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President

DANIEL WEBSTER
Speaker

THE FLORIDA LEGISLATURE
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DIVISION OF ECONOMIC AND DEMOGRAPHIC RESEARCH

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EDWARD MONTANARO, DIRECTOR
Room 576, Claude Pepper Building
111 W. Madison Street
Tallahassee, Florida 32399-1400
Telephone (850) 487-1402
Fax (850)922-6436
montanaro.ed@leg.state.fl.us

Memorandum

TO: Governor Chiles
President Jennings
Speaker Webster
Senator Dyer
Representative Ritchie

FROM: Ed Montanaro

DATE: February 17, 1998

RE: Alternatives for enhancing lottery earnings

Proviso attached to item 1856 of the 1997-98 appropriations act directed the Economic and Demographic Research Division of the Joint Legislative Management Committee to "coordinate a working group consisting of representatives of the Department of Education, the Department of Lottery, the Executive Office of the Governor and the Legislature to develop a list of possible ways to enhance revenues generated by the lottery." The proviso further stated that "the working group's review should identify the technical advantages and disadvantages of each proposal, suggest implementation and operational alternatives and include estimates as to the economic impact of each alternative." During the summer, a group was convened consisting of the following individuals:

Link Jarrett Department of Education	Barbara Goltz David Colombo Lottery Department	Mike Duckett Governor's Office of Planning & Budgeting

David Beggs
Ellen Fournier
Senate Ways & Means Committee

Carol Dickson-Carr
House Finance & Taxation Committee

John Guthrie
Woody Rodriguez
Senate Regulate Industries Committee

Paul Liepshutz
Paul Whitfield
House Regulated Services Committee

Ed Montanaro
Pam Johnson
Economic & Demographic Research Division

The Working Group investigated and discussed numerous ideas for increasing lottery revenues. However, a number of Working Group members felt it might be inappropriate, given their organizational affiliations, to draw conclusions with respect to the options that were considered. Therefore, the conclusions drawn in this memorandum are my own, and although they were developed in part as a result of the discussions in the Working Group, they reflect my own views of these matters and do not necessarily represent those of any other member of the Working Group or the position of any of the entities by which the group members are employed.

Summary of Options and Limitations

Early in the Working Group's discussions, it became evident that the principal options for substantially increasing the amount of net lottery revenue realized by the state for education consisted of :

1. Introducing an on-line version of quick-draw keno that would be operated directly by the Lottery Department in restaurants, bars and other types of business establishments where groups of people congregate;

2. Permitting existing parimutuel permit holders to introduce electronic gaming devices that would permit visitors to play video poker, video black jack and other types of card games as well as simulate roulette and slot machines under the supervision, though not direct operation, of the Lottery Department; and/or

3. Modifying the requirement that the Lottery Department transfer at least 38% of the ticket sales from instant games to the Educational Enhancement Trust Fund in favor of devoting a larger share to prizes in the hope of generating a larger net dollar amount of revenues for education.

In addition, the Working Group reviewed the strategies used by Florida and other states to sustain player interest. These strategies include:

1. Introducing new forms of the instant game (e.g., break opens);

2. Continuing to augment instant game prizes with unclaimed prizes from instant and

other games;

3. Using unclaimed prizes to augment Lotto jackpots periodically (as is currently done during the month of December);

4. Modifying the prize structure within the Department's existing statutory authority (e.g., the amount allocated to the Grand Prize relative to the smaller prizes in the Lotto and Fantasy Five games);

5. Increasing the number of instant ticket vending machines; and

6. Introducing a new on-line game with a different prize level/structure.

Although these strategies are valuable, and indeed necessary, tools for maintaining player interest in the lottery, none of these strategies, individually or collectively, are likely to bring about the type of substantial and sustainable increase in lottery revenues envisioned in the Working Group's charge. For this reason, the remainder of the report focuses on the options most likely to bring about a substantial recurring increase in lottery revenues: (1) quick-draw keno; (2) video lottery and (3) changes in the prize payouts for instant games.

Finally, because the language of the proviso clearly directed the Working Group to look for ways to "enhance revenues generated by the Lottery," the group concentrated on the financial aspects of the alternatives described above to the exclusion of a variety of (largely) non-economic implications of expanding the Lottery's activities. Some of these--for example, the implications for Native American gaming activities--were investigated enough to ascertain their likely economic impacts, and mentioned only briefly in this memorandum because their implications are largely in the social-legal sphere. Their lack of treatment here is not intended to minimize the importance of the non-economic impacts of expanded lottery activities, but is, instead, a reflection of the Working Group's charge.

