



TEXAS LOTTERY COMMISSION

OFFICE OF THE CONTROLLER

PROCEDURE

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PROCEDURE NUMBER

OC-JE-005 [Supersedes OC-WP-003 effective April 27, 2006]

PURPOSE:

This procedure outlines steps to be taken after a *Lotto Texas*TM drawing in which a *Lotto Texas*TM jackpot (first prize) ticket is sold.

SCOPE:

This procedure applies to Office of the Controller personnel and the Comptroller of Public Accounts through the Texas Treasury Safekeeping Trust Company (TTSTC)¹.

RESPONSIBILITY:

Office of the Controller personnel, including authorized signatories designated by the Controller, are responsible for administering this procedure.

¹ TTSTC exists and functions by virtue of Subchapter G, Chapter 404, Texas Government Code, and is empowered to manage, disburse, transfer, safekeep, and invest funds and securities as provided by statute or belonging to the State, agencies and local political subdivisions of the State. TTSTC is responsible for submitting requests for trade inquiries, and investment purchases from investment firms that have been approved by TTSTC and/or the Comptroller of Public Accounts. Reference: Texas Government Code §466.403 Payment of Prizes in Installments.

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GENERAL:

Under the “Lotto Texas” On-Line Game Rule, a person may, at the time of making a play, select the option for payment of the cash value of a share of the jackpot if the play is a winning play. Except as provided below, a person who is entitled to a share of a jackpot prize and who did not opt to receive the cash value of the jackpot prize shall receive payment in 25 annual installments. If a person would otherwise receive total installment payments of \$2 million or less, the Texas Lottery Commission (TLC) shall pay the person, upon completion of all validation procedures, a single payment in the amount of the cash value of those total installment payments. The cash value is the cost on the first business day after the applicable drawing of funding those installment payments. Upon Lotto Texas jackpot results reporting one or more tickets sold with a matching combination of numbers, and when indicated, Controller personnel will contact the Comptroller of Public Accounts acting by and through TTSTC, on the following working day (trade date).

The 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 first business day after the Lotto Texas drawing, the [REDACTED] will be provided by Information Technology. The [REDACTED] will identify the payment option(s) chosen at the time of purchase. The Pool Snapshot from the OLPM will identify the percentage of sales applicable to the jackpot prize. The [REDACTED] will be emailed by the lottery operator to the TLC as secondary reports to reflect the information from the prize ticket(s).

Ref: 16 Texas Administrative Code §401.305 “*Lotto Texas*” On-Line Game Rule.

PROCEDURE:

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 proceeds from ticket sales, 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.

If sales proceeds and the Lotto Texas prize reserve fund 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.

TTSTC will provide upon request either a “Lottery Prize Schedule” or a “Lottery Financing Calculator.” Either report supplies the necessary information to calculate the cost of investment or the cash value. The Lottery Prize Schedule may be provided to reflect the purchase of a stream of investments.

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Description	Lottery Prize Schedule	Lottery Financing Calculator
Amount to be invested for 24 years.	Payment (column total)	Cost of Zeros
Initial Installment	Initial Payment	Cash Payment
Additional sales contribution available. (To be added to the initial installment.)	Difference between the sum of the invested amount over 24 years plus the initial payment compared to the total sales contribution for the jackpot prize.	Difference between the sum of the invested amount over 24 years plus the cash payment compared to the total sales contribution for the jackpot prize.

Review of the annuity & cash value estimate and use of the information to complete the Lotto Texas Drawing Results & Reserve Entry Form: The available sales contribution for the jackpot prize is found on the [REDACTED] screen for Lotto Texas. If the “Total Cost of 25 Payments” is less than the “Amount Available,” the difference “Additional Sales Contribution,” is added to the jackpot prize amount. If the “Total Cost of 25 Payments” is more than the “Amount Available,” the difference is paid from the reserve or from other authorized sources, including the State Lottery Account as identified in Government Code, Section 466.355.

