



TEXAS LOTTERY COMMISSION

OFFICE OF THE CONTROLLER

PROCEDURE

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PROCEDURE NUMBER

OC-JE-002 [Supersedes OC-JE-002 effective October 29, 2008]

PURPOSE

To provide standard guidelines for projecting and estimating sales for future *Lotto Texas* estimated annuitized jackpot prize amounts that will be advertised.

SCOPE

This procedure applies to the Office of the Controller, the Lottery Operations Division, and the Executive Division.

RESPONSIBILITY

This procedure is primarily the responsibility of the Controller, Financial Operations Manager, Lottery Operations Director, Lottery Products Manager, the Deputy Executive Director, the Executive Director, and designated jackpot team personnel (jackpot team) in the Office of the Controller and the Lottery Products Department. The final approval for the estimated annuitized jackpot to advertise will be provided by the Executive Director.

GENERAL

The Texas Lottery Commission (TLC) jackpot team ensures that *Lotto Texas* sales and other information necessary to estimate the jackpot amount to be advertised is gathered so the Controller, the Lottery Products Manager and the Lottery Operations Director, or their designee(s) may review and recommend estimates and projections that will be presented to the Deputy Executive Director and the Executive Director, or their designee(s). The Executive Director, or their designee, has the sole authority to approve the final projected estimated annuitized jackpot to advertise for *Lotto Texas* Drawings.

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The “Lotto Texas” On-Line Game rule is found in the Texas Administrative Code, Title 16, Part 9, Chapter 401, Subchapter D, Rule 401.305. The Lotto Texas Game rule states, “The jackpot prize for a drawing is the greater of 40.47 percent of the proceeds from Lotto Texas ticket sales for all drawings in the roll cycle and any earnings on an investment of all or part of the sales proceeds, paid in 25 annual installments; or the amount advertised in accordance with subsection (e) of the Lotto Texas On-Line Game Rule as the estimated jackpot for the drawing, paid in 25 annual installments.”

A roll cycle is a series of drawings that ends when there is a drawing for which one or more tickets are sold that match the six numbers drawn in the drawing. A new roll cycle begins with the next drawing after a drawing for which one or more jackpot tickets are sold that match the six numbers drawn in the drawing.

The advertised amount shall be an amount payable in 25 annual installments. To the extent that the advertised amount is based on projected sales, the projections shall be fair and reasonable. The Executive Director, or designee, may approve an increase in the amount of the jackpot originally advertised for a drawing if the increase is supported by reasonable sales projections. The Lottery Products Department will be responsible for notifying all necessary personnel and/or vendors.

REFERENCE

OC-JE-005, *Lotto Texas* Jackpot Payment and Investment

PROCEDURE

I. Timeline

1. The completed Lotto Texas Jackpot Estimation Worksheet shall be presented to the Executive Director no later than 4:00 p.m. on Wednesdays and Fridays.
2. In the event there is a delay in presenting the worksheet to the Executive Director, the jackpot team shall immediately determine the cause for the delay and inform each member of the jackpot estimation team of the cause for the delay.
3. Distribution of estimated jackpot information as outlined in Section VI shall be completed by close of business, or 5:00 p.m. on Wednesdays and Fridays.
4. The advertised jackpot for the current draw may be increased based on revised sales projections, if the Executive Director, or their designee, determines that sales have grown sufficiently to support an increased advertised jackpot. The Executive Director, or their designee, will be consulted regarding the time frame for increasing the advertised jackpot amount.
5. In the event Wednesday or Friday falls on a holiday and management has agreed that the sales trends and jackpot levels are such that an early estimation may be achieved, or if, due to a large jackpot level, a Friday estimation is delayed until Saturday, the above deadlines may be revised as needed.

II. Compile Estimate Information:

1. Determine the Interest Factor: Investment cost information is obtained from the Texas Treasury Safekeeping Trust Company by designated Controller staff and approved by Financial Operations Manager prior to each estimation. Controller staff requests the estimated cost of 25 annual payments to yield the advertised jackpot. The interest

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factor is calculated by dividing the advertised jackpot by the estimated cost, including the initial payment required, to fund an investment stream that would yield the total advertised jackpot over a 25-year period. Note that the investment information may not be obtainable if the appropriate financial institutions and/or brokers are not open for business such as on business holidays. In those instances either a request for the information is made the day before or the prior estimation interest factor is used.

