with the hope of matching their choices to 20 numbers drawn by the central computer at the Lottery headquarters; it may be played frequently (e.g., every four to five minutes); players watch a monitor at a retailer location to determine if they have won or leave the premises and check the Lottery's website for the winning numbers<sup>6</sup></p>	<ul style="list-style-type: none"> <li>▪ Could generate approximately \$107.9 million per year in additional recurring transfers to education<sup>6</sup></li> <li>▪ Can be limited to social settings such as bars, restaurants, and fraternal organizations, although other U.S. lotteries allow traditional lottery retailers to participate; some state lotteries also offer Keno-to-Go at traditional lottery retailer sites whereby players purchase tickets,</li> </ul>	<ul style="list-style-type: none"> <li>▪ May be addictive due to its rapid play style</li> <li>▪ Could be considered an expansion of gambling</li> <li>▪ Sales are dependent on new retailer participation</li> </ul>

Option	Advantages	Disadvantages
<p>Implementing this option may require legislative budget approval for additional gaming system equipment and legislative action to modify the requirements for a drawing to be public, witnessed by an accountant, and include inspecting the drawing equipment before and after each drawing, given that electronic drawings could occur every four to five minutes (s. <a href="#">24.105(9)(d)</a>, <i>F.S.</i>)</p>	<p>leave the premises, and check the lottery website to see if they have won</p> <ul style="list-style-type: none"> <li>▪ Would help the Lottery recruit new retailers in social venues</li> </ul>	
<p><b>Daily Keno</b>            Players choose as many as 10 numbers from a panel of 80 numbers in the hope of matching their choices to 20 to 22 numbers drawn by the central computer at the Lottery headquarters; the game may be played more than once per day<sup>7</sup></p>	<ul style="list-style-type: none"> <li>▪ Could generate approximately \$12.2 million per year in additional recurring transfers to education<sup>8</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Could be considered an expansion of gambling</li> <li>▪ May have a limited life cycle after which sales decline</li> </ul>
<p><b>Monitor Games</b>            Computer animated games, such as simulated horse racing, poker, and bingo, that are played on in-store monitors similar to the way Fast Keno is played</p> <p>Implementing this option may require legislative budget approval for additional gaming system equipment and legislative action to modify the requirements for a drawing to be public, witnessed by an accountant, and include inspecting the drawing equipment before and after each drawing, given that electronic drawings could occur frequently (s. <a href="#">24.105(9)(d)</a>, <i>F.S.</i>)</p>	<ul style="list-style-type: none"> <li>▪ Could generate approximately \$8.3 million per year in additional recurring transfers to education<sup>9</sup></li> <li>▪ Could appeal to emerging markets of lottery players that have grown up playing computer games</li> <li>▪ Allows the Lottery to recruit new retailers in social venues such as bars and restaurants</li> <li>▪ Could be limited to pari-mutuel facilities or social settings, such as bars and restaurants</li> </ul>	<ul style="list-style-type: none"> <li>▪ May be addictive due to its rapid play style</li> <li>▪ Could be considered an expansion of gambling</li> </ul>

<sup>1</sup> We identified four state lotteries that offer an All or Nothing game—Arizona, Georgia, Massachusetts, and Texas.

<sup>2</sup> We estimated a range of potential All or Nothing transfer revenue (\$2.3 million to \$10.7 million, with a median of \$6 million) based on the highest and lowest per capita sales in states that offer All or Nothing, which we applied to Florida’s estimated population for 2020. The estimate assumes a draw game transfer rate to the EETF of 39.39%, based on the August 2019 Revenue Estimating Conference projected transfers for Fiscal Year 2020-21 and that 10% of the sales would be shifted from existing game sales.

<sup>3</sup> We identified 19 state lotteries that have offered oversized scratch-off tickets—Arizona, California, Georgia, Idaho, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Carolina, Ohio, South Carolina, Tennessee, Texas, Virginia, Washington, and Wisconsin. However, Tennessee and Missouri were excluded from our analysis due to insufficient information.

<sup>4</sup> We estimated a range of potential oversized scratch-off ticket transfer revenue (\$3.3 million to \$118.1 million, with a median of \$12.8 million) based on the highest and lowest per capita sales in states that offer oversized scratch-off tickets, which we applied to Florida’s estimated population for 2020. The estimate assumes a scratch-off game transfer rate to the EETF of 18.62%, based on the August 2019 Revenue Estimating Conference projected transfers for Fiscal Year 2020-21; additional estimated dispenser costs of \$197,000; additional printing costs of \$650,000; and that 15% of the sales would be shifted from existing game sales.