Background and History of Lottery Department Operations

It may be useful to begin the discussion of proposed enhancements to the Florida Lottery with a review of existing lottery operations and financial history. Currently the Lottery Department operates 30 instant games (the number varies from time to time), daily Pick-3 and Pick-4 games, a five-day per week Fantasy-5 game and a weekly lotto game. The current statutory allocation of ticket revenues is: at least 50% to prizes; at least 38% to the Educational Enhancement Trust Fund; and the remaining funds to retailer commissions and agency operations.[1] Current year projections are that total ticket sales will reach $ 2,032 million and transfers to the Education Enhancement Trust Fund will be $777.6 million (38.3%).[2]

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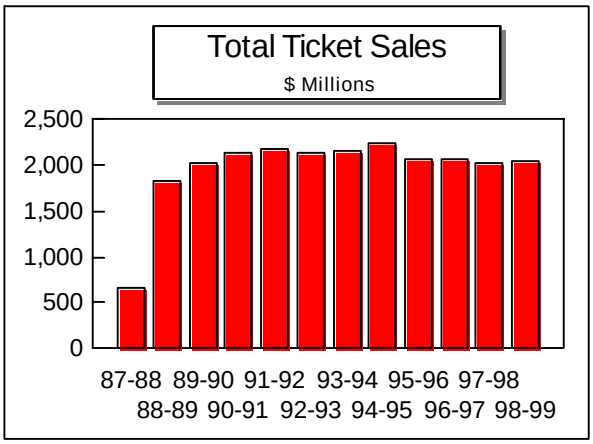
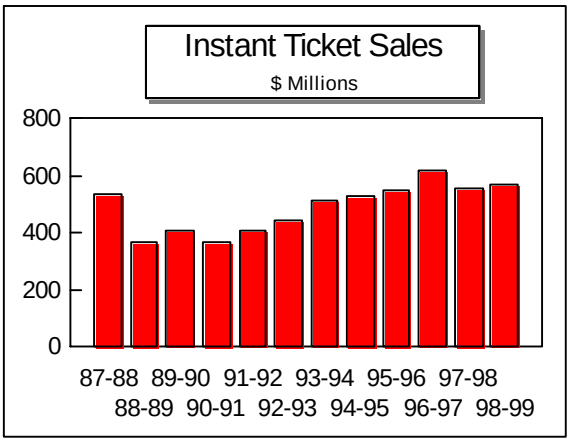
[1]Section 24.121(1) and (2), Florida Statutes.

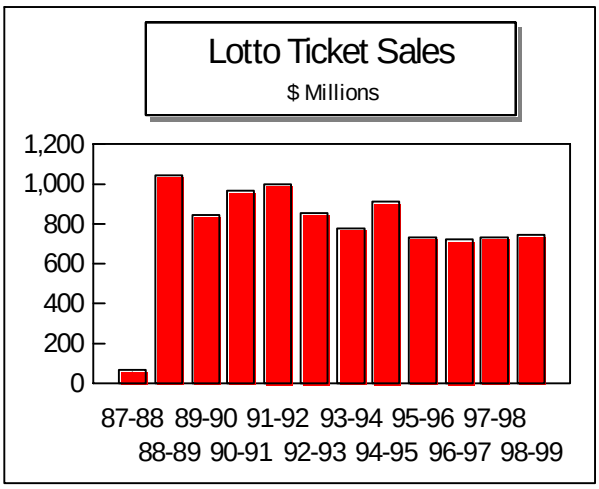
[2]Based on the October 10,1997 Estimating Conference.

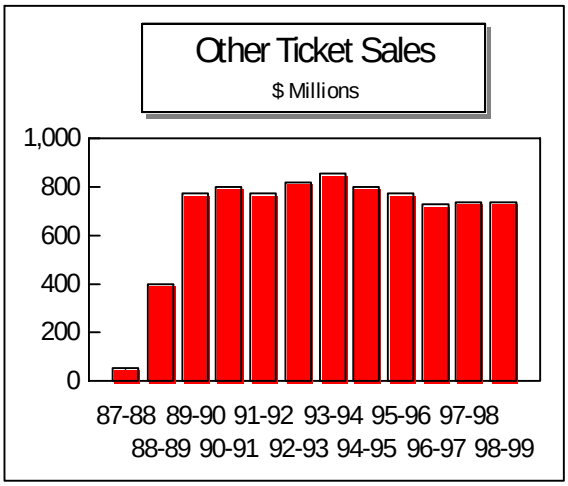
As will be seen from the first set of graphs below, after an initial period of rapid growth, total ticket sales have been flat, or slightly declining. This pattern is common to all state lotteries. Instant ticket sales have grown steadily, but now seem to be flattening out and lotto sales have drifted slowly downward almost from the beginning. Again, these are common patterns for lotteries, particularly in large states, and are attributable to the inherent nature of the lottery business rather than lottery management; after the novelty of the lottery wears off, it becomes increasingly difficult to maintain sales. This point can be seen more clearly from the second set of tables showing per capita ticket sales. A gradual decline in per capita sales is evident in the lotto and "other" games. Growth in per capita sales of instant tickets between 1990-91 and 1996-97 offset the declines in the other games.

