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Reducing Funding and Restricting Options for Lottery Advertising May Be Penny-Wise and Pound-Foolish

As the House and Senate put their versions of the 1998-99 state budget together, legislative leaders asked Florida TaxWatch to review the proposed advertising funding for the Florida Lottery.

Legislative budget committees have recently taken action on proposed Florida Lottery advertising spending that could result in reduced lottery sales and therefore reduce the funding available for education.

Advertising expenditures by the Florida Lottery have remained fairly stable over the years. In fact, the Lottery will spend less on advertising during FY 1998 than it did in 1990. It has not received a increase in its advertising budget in five years.

The Department of the Lottery was appropriated \$32 million in FY 1998 for its advertising and promotion budget. It requested a \$5.6 million increase for FY 1999. The governor included a \$4.8 million increase in his recommended budget, which would raise the advertising level to \$36.8 million. This would allow for an inflationary adjustment for the period in which the advertising budget did not grow.

The House Appropriations Committee does not provide an advertising increase in its current version of the budget, holding the appropriation at the same level it has been at for the last two years. The proposed House budget also states that no funds can be spent to produce or air a television game show (the Florida Lottery currently produces a weekly game show called "Flamingo Fortune.")

The Senate Ways & Means Committee, went even further, reducing the advertising and promotion appropriation to \$28.8 million, which would be the smallest appropriation ever. **It also added proviso language requiring that at least \$8.2 of that amount be spent on outdoor advertising.** The Senate proposal also prohibits the game show and, unlike the House, deletes the \$3.2 million allocated to the television show from the budget, resulting in the \$28.8 million appropriation.

The \$8.2 million mandated by the Senate to be spent on outdoor advertising would more than double the amount the Lottery currently spends on such advertising. At

the current level of outdoor advertising spending, 97% of the state's population already sees a Lottery billboard on average every other day. Billboard advertising is an important piece of lottery advertising strategy since publicizing large pots spur sales. However, only a relatively marginal benefit is probable through increased use of outdoor advertising given the high level of current reach.

Advertising obviously has an impact on sales of products or services. And experience in other states demonstrates that this true for lottery sales. Studies have shown that decreases in lottery advertising spending can have an adverse effect on lottery sales. According to the Florida Department of Lottery, both California and Connecticut experienced significant reductions in sales as a result of reductions in advertising budgets.

Experience also shows that television advertising specifically can be very effective in increasing sales. Florida TaxWatch contacted officials with the Washington State Lottery to inquire about the effect of a television advertising hiatus it attempted. Washington eliminated television advertising during the three to four month summer period in 1993 and 1994 and increased its use of other mediums (radio, billboards, transit, etc.) The Washington Legislative Budget Committee concluded that the lack of television advertising significantly reduced sales and the hiatus was discontinued.

The Washington Lottery's research department also told Florida TaxWatch that increases in their lottery's advertising spending have paid off with a return of nine dollars in increased sales for every dollar of advertising.

The Florida Legislature has acknowledged the key role advertising plays in the success of the Lottery. Section 24.107 (1), Florida Statutes states, "The Legislature recognizes the need for extensive and effective advertising and promotion of lottery games. It is the intent of the Legislature that such advertising and promotion be consistent with the dignity and integrity of the state."

Besides regular advertising objectives of building awareness, customer loyalty and competition with other products, the dissemination of information about changing lottery products is very important. The Florida Lottery introduces at least 15 new instant games each year, necessitating frequent communication with its customers.

There are also some unique characteristics of Florida that add to the need for -- and the cost of -- lottery advertising. Advertising is instrumental in reaching the more than 40 million tourists and additional seasonal residents who visit Florida each year. Florida is also an expensive state for television advertising (the third most expensive in the nation of those states with lotteries.) Florida has a high number of media markets -- ads must be placed in 10 different markets to run statewide. The need for bi-lingual material further increases Florida's advertising costs.

Florida TaxWatch has been one of the foremost proponents of reducing the expenses of the Department of Lottery to ensure that funding for education is maximized. Florida

TaxWatch recommendations were instrumental in reducing the Department's administrative costs. The Department's statutorily allowed expenses have been reduced from 9.5% of revenues to 6.5%, increasing education's share from 35% to 38%. (Prizes comprise 50% of revenues and 5.5% goes to retailers' commissions.) A December 1995 TaxWatch report concluded that the Department has done a commendable job in holding down expenses and had provided an extra \$175 million for education by keeping actual administrative expenses below the maximum allowed by law.

Florida TaxWatch recommends that the Florida Legislature not be penny-wise and pound-foolish by reducing or restricting the Lottery's advertising budget based on anything but market forces. The few million dollars saved in this budget may cost several times that amount in education funding that serves Florida's taxpayers and 2.2 million school children. In addition, absent any data supporting changes, the Legislature should allow the advertising professionals in the Department and its contracted advertising agency to choose the proper mix of advertising media -- and hold them directly accountable for results. The market -- not politics -- should decide how advertising dollars are best spent.

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