<sup>5</sup> We identified 18 U.S. lotteries that offer Fast Keno—California, Connecticut, Delaware, District of Columbia, Georgia, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New York, North Carolina, Ohio, Oregon, Rhode Island, Tennessee, and West Virginia. New Jersey, Pennsylvania, and the U.S. Virgin Islands were excluded from our analysis due to insufficient information.

<sup>6</sup> We estimated a range of potential Fast Keno transfer revenue (\$11.9 million to \$849.8 million, with a median of \$107.9 million) based on the highest and lowest per capita sales in states that offer Fast Keno, which we applied to Florida’s estimated population for 2020. Our estimate assumes a transfer rate to the Educational EETF of 30.38%, based on the average Fast Keno payout in other states of 60.62%, and an administrative expense rate of 9%, which was determined by the Florida Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

<sup>7</sup> We identified three U.S. lotteries that offer Daily Keno—Indiana, New York, and Washington.

<sup>8</sup> We estimated a range of Daily Keno transfer revenue (\$6.1 million to \$18.5 million, with a median of \$12.2 million) based on the highest and lowest per capita sales in states that offer Daily Keno, which we applied to Florida’s estimated population for 2020. The estimate assumes a draw game transfer rate to the EETF of 39.39% based on the August 2019 Revenue Estimating Conference projected transfers for Fiscal Year 2020-21 and that 5% of the sales would be shifted from existing game sales.

<sup>9</sup> We estimated a range of potential monitor game transfer revenue (\$5.8 million to \$187.5 million, with a median of \$8.3 million) based on the highest and lowest per capita sales in states that offer monitor games, which we applied to Florida’s estimated population for 2020. Our estimate assumes a transfer rate to the EETF of 30.38%, based on the average Fast Keno payout in other states of 60.62%, and an administrative expense rate of 9%, which was determined by the Florida Lottery. The estimate also assumes that 10% of sales would be shifted from existing game sales.

Source: OPPAGA analysis of lottery industry and Department of the Lottery information.

# APPENDIX B

## Product Distribution Options

Making lottery products more accessible and convenient for players by expanding product distribution has the potential to increase revenues to education. For example, increasing the number of retailers has the potential to increase revenues by making lottery products more readily available to players. Exhibit B-1 lists this and other product distribution options that could increase Lottery sales and education transfers, their advantages and disadvantages, and estimated revenues where we were able to develop reasonable estimates. The estimated revenues are based on individual options; if multiple options were implemented concurrently, the fiscal impact of each would likely be smaller due to shifts in sales from one point of sale to another. Estimates of annual revenue assume full implementation by July 1, 2020. However, some options would likely require additional time to implement.

### Exhibit B-1

#### Expanding Product Distribution Has the Potential to Increase Revenues to Education but Could Be Considered an Expansion of Gambling<sup>1</sup>

Option	Advantages	Disadvantages
<p><b>Internet Sales</b>            Would authorize intrastate internet sales of lottery products and allow players to purchase individual draw games, instant games, and/or subscribe to game drawings for up to one year in advance on the Florida Lottery website; for prizes under a specified amount (e.g., \$600), players would receive automatic credit or the Lottery would mail them a check</p> <p>Implementing this option would require statutory changes to allow player-activated terminals (s. <a href="#">24.105, F.S.</a>)</p> <p>Implementing this option would also require legislative budget approval for enhanced systems and technology</p>	<ul style="list-style-type: none"> <li>▪ Adding internet sales has the potential to generate approximately \$7.9 million to \$23.8 million per year in additional recurring transfers to education depending on whether only draw games or both draw and instant games are offered, respectively<sup>2</sup></li> <li>▪ The Lottery would receive revenues from subscription sales in advance of drawings</li> <li>▪ Could increase retail sales at brick and mortar stores</li> <li>▪ Would provide more convenience to players who prefer to purchase their lottery products from their personal computer or cellular device</li> <li>▪ Key benefits for the consumers would be no missed draws, no waiting in lines, and ease of prize claims</li> </ul>	<ul style="list-style-type: none"> <li>▪ Could be considered an expansion of gambling</li> <li>▪ Must comply with federal laws that require state regulations to include age and location verification to reasonably block access to minors and persons located outside the state</li> <li>▪ As has happened in other states, current lottery retailers may oppose this option due to concerns that they would lose lottery sales commissions and revenues from sales of other in-store products, as players would no longer need to visit a retailer to make a lottery purchase</li> <li>▪ Game changes after subscription tickets are purchased would require communication with players and possibly a replacement ticket</li> <li>▪ Could reduce unclaimed prize funds, as prizes may be automatically credited to players</li> <li>▪ While several states began offering internet sales of lottery tickets in response to a 2011 opinion from the U.S. Department of Justice Office of Legal Counsel providing the legal basis for such sales, the Department of Justice recently reversed that view. At the time of publication of this report, the effect of this latest opinion has not been fully resolved. Therefore, more information would be needed if Florida were to move forward with this option.</li> </ul>