Total Ticket Sales

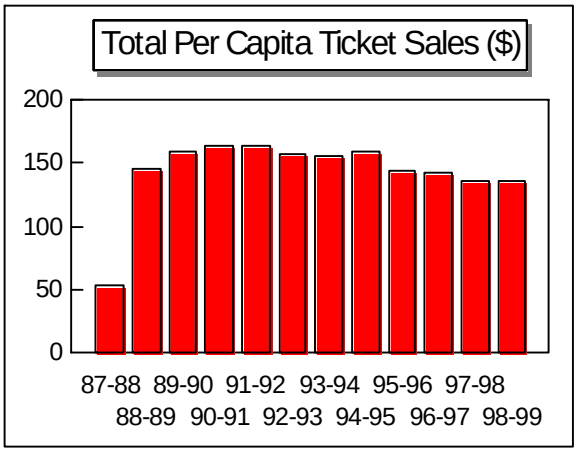


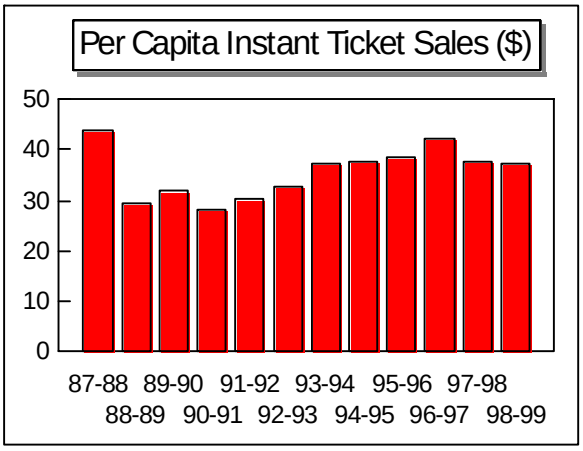


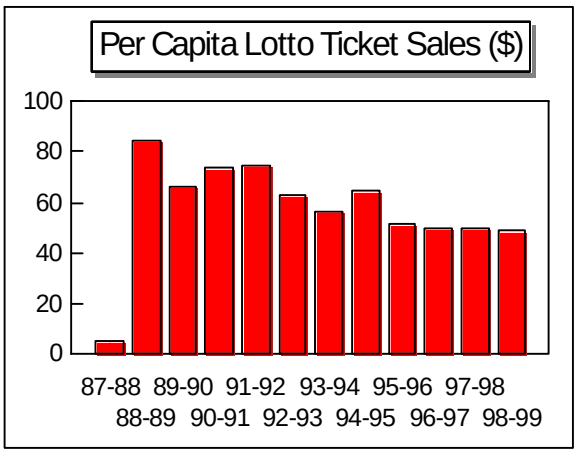


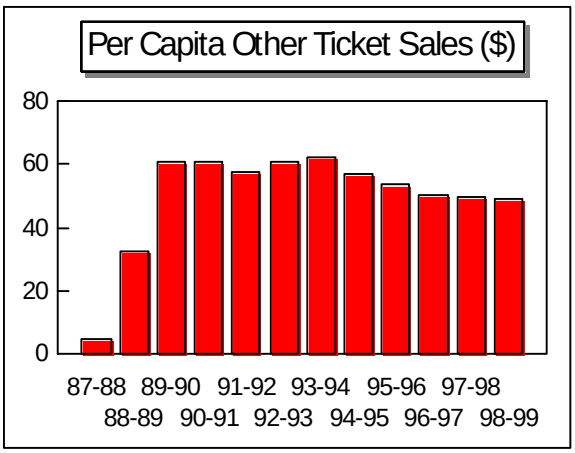


Per Capita Ticket Sales









Total Lottery Ticket Sales

Millions of Dollars

	Total Ticket Sales	Instant Sales	Lotto Sales	All Other Games
87-88	653.6	533.1	64.9	55.6
88-89	1,814.8	365.0	1,046.5	403.4
89-90	2,031.6	409.2	846.2	776.2
90-91	2,139.0	367.3	971.3	800.4
91-92	2,174.6	405.4	998.7	770.5
92-93	2,121.9	442.2	857.9	821.8
93-94	2,152.5	513.8	781.5	857.2
94-95	2,238.1	527.6	911.6	798.9
95-96	2,061.5	551.5	738.9	771.1
96-97	2,070.0	616.2	721.1	732.8
97-98	2,032.0	557.8	735.0	739.2
98-99	2,051.8	567.4	742.0	742.4

Per Capita Lottery Ticket Sales

Dollars

	Total Ticket Sales	Instant Sales	Lotto Sales	All Other Games
87-88	53.95	44.00	5.36	4.59
88-89	146.07	29.37	84.23	32.47
89-90	158.84	31.99	66.16	60.69
90-91	163.15	28.02	74.09	61.05
91-92	163.17	30.42	74.94	57.81
92-93	156.84	32.68	63.41	60.74
93-94	156.27	37.30	56.74	62.23
94-95	159.30	37.55	64.88	56.86
95-96	144.04	38.54	51.63	53.87
96-97	141.87	42.23	49.42	50.22
97-98	136.58	37.49	49.40	49.69
98-99	135.43	37.45	48.98	49.00

