REVENUE ESTIMATING CONFERENCE

Revenue Source: Lottery - EETF Issue: Lottery Retailer Compensation Bill Number(s): SB 2502 – 2023-24 Implementing Bill

Entire Bill
Partial Bill: Sections 46 and 47
Sponsor(s): N/A
Month/Year Impact Begins: July 2023
Date(s) Conference Reviewed: July 13, 2023

Section 1: Narrative

a. Current Law

Retailer Compensation Structure

Prior to FY 2022 – 23, Lottery retailers earned a <u>5% sales commission</u> on the sale of all lottery tickets and a <u>1% cashing bonus</u> <u>commission</u> on prizes paid by the retailer (under \$600) at their retail location. Retailers were also eligible for retailer incentive promotions that are provided to retailers as bonus commissions or promotional prizes. These types of commissions are funded through a specific retailer incentive appropriation category found in the Lottery's approved budget. For REC purposes the <u>department uses a blended rate of 5.6% to calculate the retailer commission projections</u>.

FY 2022 – 23, pursuant to amendments to chapter 24, F.S., and rule 53ER22-30, F.A.C, the sales commission rate earned by Lottery retailers was increased from 5% to <u>5.75%</u> on the sale of all lottery tickets. <u>The amendments eliminated the Lottery's ability to provide retailers the 1% cashing bonus commission</u> by restricting all other retailer compensation with the exception of the Florida Lottery Retailer Bonus Commission program which includes retailer incentive promotions that are provided to retailers as bonus commissions or promotional prizes.

b. Proposed Change

FY 2023-24 Implementing Bill (SB 2502)

Section 46: (9) Adopt rules governing the establishment and operation of the state lottery, including:

(i) The manner and amount of compensation of retailers, except for the 2023-2024 fiscal year only, effective July 1, 2023, the commission for lottery ticket sales shall be <u>6 percent</u> of the purchase price of each ticket sold or issued as a prize by a retailer. Any additional retailer compensation is limited to the Florida Lottery Retailer Bonus Commission program appropriated in Specific Appropriation 2820 of the 2023-2024 General Appropriations Act. <u>This change removes the 1% cashing bonus that was in place prior to FY 2022-23</u>.

Section 47. The amendment to s. 24.105(9)(i), Florida Statutes, made by this act <u>expires July 1, 2024</u>, and the text of that paragraph shall <u>revert to that in existence on June 30, 2022</u>, except that any amendments to such text enacted other than by this act shall be preserved and continue to operate to the extent that such amendments are not dependent upon the portions of text which expire pursuant to this section.

FY 2023-24 Lottery Rule 53ER23-30 Retailer Compensation.

(1) Sales Commission. Retailers shall be paid a sales commission of 6.00 percent on the purchase price of each Scratch-Off game (also known as an instant game) and each online terminal game ticket sold by them or issued as a prize or free ticket. The number of Scratch-Off tickets sold or issued as prizes will be determined by full or partial book settlements.

(2) Cashing Commissions. There are no cashing commissions.

(3) Sales commissions, including bonus commissions, paid to retailers for Scratch-Off ticket sales shall be subject to recoupment by the Florida Lottery if settled tickets are subsequently returned to the Lottery.

The effective date of this emergency rule is July 1, 2023.

Section 2: Description of Data and Sources

The Lottery currently contracts with over 13,400 retailers around the state to sell draw and scratch-off tickets. Pursuant to section 46 of the FY 2023-24 Implementing Bill (SB 2502), retailers will receive a flat 6.0% commission on all sales. There is no cap on the amount of sales commission a retailer can receive – the more a retailer sells, the more the retailer receives in commissions.

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Section 3: Methodology (Include Assumptions and Attach Details)

To assess the overall impact to the EETF, the Lottery created a comparison chart between the 6% retailer commission rate as amended in the 2023-24 Implementing Bill (SB 2502), to the previous <u>blended rate of 5.6% commission rate used for the calculation</u> factor in the February 2023 adopted REC rate.

To determine the impact of the FY 2023-24 increase in retailer commissions, the department used the February 2023 REC adopted Lottery total ticket sales projections and multiplied them by the approved 6% retailer commission rate. As a result, the difference between the February 2023 adopted EETF transfer amount and the projected FY 2023-24 transfer amount using the 6% commissions rate netted a negative \$37.2 million impact to the EETF.

In FY 2024-25, the calculations reflected a small impact of negative \$67,000 due to the projected collection lag generated in FY 2023-24 from the change in commission rate.

The chart in Section 4 below, provides the projected impact to the EETF Transfers by calculating the difference of the EETF transfer amount at the February 2023 REC adopted rate of 5.6% to the flat rate of 6% implemented in FY 2023-24 only. Based on the language in the implementing bill, the department concludes the REC adopted blended rate of 5.6% will be used for FY's 2024-2028.