1. The annual payments option paid in one payment:

- 1.1. If it appears that the funds may not be sufficient to pay each share of the jackpot prize in an amount greater than \$2 million, the designated employee will request an annuity & cash value estimate to yield the advertised jackpot from TTSTC on the first working day following the Lotto Texas drawing. If it is determined that the cash value of each share is less than the amount required to pay a prize over 25 years *equal to or less than \$2 million*, the prize will be paid, upon completion of all validation procedures, in a single payment in the amount of the cash value of those total installment payments. The cash value is the cost on the first business day after the applicable drawing of funding those installment payments. Because the prize will be paid in a single payment, do not return a signed annuity & cash value estimate to TTSTC.
- 1.2. The designated employee will review the annuity & cash value estimate and use the information to complete the Lotto Texas Drawing Results & Reserve Entry Form. The sales contribution for the jackpot prize is found on the [REDACTED] screen for Lotto Texas. If the “Total Cost of 25 Payments” is less than the “Amount Available,” the difference “Additional Sales Contribution,” is added to the jackpot prize amount. If the “Total Cost of Prizes” is more than the “Amount Available,” the difference is paid from the reserve or from other authorized sources, including the State Lottery Account as identified in Government Code, Section 466.355.
- 1.3. The designated employee will provide the annuity & cash value estimate, the [REDACTED] and the signed Lotto Texas Drawing Results &

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Reserve Entry Form to the Controller or other authorized signatory. The Controller or other authorized signatory will review the information for completeness and accuracy and will sign the form.

1.4. Until such time as the Lotto Texas prize reserve fund is depleted, the designated employee will update the Lotto Texas Prize Reserve spreadsheet using the information on the [REDACTED] and the information on the Lotto Texas Drawing Results & Reserve Entry Form. This step must be completed for all Lotto Texas drawings. See addendum for information acquired from the [REDACTED]. The Lotto Texas Drawing Results & Reserve Entry Form provides the amount of funds taken from the prize reserve or from other authorized sources including the State Lottery Account to fund the jackpot prize.

2. The annual payments option paid in 25 installments:

2.1. If it is determined that each share of the annuitized jackpot prize may provide a total payment stream for 25 installments greater than \$2 million, including any additional sales contribution, the designated employee will request an annuity purchase from TTSTC on the first working day following the Lotto Texas drawing. TTSTC shall be instructed to purchase an investment stream that will provide an initial payment plus 24 subsequent annual payments that will yield a total prize that is equal to the advertised jackpot. In the event that funds are sufficient to pay a jackpot prize that is greater than the advertised amount, additional sales may be added to the initial payment.

2.2. If more than one jackpot prize ticket is sold and the prize per share does not divide equally by the number of shares, it is preferable, to purchase separate investments for each jackpot prize ticket sold. Due to 16 Texas Administrative Code Game Rule §401.310 Payment of Prize Payments upon Death of Prize Winner a sale of an annuity may be approved by the Commission. Therefore, the annuity will need to be divided equally among all shares in the event the Commission needs to sell a separate share.

2.3. TTSTC will provide, by facsimile or other acceptable method, the Lottery Prize Schedule to the designated employee. The schedule should reflect the par value over 24 years, the first maturity year following the date of the draw, and the cost of each investment. The designated employee and an authorized signatory will review the schedule for completeness. To complete the purchase, the document must be signed by an authorized signatory and returned to TTSTC promptly.

2.4. The designated employee will complete the Lotto Texas Drawing Results & Reserve Entry Form. Once completed, the designated employee will provide the Lottery Prize Schedule, the [REDACTED], and the signed Lotto Texas Drawing Results & Reserve Entry Form to the Controller or other authorized signatory. The Controller or other authorized signatory will review the information for completeness and accuracy and will sign the form.

2.5. Until such time as the Lotto Texas prize reserve fund is depleted, the designated employee shall update the Lotto Texas Prize Reserve spreadsheet using the information on the [REDACTED] and the information on the Lotto Texas Drawing Results

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& Reserve Entry Form. This step must be completed for all Lotto Texas drawings. See addendum for information acquired from the [REDACTED]. The Lotto Texas Drawing Results & Reserve Entry Form provides the amount of funds taken from the prize reserve or from other authorized sources including the State Lottery Account to fund the jackpot prize.

- 2.6. The first installment payment shall be made upon completion of commission validation procedures. The subsequent 24 installment payments shall be made annually on or about the 15th day of the month in which the applicable drawing occurred. The second through 24th installment payments shall be in equal amounts. The first installment payment may be equal to or higher than the subsequent installment payments.