Quick-Draw Keno

Quick-draw keno is an on-line lottery game in which players choose as many as 10 numbers from a panel of 80 numbers in the hope of matching their choices to those drawn by the central computer at Lottery headquarters. Though similar in principle to other on-line games, the game is distinguished by very frequent drawings (normally every five minutes) and its nearly interactive character. Keno is normally played in a social setting such as a bar or a restaurant. Players fill out sheets indicating their choices for a number of drawings, have them entered by the personnel of the establishment and then await the outcome of the game. A variety of play formats, wagers and prizes can be made available to players to keep the game interesting. Nine states (Oregon, Kansas, Rhode Island, California, West Virginia, Maryland, Massachusetts, New York, and Georgia) currently operate quick-draw keno games.

Estimates of the revenue potential of quick-draw keno were made by EDR and discussed by the Working Group. Please note that these are very general estimates made under the assumption that the game would be operated under existing statutory authority. To the extent that any additional legislation is adopted that materially restricts the operation of quick-draw keno, the revenue estimate will need to be revised downward. Also please bear in mind that the effective date of the bill as well as the status of any ongoing litigation regarding the on-line games contract may also affect the revenue estimate. For these reasons, please be aware that the final revenue estimates placed on an actual proposal may differ somewhat from those presented here. The estimated net revenue from the operation of a quick-draw keno game is $179.2 million in the first full year of operation and $205 million on a recurring basis thereafter. (The latter figure can be expected to grow slightly in later years as the state's population grows.) Appendix A contains additional material of a technical nature pertaining to these projections.

The principal advantages of this option include the potential for a large recurring increase in revenues from a game that has already been tested in enough other states to demonstrate the relative absence of operational or other types of complications. The on-line game industry has demonstrated its ability to support quick-draw keno and sufficient experience has been gleaned from other states to make the Florida Lottery Department believe in the operational feasibility of the game in Florida.

The principal financial disadvantage of this option pertains to all substantial expansions of lottery ticket sales and is no more pronounced for quick-draw keno than for any other type of expansion; namely, that money must be diverted from other types of economic activity to pay for additional lottery activity. It seems certain that a portion of this activity will be reallocated from other types of lottery games and the estimates presented above and in Appendix A contain an adjustment for the "cannibalization effect." However, because this type of game is played by a somewhat different audience than traditional lottery games, the introduction of rapid draw keno will likely have a relatively small negative impact on traditional lottery ticket sales. It also seems likely that a portion of the money will be diverted from the state's already beleaguered parimutuel gaming industry and an adjustment has been made in the estimates to reflect the loss of state revenues from these sources as well. Beyond those two obvious sources of funds to support the additional gaming activity, it is not clear from which sectors of the economy funds are likely to be

diverted.

The best case scenario is that all of the activity will result from additional tourist spending or spending by tourists who wouldn't have come to Florida but for keno; however, this seems unlikely. Plainly a portion of the money will be spent by tourists, but some of it will have been diverted from money that would otherwise have been spent in Florida. The State government will probably gain from this tradeoff since the effective tax rate on lottery sales is 38% whereas the tax rate on admissions and restaurant meals is only 6%. Thus, to the extent that people (Floridians and tourists) spend less on food and drink and more on keno, the state will be better off (financially). It seems reasonable to suppose, from the continued participation of restaurants and bars in the nine states that currently allow keno, that these establishments have profited from keno both because of the retailer commissions paid by the Lottery Department and because the presence of keno in their establishments may draw additional customers. Were this not the case one would expect these other states to have difficulty in locating keno machines in restaurants and bars, and there is no indication of this problem. The experience of other states suggests that other aspects of spending, or perhaps consumer saving, are being reduced to finance keno expenditures, although it is not clear what types of spending (or saving) have been reduced.

Regardless of whether the money spent on keno comes from reduced spending on taxable restaurant and bar bills, reduced spending on other goods or services, or reduced saving, it is clear that some portion of the $265 million sales (net of prizes returned to players) in economic activity attributable to keno will have been paid for by reductions in spending elsewhere in the Florida economy. The state government will benefit from this relocation of activity because of the relatively high effective tax rate for lottery games, but other unidentifiable sectors of the Florida economy will suffer reduced sales in an amount roughly offsetting the gross dollar value of keno ticket sales to Floridians.[3] Relative to Florida's $400 billion economy, the $265 million projected to be spent on keno is insignificant; however, the loss of sales may not be insignificant in the industries most affected by the loss of revenues.