█ Compile actual draw sales for the current drawing: Draw sales for each *Lotto Texas* drawing are recorded both on the █

III. Estimate the Sales and Jackpot Support for the Current and Future Draws:

The Office of the Controller and the Lottery Products Department will independently estimate draw sales and jackpot support for the current *Lotto Texas* drawing and project the jackpot to be advertised for the next drawing in the event of a roll. Estimations may be made on a day prior to Wednesday or Friday if Wednesday or Friday fall on a holiday and management has agreed that the sales trends and jackpot levels are such that an early estimation may be achieved. If the estimation is completed prior to the holiday, at least one member of the estimation team will review sales prior to the drawing for changes in *Lotto Texas* sales or other factors that may impact jackpot prize support. If a revision to the advertised jackpot on the day of estimation or the day of the drawing is necessary, management or their designee(s) will be contacted.

1. Project the *Lotto Texas* draw sales for the current drawing: Estimations are made each Wednesday and Friday. If the draw day is on a Wednesday, estimate sales for that Wednesday. If the draw day is on a Saturday, estimate sales for Friday and Saturday. However, jackpot estimations may be updated at any time if either of the Lottery Products or Controller staff believe that changes in *Lotto Texas* sales or other factors may impact jackpot prize support. Estimate draw sales by using historical sales data and other relevant factors that may impact sales. Combine the actual draw sales to date with the projected draw sales for the remainder of the draw period to calculate the total projected draw sales.
 - a) Evaluate historical sales data: Project the current draw day sales by estimating the expected increase/decrease in sales using the hourly sales trend and/or growth pattern for previous like-day drawings. Hourly sales information for Wednesday and Friday are available from █.
 - b) Other factors to consider in estimating draw sales, along with evaluating historical sales data, include but are not limited to:
 - Wednesday draw sales are generally lower than Saturday draw sales.
 - length of time since a large jackpot was advertised

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- effect of holidays (Holidays generally cause sales to peak early and then fall below average on the holiday.)
- weather throughout the state, especially in key markets
- sales trends for like jackpots and/or most recent roll cycles
- current advertising/promotions schedule
- relevant media issues
- on-line terminal connection problems
- jackpots advertised in neighboring states and similar games such as Mega Millions
- new on-line game launches or other game enhancements
- overall trends in sales over similar time periods
- other - IRS deadlines, spring break, strength of the economy, etc.

It is not necessary to evaluate all these factor for every estimate. Sound judgment should be used in determining which factors to consider.

2. Evaluate Sales Support for the Current Advertised Jackpot: Determine the projected *Lotto Texas* jackpot sales support given the current advertised jackpot.
 - a) If sales proceeds and the *Lotto Texas* prize reserve fund, if applicable, are not sufficient to pay a jackpot prize, the TLC shall use funds from other authorized sources, including the State Lottery Account as identified in Government Code, Section 466.355.
 - b) The advertised jackpot for the current draw may be increased prior to the draw based on revised sales projections, if the Executive Director, or their designee, determines that sales have grown sufficiently to support an increased advertised jackpot.
3. Estimate sales for the next draw in the event of a rollover: To estimate sales for the next draw, use historical sales data and any other relevant information as described in 1.a) and 1.b) above.
4. Project a range of prospective estimated annuitized jackpot prize amounts that may be advertised in the event of a rollover: Use estimated draw sales for the current draw, estimated draw sales for the next draw, and the estimated interest factor to identify a range of prospective estimated annuitized jackpot prize amounts.
 - a) The estimated annuitized jackpot prize amount will automatically be set to four million dollars for the first draw following a draw in which at least one jackpot prize ticket is identified.
 - b) The range of projected estimated annuitized jackpot amounts to advertise in the event of a rollover should reflect at least one million dollars greater than the current advertised jackpot.

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- c) Controller staff will complete a checklist to verify that all prior information is correct and that all of the required steps have been completed.