Option	Advantages	Disadvantages
<p><b>Increase Retailer Network</b></p> <p>Add additional corporate and independent lottery retailers in both traditional locations, such as convenience and grocery stores, and non-traditional locations, such as chain drug stores, mass merchandisers, home improvement centers, bars, and restaurants</p>	<ul style="list-style-type: none"> <li>▪ Adding 200 new retailers has the potential to generate approximately \$5.1 million per year in additional recurring transfers to education<sup>3</sup></li> <li>▪ Florida has been below average in terminal density compared to other successful lottery states, so increasing its network could improve per capita sales</li> <li>▪ Could increase product distribution and awareness, making products available to new players who do not shop where products are currently being sold</li> </ul>	<ul style="list-style-type: none"> <li>▪ May require legislative budget approval for more terminals, depending on the extent of growth</li> <li>▪ The non-traditional lottery business model may require the development of different products, compensation frameworks, and distribution strategies</li> <li>▪ May require additional lottery staff to service new accounts</li> </ul>
<p><b>In-Lane Sales</b></p> <p>Would allow players to buy lottery tickets as they go through the individual checkout lanes in locations such as grocery stores, convenience stores, and other trade styles.</p> <p>This option can be implemented in different ways. For example, the retailer can print the lottery ticket on the customer's receipt. Another way is the consumer can select a pre-printed card (similar to a gift card) from a display within the store for a specific number of quick pick draw game entries that are covered with latex, and upon check-out, the cashier scans the bar code on the card to activate. The numbers on the card are then entered into the next drawing. Players scratch the card to reveal their numbers and check their status via information provided on the back of the card.<sup>4</sup></p>	<ul style="list-style-type: none"> <li>▪ Would increase player convenience by enabling customers to purchase lottery tickets in the same line as they purchase other items such as groceries</li> <li>▪ May help with retailer recruitment by allowing new trade styles, such as big box retailers, the opportunity to sell lottery tickets without a lottery terminal or traditional display while still requiring them to be a contracted lottery partner</li> <li>▪ Would expose players to Lottery products at additional points of sale in existing retail locations</li> </ul>	<ul style="list-style-type: none"> <li>▪ May require a great deal of work by the retailer to program their system</li> <li>▪ Depending on the option implemented, there may be limited merchandising opportunities, requiring alternate ways of making players aware of the game option</li> </ul>

<sup>1</sup> Play at the pump has been discontinued nationwide by the vendor Linq3 as a result of its migration with InComm. Previously, seven state lotteries, including California, Georgia, Missouri, New Mexico, New York, North Carolina, and Pennsylvania, offered play at the pump. Linq3 provided the technology platform necessary to allow for the sale of lottery draw games directly at the pump.

<sup>2</sup> We estimated potential transfers from implementing internet sales by using available sales data from nine states that currently offer internet sales. We excluded Pennsylvania from our analysis, as this is the only state that only offers instant games online. Our estimate assumes a transfer rate to the Educational Enhancement Trust Fund of 39.39% for draw only internet sales and 24.32% for both draw and instant internet sales based on the August 2019 Revenue Estimating Conference draw game and scratch-off projected transfers for Fiscal Year 2019-20. The estimate also assumes that 5% of sales would be shifted from existing game sales per the Florida Lottery.

<sup>3</sup> We estimated potential transfer revenues from increasing the retailer network by assuming that the 200 retailers would achieve at least the average weekly gross sales new retailers achieved in Fiscal Year 2018-19. The estimate assumes all 200 terminals being active for a full year and that 20% of their sales would be shifted from existing retailers.

<sup>4</sup> Texas currently implements in-lane sales through sales receipts at one grocery retail chain and through preprinted tickets through one grocery chain retailer and one discount chain retailer.

Source: OPPAGA analysis of lottery industry and Department of the Lottery information.