Video Lottery

The term "video lottery" is a bit of technical shorthand that refers to a collection of wagering-themed games played on video terminals. Terminals may be programmed to permit customers to play poker, blackjack, keno, and bingo or may be programmed to simulate mechanical slot machines or roulette wheels; in short, virtually the entire range of games found in a casino. The lotteries of West Virginia, Rhode Island, and Delaware have video lottery games with the terminals confined to parimutuel facilities. Two other lottery states (South Dakota and Oregon) have "video lottery" games with terminals in other locations, such as restaurants and bars.

[3]To the extent that money for ticket purchases comes from funds that consumers would have spent out of state on vacations or on purchases of goods through the mail or the internet, the loss would be transferred to other states or countries. We have no measure of this amount.

Regardless of whether the Lottery Department (or some other agency) is charged with the responsibility for supervising video lottery games, the games themselves would not actually be operated by the supervising agency in the sense that the Lottery Department currently operates on-line lottery games. In video lottery, each terminal runs independently and may be programmed to run different games and produce different results. The state may, through legislation, determine the type of games that may be played and regulate the conditions of play to some extent--payouts, prize distribution, etc.--but the direct operation of games would *necessarily* be left to parimutuel facility operators because of the nature of the technology involved.[4] The state could also restrict the parimutuel operators to certain approved vendors as a means of assuring some degree of control over the gaming. Although it seems somewhat extreme, a higher level of control could be attained by having the Lottery Department (or some other state agency such as the Division of Parimutuel Wagering) own, install and service the machines. Regardless of how ownership, programming and maintenance are handled, machines may be linked to a central computer at the Lottery headquarters for purposes of monitoring the volume of play and, therefore, the amount of tax owed. In short, the extent to which "video lottery" has anything to do with the Lottery Department is a choice to be made by the Legislature. The range of options runs from minimal oversight to specification of games, machines and procedures. The level of state involvement will affect the percentage of net sales which would be needed to support the services provided.

The Economic and Demographic Research Division made estimates of the potential revenues from "video lottery" and presented them to the Working Group. As with the estimates for quick-draw keno, please note that these are very general estimates made without the benefit of a specific proposed bill and that the revenue estimate for a specific piece of legislation may differ substantially from those presented below. The estimated net revenue from the operation of video lottery at existing parimutuel facilities (and nowhere else) is $184.9 million in the first full year of operation and $194.4 million on a recurring basis thereafter. (The latter figure can be expected to grow slightly in later years as the state's population grows.) Estimates for both types of games assume some negative impact on other lottery games and a reduction in parimutuel tax receipts. However, because this activity will be confined to existing parimutuel wagering sites and because the game designs appeal to a somewhat different audience than do traditional lottery games, the introduction of video lottery will likely have a relatively small negative impact on traditional lottery ticket sales. The estimates presented above are net of these impacts. Specific figures on these impacts are found in Appendix B. Please note that should both quick-draw keno and "video lottery" be started at the same time, or even close to the same time, the two activities may dilute each other's sales. A reduction in the revenue estimate would need to be studied if the Legislature envisions authorizing both quick-draw keno and "video lottery" at the same time.

There are two advantages of permitting "video lottery" at existing parimutuel facilities. The first is the addition of a significant amount of new state revenue. The second is that it may at

[4]It would not be feasible, for example, for someone to play blackjack at a track in south Florida against a remote state-operated computer located elsewhere because the transaction time would make the game frustratingly slow. Current technology would not accommodate with sufficient speed the volume of traffic that would likely be generated by large scale gambling activities.

least delay the decline in the state's parimutuel wagering industry which *directly* employs some 25,000 Floridians, generates about $70 million in tax revenue that is shared with county governments, and provides about $25 million for the general revenue fund, but has been in a state of decline for several years because of competition with other entertainment opportunities, including the lottery.

There are two disadvantages of video lottery. First, money must be diverted from other types of economic activity to pay for additional lottery activity.[5] The second disadvantage involves the controversial matter of the legal status of gaming activities by Native American groups.

In the course of the Working Group's deliberations, one meeting was devoted to the status of Native American gaming in Florida. Jon Glogau of the Attorney General's office briefed the group on the status of the federal law, current enforcement issues and the likely impact of keno and video lottery on Native American gaming in Florida. From his comments it is apparent that the state's legal position might materially change should video lottery be permitted at existing parimutuel facilities. Adoption of video lottery might ultimately permit casino type gambling on Native American lands in Florida.[6]

The presence of casinos, or other gambling operations short of casinos, operated on the lands of Native American groups in Florida would have a variety of effects on the state. An exhaustive review of this issue is beyond the scope of the Working Group's charge; however, the major potential financial issues are listed below. The most obvious financial impacts would be felt by the existing parimutuel industry which would be in direct competition with Native American casinos in many areas. The outcome for the existing parimutuel industry is difficult to predict.