IV. Approval of Estimated Annuitized Jackpot Amount to Advertise:

1. Office of the Controller and Lottery Products Department personnel should consult with each other regarding the most fair and reasonable sales projections and other factors which may impact jackpot prize support for the estimated annuitized jackpot amount to advertise. Office of the Controller and Lottery Products Department staff will agree on a negotiated sales projection and this information will be presented to the Controller, the Products Manager and Lottery Operations Director or their designee(s), for their independent recommendations to the Deputy Executive Director and the Executive Director. In the event that any member of the above authorized staff is unavailable to sign the jackpot estimation worksheet in person, then approval of the projected estimated annuitized jackpot amount to advertise in the event of a rollover can be authorized and documented by email, pager or phone. Temporary signature authority may be designated to appropriate personnel that will be accountable for jackpot estimation approval. Additionally, this temporary signature authority designation may be granted to an individual on this list of authorized signatures reflected above. For example, the Lottery Operations Director may grant temporary signature authority to the Products Manager thus resulting in two signatures from the Products Manager. Temporary signature authorization is to be in writing, by email or pager, and should specify the effective length of time. Documentation of such approval or delegation shall be kept with the estimation file maintained by Lottery Products Department and a copy of the documentation should be provided to each member of the jackpot estimation team.
 - a) The recommendation of the jackpot amount to advertise in the event of a rollover should typically be based on the “low end” sales support shown at the time of estimation, however, for marketing related purposes there may be instances when the recommended jackpot could be based on an amount exceeding the “high end” sales support.
 - b) The range of potential jackpots to advertise in the event of a rollover should be used by management as a tool to understand the amount of additional funds that may be required to fund the jackpot prize. In the event that “low end” sales do not support a roll from the currently advertised jackpot, the TLC will roll the jackpot in \$1 million increments.
2. In the event one of the authorized staff (Controller, Products Manager or Lottery Operations Director) identified in Section IV.1. is unavailable for signature authority and temporary signature authority cannot be obtained by 4:00 p.m., the matter shall be brought to the attention of the Deputy Executive Director, Executive Director, or person in charge of the agency by Executive Order (in that order), who shall appoint one of the authorized staff identified in Section IV.1. to act instead of the unavailable signatory. The temporary signature authority should be designated to appropriate personnel that will be accountable for jackpot estimation approval.

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3. The recommended jackpot amount to advertise is then presented to the Deputy Executive Director for review and concurrence or disagreement, and ultimately to the Executive Director for final approval of the subsequent (annuitized) jackpot prize amount that will be advertised in the event of a *Lotto Texas* jackpot rollover. The *Lotto Texas Jackpot Estimation Worksheet* presented will state the projected current (annuitized) jackpot prize amount for the current draw. In the event that any member of the above authorized staff is unavailable to sign the worksheet in person, then approval can be authorized and documented by email, pager or phone. Temporary signature authority for the Deputy Executive Director and the Executive Director may be designated to appropriate personnel other than those individuals listed above in Section IV.1 that will be accountable for jackpot estimation approval. Temporary signature authorization is to be in writing, by email or pager, and should specify the effective length of time. Documentation of such approval or delegation shall be kept with the estimation file maintained by Lottery Products Department and a copy of the documentation should be provided to each member of the jackpot estimation team.

4. In the event the Deputy Executive Director or the Executive Director is not available, the matter shall be brought to the attention of the Executive Director or Deputy Executive Director or their designee(s). The Deputy Executive Director or Executive Director shall appoint an authorized person other than those individuals identified in Section IV.1. to act instead of the unavailable signatory. In the event neither the Executive Director or their designee nor the Deputy Executive Director or their designee are available, the matter shall be brought to the attention of the person in charge of the agency by Executive Order who shall designate a substitute signature authority for the absent signatory authority that will be accountable for jackpot estimation approval. This will ensure the reliability and business continuity required for the advertisement of future prospective *Lotto Texas* estimated annuitized jackpot prize amount. Should this occur, the substitute signature authority event shall be documented and kept in the estimation file maintained by the Lottery Products Department and a copy of the documentation shall be provided to each member of the jackpot estimation team. The Internal Auditor, Chairman of the Commission, and each Commissioner should also be provided notification of the substitute signature authority event. Following this notification, documentation should also be placed in the estimation file maintained by the Lottery Products Department.

