



The Florida Senate

Interim Project Report 2001-018

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Committee on Fiscal Resource

Senator Jim Horne, Chairman

DISPOSITION OF UNCLAIMED PRIZE MONEY – FLORIDA LOTTERY

SUMMARY

Section 24.115(2), F.S., provides that all unclaimed prize money be added to the pool from which future prizes are to be awarded or used for special prize promotions. Historically, the Florida Department of the Lottery has used unclaimed prize money primarily to increase prize payout on instant tickets. This has allowed the Department of the Lottery to increase the prize payout on its instant games from 50 percent to approximately 56 percent of total sales. During the 2000 Legislative Session, legislation was proposed to transfer the unclaimed prize money directly to the Education Enhancement Trust Fund. The Department of the Lottery maintains that more money will be generated for education by reinvesting unclaimed prize money in the form of increased prize payouts for instant games. In the 2000-2001 General Appropriations Act, \$3.4 million of savings realized from the Department of the Lottery's restructuring was authorized to be used for prize payouts instead of being transferred directly into the Education Enhancement Trust Fund. The objective of this project is to monitor the reinvestment of unclaimed prize money into the instant game prize pool, specifically the \$3.4 million, and analyze, if possible, the incremental impact of such reinvestment has on net revenues to education.

BACKGROUND

Florida voters amended the state constitution in 1986 to allow state operated lotteries. A year later, the Florida Legislature passed Chapter 87-65, Laws of Florida, the Florida Public Education Lottery Act, which created the Department of the Lottery (department). The Act codified as Chapter 24, Florida Statutes, and directed the department to establish and operate the state's lottery. Section 24.102, F.S., provides that it is the intent of the Legislature that the net proceeds of lottery games conducted pursuant to this act be used to support improvements in public education and that such

proceeds not be used as a substitute for existing resources for public education. An Administrative Trust Fund for the department, into which money received by the department after payment of prizes and initial compensation paid to retailers is deposited, was created by s. 24.120, F.S. Section 24.121, F.S., provides that as nearly as practical, at least 50 percent of the gross revenue from the sale of lottery tickets shall be returned to the public in the form of prizes paid by the department or retailers. It further provides that each fiscal year, at least 38 percent of the gross revenue is to be deposited in the Educational Enhancement Trust Fund, which is administered by the Department of Education. The department is required to transfer these moneys to the Educational Enhancement Trust Fund at least once a quarter.

The funds in the Educational Enhancement Trust Fund shall be used to the benefit of public education in accordance with the provisions of Chapter 24. Beginning in fiscal year 1997-98 and for 30 years thereafter, a maximum of \$180 million of lottery revenues transferred to the Educational Enhancement Trust Fund shall be reserved as needed and pledged to the payment of debt service on bonds issued by the state on behalf of the Classrooms First Program pursuant to s. 235.187, F.S., or the School Capital Outlay Bond Program pursuant to s. 235.2195, F.S. Section 24.121(5)(e), F.S., requires that all components of the Florida Bright Futures Scholarship Program be funded annually from the Educational Enhancement Trust Fund. Funds shall be allocated to Bright Futures prior to distribution to public schools, community colleges, and state universities. The funds remaining in the Administrative Trust Fund after transfers to the Educational Enhancement Trust Fund shall be used for the payment of administrative expenses of the department. Any unencumbered balance remaining in the Administrative Trust Fund at the end of each fiscal year is transferred to the Educational Enhancement Trust Fund.

Section 24.115(2), F.S., provides that all unclaimed prize money shall be added to the pool from which future

prizes are to be awarded or used for special prize promotions. Historically, unclaimed prize money has been used primarily to increase the prize payout on instant tickets. This has allowed the department to increase the prize payout on its instant games from 50 percent of the total sales to approximately 56 percent of total sales. According to the department, during fiscal years 1994-95 through 1998-99, an average of \$40.8 million in unclaimed prize money has been available for use by the department. The primary use of this money, 86 percent on the average, has been in supplementing the prize pool for instant tickets. Over the years, other uses have been to guarantee holiday time and other jackpots for Lotto, operate the "Lotto Mobile" promotion, and other special promotions. Since July 1, 1997, for every dollar the Florida Lottery has invested in this way, there has been a return of \$4.71 in instant game ticket sales and \$1.79 for educational enhancement.