Lottery ticket sales might be affected by the presence of large scale Native American casinos with their typically more favorable odds and more exciting ambience. The impact on tobacco taxes of giving additional people a reason to travel to areas where tax free cigarettes may be purchased is another potential impact. There will be some offsetting revenue impact because the state will share in some of the revenues from Native American gaming. In addition some tourists may come to Florida as a result of the availability of casinos and some tourists who do their gambling on untaxed "cruises to nowhere" will probably transfer their activities to larger land-based casinos. The net impact of these effects is likely to be small and probably slightly positive. Whether these possible net gain to state revenues will offset potential additional costs of regulation and law enforcement as well as other social costs is impossible to say.

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[5]This disadvantage is also applicable to quick-draw keno and all other forms of lottery expansions.

[6]Based on Mr. Glogau's analysis, the risk of enabling Native American casinos as a result of operating a keno game seems very small.

Enhancing the Prize Structure of Florida's Instant Games

For some time, lottery departments throughout the United States have marveled at the success of the Massachusetts lottery's instant games which out perform all other states on a per capita sales basis. The key to their success appears to be the average prize payout level which now stands at 70% in contrast to Florida's 56% for instant games.[7] Beginning in 1983 the Massachusetts lottery gradually increased its prize payout percentage from 50% to 70% with impressive results not only for total sales, but for the state's take as well. For the State of Massachusetts, the tradeoff between accepting a lower percentage share of a much larger base of sales has worked out favorably. In 1983, 50% of instant ticket sales went to prizes and 34% went to the State. The State received $16.5 million as its share of instant ticket sales. Over the next decade the prize percentage rose to 70% and the State's share dropped to 14%, but the receipts of the State rose to $252 million as a result of much stronger sales.

Three other states--Kentucky, Colorado and West Virginia--have implemented a similar strategy in an effort to reverse declining instant ticket sales and have experienced positive results, though nothing close to the Massachusetts experience.

Florida's instant game sales have been relatively stable over the past few years. As can be seen from the earlier graphs, per capita sales grew between 1990-91 and 1996-97 largely due to innovative marketing strategies on the part of the Lottery. Per capita sales in 1996-97 reached $42.20, the highest level since the startup period of 1987-88. The forecast for 1997-98 is for a return to the $37-40 per capita range.

Although no state has yet experimented with reducing the prize payout after it has been increased, no one doubts that sales would decline, perhaps to below previous levels due to player backlash. For this reason, it is believed that once prize percentages are increased, it will not be feasible to reduce them later. This presumed characteristic makes the strategy of increasing prize percentages somewhat risky because it may not be possible to restore the lower prize payouts without incurring further losses in the event that sales do not rise enough to offset the larger prize payouts. The possibility of irreversible consequences suggests that the strategy should be reserved for emergency use rather than as a means of enhancing an already reasonable level of per capita sales.

Some caution is warranted in comparing the situation of Florida with that of the states that experienced increases in sales by increasing prizes at the expense of the state's share. First, in all of these states, sales had been declining prior to implementation of the change, while instant game sales in Florida have been stable. Restoring sales to an earlier level may be quite a different thing from attaining an as yet unreached level of sales, assuming that there is some natural limit to the level of market saturation. Certainly Floridians' appetite for lottery tickets is not unlimited.

Second, it should also be noted that the impressive sales increases experienced by

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[7]Florida's instant game payout level is higher than 50% because of the use of unclaimed prizes from other games to augment the number of winners of instant games.

Massachusetts, Kentucky and Colorado may not be entirely attributable to changes in the percentage of prize payout. Other marketing changes, such as the running of multiple games, as well as other operational changes, occurred simultaneously with the changes in prize percentages and probably contributed to the turn around in sales.

The decision to decrease the state's percentage takeout in favor of a larger prize payout is understandable in the case of state lotteries whose sales are in headlong decline as was the case of the states mentioned above (with the exception of Massachusetts whose sales were stagnant). If decline is inevitable, why not take a risk? However, in the case of a state where performance is adequate, the evaluation of the risk is a much more difficult call.

Some insight into this issue can be gained by examining the recently published results of a study performed by analysts at the Colorado Lottery. Using sales and prize payout data for instant games in 34 states, the report estimates the statistical relationship between the levels of prize payouts and per capita sales. This resulted in the ability to generate an expected sales value for each percentage level of prize payout. Colorado's fixed and variable costs were then compared to the sales levels to estimate net income for each percentage payout level and to determine the profit maximizing prize payout level. The study showed an optimum percentage payout level of 73% for Colorado.

The approach used in the Colorado study is an interesting one and strongly suggests the presence of additional profits from raising the payout levels for instant games. However, a number of important technical aspects of the analysis need further clarification prior to accepting the results of the study as applicable to Florida. First, because of the grouping of the data prior to analysis, estimation of the relationship between sales level and prize payout was done on the basis of only 15 observations, much too small a number to be reliable. It is not clear why this was done since the researchers collected 34 usable observations, still a very small number, but preferable to 15. The report does not explain the reason for this curious transformation.