# APPENDIX C

## Agency Response

RON DESANTIS  
Governor



250 MARRIOTT DRIVE  
TALLAHASSEE, FLORIDA 32301

January 28, 2020

R. Philip Twogood, Coordinator  
Office of Program Policy Analysis and Government Accountability  
111 West Madison Street  
Tallahassee, Florida 32399-1475

Dear Dr. Twogood:

Thank you for the opportunity to respond formally to your office's report: "Review of the Florida Lottery, 2019." We appreciate the diligence of your staff in thoroughly analyzing our performance over the years. Your team assists us in ensuring Floridians benefit from significant funding for the enhancement of education.

The Department spent many months working with your staff to ensure they had the most accurate, detailed, and complete information to compile their report. We also worked with them at every step to answer any questions and clarify any of the information provided. It truly was a team effort and we applaud your team for their professionalism and cooperation during this process.

The Department believes the resulting report will be helpful to us in our work going forward.

We would like to expand upon some of the positive findings with the information below:

- **"Took steps to increase sales"**
  - The Lottery set a record in contributions to education, transferring a total of approximately \$1.9 billion to education in FY18-19. This represents an increase of more than 9% percent, or approximately \$169 million Year-Over-Year.
  - In total, the Lottery has contributed over \$36 billion to education since 1988 and over \$1 billion for the past 17 consecutive years. The Lottery has also helped over 840,000 students receive Bright Futures Scholarships.
  
- **"The department reports that it has achieved efficiencies and savings from new contracts"**
  - In April 2019, the Lottery successfully launched its new and improved gaming system. The upgrade replaced the nearly 15-year-old system software and equipment in each of the Lottery's 13,000+ retail locations across the state. The new system enables the Lottery to sell tickets, process claims, and pay prizes in a more secure manner. It also includes improved technology and retailer enhancements that will create a better overall player experience. Some of the new gaming system features include:
    - self-service ticket checkers that players can use to check their tickets for winners at each retail location;
    - updated servers, terminals, and displays in every retail location;

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- 2,500 touchscreen vending machines;
  - a robust communications network, including an in-state call center to provide hotline services to Florida Lottery retailers;
  - improved security and anti-fraud measures;
  - and streamlined business processing features.
- In October 2019, the Lottery signed a new Scratch-Off contract with Scientific Games that is projected to generate approximately \$127.5 million in additional transfers to education over the next seven-and-a-half years due to contract savings.

OPPAGA's positive findings are a testament to the hard work and dedication of the Lottery staff, as well as the leadership of the Governor and Legislature. We commend OPPAGA for its report.

We would also like to include the following achievements from FY 18-19 and since your review began that exemplify the Lottery's fulfillment of its statutory purpose:

**"To maximize Revenue in a Manner Consonant with the Dignity of the State and the Welfare of Its Citizens" Chapter 24.104, Florida Statutes"**

- In FY 18-19, the Lottery increased its Play Responsibly advertising spend from \$540,000 to \$921,000, which represents an increase of 41 percent. We have enhanced this increase by ensuring that Play Responsibly messaging is incorporated into all our communications, from tickets and Point of Sale material to advertising.
- The Lottery received a certification for responsible gaming from the World Lottery Association (WLA) in December 2019. Florida becomes one of only 15 Lotteries in the United States to have achieved this distinction. The Lottery received the award for its initiatives in employee and retailer training, public education and awareness, product oversight, research and advertising.
- The Lottery launched the Player's Guide in January 2020, a new best-in-class website with detailed information on how to play and win the lottery responsibly. The Player's Guide serves as a one-stop-shop for the latest tips, resources, documents and how-to information for every Florida Lottery player—from beginners to experienced players.

Again, I want to commend your team for producing this thoughtful document. We look forward to working together with you in the future.

Respectfully,



Samantha Ferrin  
Chief of Staff

cc: Dane Dunson, General Counsel  
Andy Mompeller, Inspector General

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# OPPAGA

Office of Program Policy Analysis and Government Accountability

OPPAGA provides performance and accountability information about Florida government in several ways.

- [Reports](#) deliver program evaluation and policy analysis to assist the Legislature in overseeing government operations, developing policy choices, and making Florida government more efficient and effective.
- Government Program Summaries (GPS), an online encyclopedia, [www.oppaga.state.fl.us/government](http://www.oppaga.state.fl.us/government), provides descriptive, evaluative, and performance information on more than 200 Florida state government programs.
- [PolicyNotes](#), an electronic newsletter, delivers brief announcements of research reports, conferences, and other resources of interest for Florida's policy research and program evaluation community.
- Visit OPPAGA's website at [www.oppaga.state.fl.us](http://www.oppaga.state.fl.us).

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OPPAGA supports the Florida Legislature by providing data, evaluative research, and objective analyses that assist legislative budget and policy deliberations. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475).

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