According to a 1995 report by the House Committee on Regulated Industries entitled *The Use of Unclaimed Lottery Prize Money in Florida*, "Without unclaimed prize funds, all instant ticket games would be restricted to a 50 percent prize structure. Limiting or cutting back on the prize structure diminishes the perceived value of a game and, therefore, the public's interest in that game and the sale of tickets for that game." According to the department, increasing the prize payout on instant games results in an increase in demand and a corresponding increase in sales. The percentage prize payout is significant in that the higher this percentage, the more players win. Increased frequencies of winning have the effect of increasing the entertainment value of the games and ultimately the sales of the games. Players win more lower-tier prizes, which are used in turn to buy more tickets. Players therefore return more of their winnings to the instant games.

During the 2000 Legislative Session, HB 891 and SB 1614 were filed, requiring the transfer of all unclaimed prize money to the Education Enhancement Trust Fund to support the Florida Teachers Lead Program, which is established to provide funds for classroom teachers to purchase supplies to assist teaching in the classroom. The Revenue Estimating Conference concluded at their March 3, 2000, impact conference, that HB 891 and SB 1614 would result in a net decrease in transfers to the Educational Enhancement Trust Fund of \$27.1 million. A new analysis by the Lottery Department, the consistent experience of other lottery states, the 1995 report by the House Committee on Regulated Industries entitled *The Use of Unclaimed Lottery Prize Money in Florida*, and the Revenue Estimating Conference's own previous work on this issue provided the basis for this conclusion.

The Revenue Estimating Conference reviewed several scenarios developed by the Florida Lottery before concluding that the loss of unclaimed prize money as a source of funds to supplement the instant ticket prize pool would result in a \$161.6 million loss in instant ticket sales, and a \$61.4 million loss in transfers to the Education Enhancement Trust Fund. When the amount of unclaimed prize money that is transferred into the Education Enhancement Trust Fund, \$34.3 million, is subtracted, the resulting net annual reduction in the amount of money transferred to the Education Enhancement Trust Fund is \$27.1 million.

The provisions of HB 891 and SB 1614 requiring the transfer of all unclaimed prize money to the Education Enhancement Trust Fund did not pass the Legislature.

In the 2000-2001 General Appropriations Act, \$3.4 million of savings realized from the department's restructuring plan was authorized to be used for prize payouts instead of being transferred to the Education Enhancement Trust Fund.

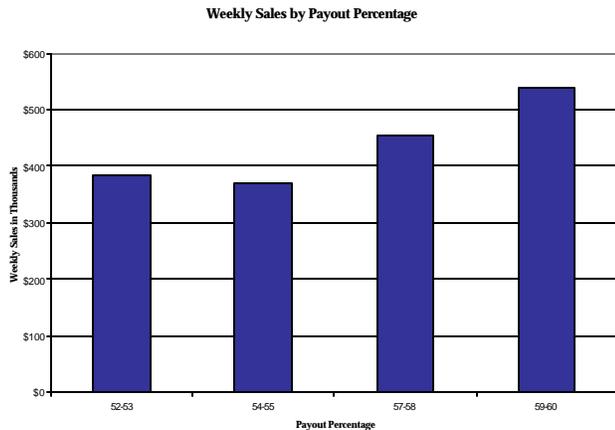
METHODOLOGY

Information for this project was obtained in a number of ways. First, the following reports on unclaimed prize money were reviewed: "The Use of Unclaimed Lottery Prize Money in Florida" by the Staff of the Florida House of Representatives, Committee on Regulated Industries, September 1995, and "Reinvesting Unclaimed Prize Funds In Prize Payouts: A Strategy That Works For Education In Florida", Florida Department of the Lottery, March 13, 2000. In addition, a review was made of the bill analysis for HB 891 and the Revenue Estimating Conference impact conference report on HB 891 and SB 1614. Data was obtained from the Department of the Lottery on the planned uses of the additional \$3.4 million in unclaimed prize money. In addition, information was obtained on the sales experience of seven states that have reduced prize payouts and the resulting reduction in Lottery revenues that ensued.

FINDINGS

To the Department of the Lottery, the significance of the prize payout percentage is that the higher it is raised, the more players win. The increased frequency of winning experiences encourage more sales and enhances the entertainment value for players. The department uses the unclaimed prize moneys to raise payout percentages of instant games. The chart below demonstrates the department's sales experience

resulting from reinvesting unclaimed prize moneys in prize payouts.



Source: "Reinvesting Unclaimed Prize Funds In Prize Payouts: A Strategy That Works For Education In Florida", Florida Department of the Lottery, March 13, 2000.