Second, as even the authors note, there are a number of issues other than the level of prize payout that probably affect sales levels, but no effort has been made to account for these. The EDR staff found this to be especially strange in light of the fact that the researchers indicated that some information was gathered on some of these other factors. The danger here is that a portion of the movement in sales levels may be spuriously attributed to the payout percentage unless other major explanatory factors are included. This, in turn, would result in misestimation of the optimal payout percentage.

The report was made available to the Working Group late in the course of its deliberations; consequently, there has been insufficient time to obtain and re-analyze the data used by the Colorado researchers. The EDR staff have contacted the Colorado researchers and have made arrangements to obtain the data and re-analyze it.

It is very likely that Florida can increase its instant ticket sales by increasing its prize payouts and quite possible that up to some unknown point above the current 56% payout level, the additional profits for education will reward the reduction of their current distribution

percentage. What is not clear is the level of payout that is likely to optimize profits for education. The Colorado study suggests that this figure might be as high as 73%. However, until such time as the Colorado results can be verified it would not be prudent to make any substantial changes in the payout percentages for Florida's instant games, especially in light of the widely held belief that such changes are effectively irreversible. And it is probably worth noting that even the authors of the Colorado study do not recommend that Colorado increase its current 65% payout to the 73% level suggested by their own findings.

cc. Members of the Working Group
Senator Scott
Representative Morroni
Senator Sullivan
Representative Garcia

Appendix A
Revenue Estimates for Keno

Methodology: Per Capita Sales Figures for 9 states which have quick-draw Keno were obtained. $35 annual per capita sales was chosen as a representative number which could reasonably be applied to Florida. Cannibalization of other lottery games was assumed to be a low 10%, while Parimutuel handle cannibalization was assumed to be 8.65%, consistent with assumptions used earlier for other lottery games. It was assumed that all necessary terminals would be available at startup, and that the population would be educated and ready to play as soon as games were made available. The startup date was assumed to be July 1, 1998.

SUMMARY	1998-99		1999-2000	
	Cash	Recurring	Cash	Recurring
Keno proceeds	$201.50	$201.50	$205.02	$205.02
Other lottery proceeds	($20.15)	($20.15)	($20.50)	($20.50)
Parimutuel to GR	($2.19)	($2.19)	($2.23)	($2.23)
Total	$179.16	$179.16	$182.29	$182.29

ASSUMPTIONS	
Keno per capita sales	$35.00
Cannibalization %	10.00%
Parimutuel %	8.65%
Parimutuel tax rate 1998-99	5.30%
Parimutuel tax rate 1999-00	5.30%

	Keno						Impact on other Lottery games				Parimutuel Impact			
	Recurring sales	Net Recurring	Terminal Penetration	Learning Curve	Cash sales	Net Cash	Recurring	Impact on EETF	Cash	Impact on EETF	Recurring Handle impact	Recurring Tax impact	Cash Handle impact	Cash Tax impact
1998-3	$131.7	$50.0	100.00%	100.00%	$131.7	$50.0	($13.2)	($5.0)	($13.2)	($5.0)	($10.3)	($0.5)	($10.3)	($0.5)
1998-4	$132.3	$50.3	100.00%	100.00%	$132.3	$50.3	($13.2)	($5.0)	($13.2)	($5.0)	($10.3)	($0.5)	($10.3)	($0.5)
1999-1	$132.9	$50.5	100.00%	100.00%	$132.9	$50.5	($13.3)	($5.0)	($13.3)	($5.0)	($10.3)	($0.5)	($10.3)	($0.5)
1999-2	$133.4	$50.7	100.00%	100.00%	$133.4	$50.7	($13.3)	($5.1)	($13.3)	($5.1)	($10.4)	($0.6)	($10.4)	($0.6)
1998-99	$530.3	$201.5			$530.3	$201.5	($53.0)	($20.1)	($53.0)	($20.1)	($41.3)	($2.2)	($41.3)	($2.2)
1999-3	$134.0	$50.9	100.00%	100.00%	$134.0	$50.9	($13.4)	($5.1)	($13.4)	($5.1)	($10.4)	($0.6)	($10.4)	($0.6)
1999-4	$134.6	$51.1	100.00%	100.00%	$134.6	$51.1	($13.5)	($5.1)	($13.5)	($5.1)	($10.5)	($0.6)	($10.5)	($0.6)
2000-1	$135.2	$51.4	100.00%	100.00%	$135.2	$51.4	($13.5)	($5.1)	($13.5)	($5.1)	($10.5)	($0.6)	($10.5)	($0.6)
2000-2	$135.7	$51.6	100.00%	100.00%	$135.7	$51.6	($13.6)	($5.2)	($13.6)	($5.2)	($10.6)	($0.6)	($10.6)	($0.6)
1999-2000	$539.5	$205.0			$539.5	$205.0	($54.0)	($20.5)	($54.0)	($20.5)	($42.0)	($2.2)	($42.0)	($2.2)

Appendix B
Revenue Estimates for Video Lottery

Methodology: Per Capita Sales Figures for 3 states which have video lottery confined to parimutuel facilities were obtained. $45 annual per capita sales was chosen as a representative number which could reasonably be applied to Florida. Cannibalization of other lottery games was assumed to be 25%, while Parimutuel handle cannibalization was assumed to be 10%, with slightly higher cannibalization than Keno, because the games would be played in parimutuel facilities. It was assumed that terminals would be fully available after about 1 year, and that the population would begin to play at lower levels than would ultimately be achieved. These estimates assumed a startup date of October 1, 1997.