Section 4: Estimated Fiscal Impact

Impact to the EETF	Retailer Commissions Increase to 6% for FY 2023-24					
from Retailer	Cash	Recurring				
Commissions Rates						
2023-24	(37.12)	(37.12)				
2024-25	(.67)	(.67)				
2025-26	0.00	0.00				
2026-27	0.00	0.00				
2027-28	0.00	0.00				

Revenue Distribution: Educational Enhancement Trust Fund

Section 5: Consensus Estimate (Adopted: 07/13/23) The Conference adopted the proposed estimate.

	GR		Trust		Local/Other		Total	
	Cash	Recurring	Cash	Recurring	Cash	Recurring	Cash	Recurring
2023-24	0.0	0.0	(37.1)	0.0	0.0	0.0	(37.1)	0.0
2024-25	0.0	0.0	(0.7)	0.0	0.0	0.0	(0.7)	0.0
2025-26	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2026-27	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2027-28	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Florida Lottery Retailer Commission Impact Analysis Based on February 2023 REC Adopted Sales and EETF Transfers

	2023-24	2024-25	2025-26	2026-27	2027-28	
February 2023 REC Adopted Forecast- Retailer Sales Commission		5.6%	5.6%	5.6%	5.6%	5.6%
Instant Game Sales (Scratch + Fast Play)	7,201.03	7,241.09	7,349.71	7,445.25	7,534.59	
Terminal Game Sales		2,246.48	2,251.14	2,256.66	2,262.43	2,268.41
EETF transfer due from current year ticket s	2,306.97	2,316.96	2,340.82	2,362.20	2,382.46	
less collection lag loss		-38.60	-44.52	-50.38	-57.16	-69.07
plus collection lag gain from prior year	72.34	38.60	44.52	50.38	57.16	
Due to EETF from Lottery Receipts	2,340.71	2,311.03	2,334.96	2,355.42	2,370.56	
adjustment for estimated true-up payment	-7.50	-7.50	-7.50	-7.50	-7.50	
	Distribution to EETF from Lottery Receipts					
Distribution to EETF from Lottery Receipts		2,333.21	2,303.53	2,327.46	2,347.92	2,363.00
<i>,</i> ,		2,333.21	2,303.53	2,327.46	2,347.92	2,363.06
Distribution to EETF from Lottery Receipts EETF Impact - Change in Retailer Sales Com	mission for FY2023-24	÷		·		
<i>,</i> ,	mission for FY2023-24	2023-24	2024-25	2025-26	2026-27	2027-28 5.6%
EETF Impact - Change in Retailer Sales Com	mission for FY2023-24	2023-24 6.00%	2024-25 5.6%	2025-26 5.6%	2026-27 5.6%	2027-28 5.6% 7,534.59
EETF Impact - Change in Retailer Sales Com Instant Game Sales (Scratch + Fast Play)		2023-24 6.00% 7,201.03	2024-25 5.6% 7,241.09	2025-26 5.6% 7,349.71	2026-27 5.6% 7,445.25	
EETF Impact - Change in Retailer Sales Com Instant Game Sales (Scratch + Fast Play) Terminal Game Sales		2023-24 6.00% 7,201.03 2,246.48	2024-25 5.6% 7,241.09 2,251.14	2025-26 5.6% 7,349.71 2,256.66	2026-27 5.6% 7,445.25 2,262.43	2027-28 5.6% 7,534.59 2,268.4 2,382.40
EETF Impact - Change in Retailer Sales Com Instant Game Sales (Scratch + Fast Play) Terminal Game Sales EETF transfer due from current year ticket s		2023-24 6.00% 7,201.03 2,246.48 2,269.18	2024-25 5.6% 7,241.09 2,251.14 2,316.96	2025-26 5.6% 7,349.71 2,256.66 2,340.82	2026-27 5.6% 7,445.25 2,262.43 2,362.20	2027-28 5.6% 7,534.55 2,268.41
EETF Impact - Change in Retailer Sales Com nstant Game Sales (Scratch + Fast Play) Terminal Game Sales EETF transfer due from current year ticket s ess collection lag loss		2023-24 6.00% 7,201.03 2,246.48 2,269.18 -37.93	2024-25 5.6% 7,241.09 2,251.14 2,316.96 -44.52	2025-26 5.6% 7,349.71 2,256.66 2,340.82 -50.38	2026-27 5.6% 7,445.25 2,262.43 2,362.20 -57.16	2027-28 5.6% 7,534.5 2,268.4 2,382.4 -69.0

Impact - Increase/Decrease	-37.12	-0.67	0.00	0.00	0.00

-7.50

2,296.09

-7.50

2,302.86

-7.50

2,327.46

-7.50

2,347.92

-7.50

2,363.06

adjustment for estimated true-up payment in next fiscal year

Distribution to EETF from Lottery Receipts