V. Distribution of Estimated Jackpot Information on the Agency Website:

1. The Office of Controller staff will perform the following:
 - a) After the Executive Director has approved an advertised estimated jackpot under subsection (e) of the *Lotto Texas On-Line Game Rule*, a member of the jackpot team will post the amount of ticket sales, if any, for previous drawings in the roll cycle, the amount of projected ticket sales for the upcoming drawing, investment information used to determine the advertised estimated jackpot, and other information used to determine the advertised estimated jackpot. This may be achieved by uploading a scan of the signed *Lotto Texas Jackpot Estimation Worksheet*.

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b) The interest factor calculated by the agency based on investment information obtained from the Texas Treasury Safekeeping Trust Company and used by the TLC to determine the advertised jackpot will be entered on the [REDACTED] screens for posting to the agency website.

c) The approved estimated jackpot for the next draw in the roll cycle and the approximate cash value of the estimated jackpot will be entered on the [REDACTED] screens for posting to the agency website and will be published after the draw if no jackpot tickets were sold.

d) In addition, the approximate cash value of the jackpot prize amount for four million dollars is entered on the advertised jackpot screens for posting to the agency website and publishing after the draw if a jackpot prize ticket is sold for a drawing.

VI. Distribution of Estimated Jackpot Information:

1. The On-Line Product Specialist or designee:
 - a) Fills in the approved estimated annuitized jackpot prize amount and the associated approximate cash value amount for the next drawing on the [REDACTED]. In addition, the approximate cash value for the annuitized four million dollar starting jackpot amount is also filled in. This form is used to notify the Lottery Operator of the estimated annuitized jackpot prize amount and the associated approximate cash value for the next drawing.
 - b) Faxes a copy of the [REDACTED] to the Lottery Operator for processing.
 - c) Enters the estimated annuitized jackpot prize amount to be advertised in the event of a rollover, the associated approximate cash value for the annuitized amount and the current interest factor, in the [REDACTED] screens. The application is used to disseminate estimated annuitized jackpot information and the associated approximate cash value amount to the agency website as well as to pertinent TLC staff.
 - d) If the application is not functioning and the dissemination of the roll amount cannot be automatically sent, the [REDACTED] form must be physically delivered to the Texas Lottery Computer Room so the agency website can be updated by Information Resources after the drawing results are finalized. Before 5:00 p.m., an e-mail message must be sent to pertinent TLC and vendor staff to notify them of the jackpot prize amount that will be advertised in the event of a rollover.
 - e) Calls the Lottery Operator's control room to verify receipt of the fax and to confirm that the *Lotto Texas* estimated annuitized jackpot prize amount and the approximate cash value is legible. The name of the Lottery Operator staff member and time and date the verification took place shall be kept in the estimation file maintained by the Lottery Products Department.

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- f) Sends a voicemail broadcast message to pertinent TLC and vendor staff, notifying them of the estimated annuitized jackpot prize amount that will be advertised in the event of a rollover.
2. The Office of Controller staff will email the final and approved jackpot estimation worksheet to the Internal Audit Department, the Legislative Budget Board and the Governor’s Office.
- a) Internal Audit Department Contacts:
Assigned Internal Audit Contact – (contact name)@lottery.state.tx.us
 - b) Legislative Budget Board Contacts:
Assigned Budget Analyst - (analyst name)@lbb.state.tx.us
Assigned Revenue Analyst – (analyst name)@lbb.state.tx.us.
 - c) Governor’s Office Contact:
Assigned Analyst, Governor’s Advisor Budget Planning and Policy, (analyst name)@governor.state.tx.us

VII. Distribution of information when the current advertised jackpot prize amount is changed:

If the estimated annuitized jackpot prize amount that is currently advertised is changed prior to the drawing, Lottery Products Department personnel will update the outdoor billboards with the new *Lotto Texas* estimated annuitized jackpot prize amount to advertise and will also contact the advertising agency(s) and the Lottery Operator control room. Media Relations will notify the media that there is a new estimated annuitized jackpot prize amount being advertised.