SUMMARY	1997-98		1998-99		1999-2000	
	Cash	Recurring	Cash	Recurring	Cash	Recurring
Net Terminal Income	$235.0	$669.0	$657.8	$683.6	$691.6	$691.6
To GR (38%)	$89.3	$254.2	$250.0	$259.8	$262.8	$262.8
To Lottery for administration (2%)	$4.7	$13.4	$13.2	$13.7	$13.8	$13.8
To Video Lottery Retailers (50%)	$117.5	$334.5	$328.9	$341.8	$345.8	$345.8
To Awards at Facilities (10%)	$23.5	$66.9	$65.8	$68.4	$69.2	$69.2
Loss to EETF from other Lottery games	($22.3)	($63.6)	($62.5)	($64.9)	($65.7)	($65.7)
Parimutuel Loss to GR	($0.9)	($2.7)	($2.6)	($2.7)	($2.7)	($2.7)
Net State Impact (Video Lottery GR less loss to EETF and Parimutuel GR)	$66.1	$188.0	$184.9	$192.1	$194.4	$194.4

ASSUMPTIONS	
Video Lottery Per Capita Sales	$45.00
Cannibalization %	25.00%
Parimutuel %	10.00%
Parimutuel tax rate 1997-98	5.30%
Parimutuel tax rate 1998-99	5.30%
Parimutuel tax rate 1999-00	5.30%

	Video Lottery				Impact on other Lottery games				Parimutuel Impact			
	Recurring Net Term Income	Terminal Penetration	Learning Curve	Cash Net Term Income	Recurring Sales Impact	Recurring EETF Impact	Cash Sales Impact	Cash EETF Impact	Recurring Handle Impact	Recurring Tax Impact	Cash Handle Impact	Cash Tax Impact
1997-3	$166.0	0.00%	0.00%	$0.0	($41.5)	($15.8)	$0.0	$0.0	($12.4)	($0.7)	$0.0	$0.0
1997-4	$166.9	50.00%	50.00%	$41.7	($41.7)	($15.9)	($10.4)	($4.0)	($12.5)	($0.7)	($3.1)	($0.2)
1998-1	$167.7	60.00%	75.00%	$75.4	($41.9)	($15.9)	($18.9)	($7.2)	($12.6)	($0.7)	($5.7)	($0.3)
1998-2	$168.4	70.00%	100.00%	$117.9	($42.1)	($16.0)	($29.5)	($11.2)	($12.6)	($0.7)	($8.8)	($0.5)
1997-98	$669.0			$235.0	($167.2)	($63.6)	($58.8)	($22.3)	($50.2)	($2.7)	($17.6)	($0.9)
1998-3	$172.1	85.00%	100.00%	$146.3	($43.0)	($16.4)	($36.6)	($13.9)	($12.9)	($0.7)	($11.0)	($0.6)
1998-4	$169.8	100.00%	100.00%	$169.8	($42.4)	($16.1)	($42.4)	($16.1)	($12.7)	($0.7)	($12.7)	($0.7)
1999-1	$170.5	100.00%	100.00%	$170.5	($42.6)	($16.2)	($42.6)	($16.2)	($12.8)	($0.7)	($12.8)	($0.7)
1999-2	$171.2	100.00%	100.00%	$171.2	($42.8)	($16.3)	($42.8)	($16.3)	($12.8)	($0.7)	($12.8)	($0.7)
1998-99	$683.6			$657.8	($170.9)	($64.9)	($164.4)	($62.5)	($51.3)	($2.7)	($49.3)	($2.6)
1999-3	$171.9	100.00%	100.00%	$171.9	($43.0)	($16.3)	($43.0)	($16.3)	($12.9)	($0.7)	($12.9)	($0.7)
1999-4	$172.6	100.00%	100.00%	$172.6	($43.1)	($16.4)	($43.1)	($16.4)	($12.9)	($0.7)	($12.9)	($0.7)
2000-1	$173.2	100.00%	100.00%	$173.2	($43.3)	($16.5)	($43.3)	($16.5)	($13.0)	($0.7)	($13.0)	($0.7)
2000-2	$173.9	100.00%	100.00%	$173.9	($43.5)	($16.5)	($43.5)	($16.5)	($13.0)	($0.7)	($13.0)	($0.7)
1999-2000	$691.6			$691.6	($172.9)	($65.7)	($172.9)	($65.7)	($51.9)	($2.7)	($51.9)	($2.7)