Reinvesting unclaimed prize money in prize payouts is a strategy used by all other lottery states. Below are the documented sales experiences of seven other states that demonstrate the positive correlation between the prize payout percentage and sales.

Texas – In September 1997, the Texas Lottery reduced the average payout on its \$1 instant games from 60% to 50%, and reduced the average payout on its \$2, \$3 and \$5 games from 65% to 60%. Over the next two fiscal years, Texas Lottery sales of all products were down 31%. In the summer of 1999, the Texas Lottery increased the average payout on its \$1 instant games to 60% and increased the average payout on its \$2, \$3 and \$5 games to 65% - 70%, resulting in improved sales.

California – In fiscal year 1998, the California Lottery increased payout from 50% to 60%, increasing sales by 29% as of June, 2000.

Colorado – In fiscal year 1988, the Colorado Lottery experienced a decline in instant game ticket sales when prize payouts were lowered as a result of an audit comment. In fiscal year 1993, the Colorado Lottery increased payout from 50% to 65%. Sales doubled within one year and current sales have almost quadrupled what they were in fiscal year 1992.

Idaho – From fiscal year 1992 to fiscal year 1998, the Idaho Lottery has increased payout from 58% to 66%, increasing sales 58% as of June, 2000.

Kentucky – In fiscal year 1991, the Kentucky Lottery

increased payout from 58% to 65%, resulting in a 150% increase in sales over an 8 month period

Ohio – From fiscal year 1989 to fiscal year 1997, the Ohio Lottery increased payout from 48% to 63%, increasing sales 100% during that time period.

Washington State - In fiscal year 1993, the Washington State Lottery increased payout from 60% to 65%, increasing sales over the 4-year period by 120%.

The \$3.4 million of savings realized from the department’s restructuring plan which was authorized to be used for prize payout in the 2000-2001 General Appropriations Act, has been used by the department to increase the prize payout percentage for all instant games and to allow for a re-order of a \$5 instant game called “Cowboy Cash”, that has a 65% prize payout. This game was re-ordered because of its tremendous success with Lottery players. Historically, \$5 instant game are only done during the Christmas holiday season. Without the additional \$3.4 million, the department would not have been able to increase all instant games to their current level nor would they have been able to provide the \$5 “Cowboy Cash” game. Table 1 is a comparison between the payout percentages and net sales for each instant game for the 1st quarter of fiscal year 1999-2000 (July 1, 1999 - September 30, 1999) and 1st quarter of fiscal year 2000-2001 (July 1, 2000 - September 30, 2000).

Table 1
FY 1999 and FY 2000 1st Quarter Comparison of Weighted Average Payout Percentage and Net Monthly Sales for Instant Games

| Game | Wt. Avg. FY 1999 1 st Qrt. | Payout % FY 2000 1 st Qrt. | Net FY 1999 1 st Qrt. | Sales FY 2000 1 st Qrt. |
|--------------|---|---|--|--|
| \$1 | 53.07% | 57.07% | \$ 44.9 | \$47.1 |
| \$2 | 55.88% | 59.74% | 46.6 | 53.7 |
| \$3 & 5 | 56.54% | 63.81% | 41.5 | 46.3 |
| Total | | | \$133.0 | \$147.1 |

Net sales of instant games increase by 10.6% between the 1st quarter of fiscal years 1999-2000 and 2000-2001. This 10.6% increase in net sales is attributable to the use of the \$3.4 million to increase the prize payout percentage of instant games. The increase in net revenues of \$14.1 million for the 1st quarter of fiscal year 2000-2001, results in an increase to the Education Enhancement Trust Fund of \$5.4 million over the same time period last year.

RECOMMENDATIONS

Without the availability of unclaimed prize money, the Department of the Lottery would not be able to increase prize payouts for their instant games. Without unclaimed prize money, all instant games would be restricted to a 50 percent prize structure. When the prize payout percentage stays constant or is reduced, players tend to notice that they are winning less often and/or winning less money when they do win. Historically, the reaction

of instant game players is to reduce their frequency and amount of instant ticket purchases. This decline in sales translates into a reduction in revenues generated for the Education Enhancement Trust Fund. Based on the findings of this report, Florida's use of unclaimed prize money to supplement the instant game prize pool, generates significant additional instant ticket sales and revenues to the Education Enhancement Trust Fund.

COMMITTEE(S) INVOLVED IN REPORT *(Contact first committee for more information.)*

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MEMBER OVERSIGHT

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