3. **The Cash Value Option calculation:**

- 3.1. The prize will be paid, upon completion of all validation procedures, in a single payment in the amount of the cash value of those total installment payments. The designated employee will request an annuity & cash value estimate (non-purchase) from TTSTC the first working day following the Lotto Texas drawing. Do not return the signed annuity & cash value estimate to TTSTC. The prize amount will be a share of 40.47 percent of total sales for the roll cycle; or the cost on the day after the drawing of funding a share of installment payments.
- 3.2. The designated employee will review the annuity & cash value estimate to complete the Lotto Texas Drawing Results & Reserve Entry Form. If the “Cost of 25 Payments” is less than the “Amount Available”, the difference “Additional Sales Contribution” is added to the jackpot prize amount. If the “Total Cost of 25 Payments” is more than the “Amount Available,” the difference is paid from the Lotto Texas prize reserve or from other authorized sources, including the State Lottery Account as identified in Government Code, Section 466.355.
- 3.3. The designated Office of the Controller employee will provide the annuity & cash value estimate, the [REDACTED], and the signed Lotto Texas Drawing Results & Reserve Entry Form to the Controller or other authorized signatory. The Controller or other authorized signatory will review the information for completeness and accuracy and sign the form.
- 3.4. Until which time as the Lotto Texas prize reserve fund is depleted, the designated employee will update the Lotto Texas Prize Reserve spreadsheet using the information on the [REDACTED] and the information on the Lotto Texas Drawing Results & Reserve Entry Form. This step must be completed for all Lotto Texas drawings. See addendum for information acquired from the [REDACTED]. The Lotto Texas Drawing Results & Reserve Entry Form provides the amount of funds taken from the prize reserve or other authorized sources including the State Lottery Account to fund the jackpot prize.

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4. The Combination of CVO and annual payments option:

- 4.1. If more than one jackpot prize ticket is sold and if the tickets include at least one annual payment option ticket and one cash value option ticket refer to instructions in “B” above for payment of all annual payment shares and refer to “C” above for payment of all CVO shares.
- 4.2. A separate annuity & cash value estimate from TTSTC will not be requested for the cash value calculation. The Lottery Prize Schedule provided by TTSTC for the purchase of the annual payment option(s) will be used to determine the cash value.

5. For all Lotto Texas drawings in which a jackpot prize ticket is sold:

- 5.1. After each drawing, the [REDACTED] system will send an update to the general ledger to reflect any reductions in the prize reserve fund, used to pay the guaranteed fourth prize. If a transfer from the reserve is required to fund the jackpot prize category, a manual general ledger entry must be made by a designated general ledger employee. The designated employee will provide the Lotto Texas Drawing Results & Reserve Entry Form and the [REDACTED] screen to the designated general ledger staff for each drawing in which a jackpot prize ticket is sold.
- 5.2. The Lotto Texas Drawing Results & Reserve Entry Form, the [REDACTED], the Lottery Prize Schedule or the annuity & cash value estimate from TTSTC, and any other related prize calculation paperwork will be provided to the prize payment staff.
- 5.3. The designated employee will send an e-mail to inform certain lottery staff on the Jackpot Information e-mail distribution list, of the number of jackpot prize tickets sold for the drawing, the payment method(s) selected, the initial payment, the subsequent 24 payments (if applicable), and/or the total jackpot prize amount, the date of subsequent payments (if applicable), the advertised jackpot amount, and the amount of the bonus to be received by the qualifying retailer(s).
- 5.4. The TLC will pay a bonus of one percent (1%) of the Lotto Texas advertised jackpot or the jackpot based on sales (advertised plus additional sales contribution), whichever is greater, up to \$500,000 for any drawing, to the retailer(s) who sell(s) the jackpot-winning ticket(s). The one percent Lotto Texas retailer bonus is pari-mutuel. That is, should there be multiple jackpot winners with winning tickets sold by more than one retailer, the one percent bonus will be divided equally between the retailers.

Winner Payment Processing

Refer to procedure OC-WP-001, **Processing Prize Payments**.

Once the jackpot prize ticket has passed the internal validation process, the ticket is declared a valid winning ticket and the winner is declared. The designated prize payment employee prepares a Lotto Texas Payment Schedule based on the information obtained for the calculation of the prize. The schedule will be reviewed by the Controller or other

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designated staff prior to distribution. The Lotto Texas Payment Schedule will be provided to the winner and the Products Department staff. A copy of the payment schedule will remain in the winner's file. If two or more jackpot prize tickets are sold, a payment schedule will be created for each jackpot prize winner.

Addendum: Lotto Texas Prize Reserve fund

The Lotto Texas prize reserve fund is composed of all reserve funds remaining based on the prior Lotto Texas game rules. The Lotto Texas prize reserve fund may be decreased if the cost of the advertised jackpot paid over 25 years is greater than the sales contribution for the jackpot prize level. The Lotto Texas prize reserve may also be decreased if the total liability for the fourth prize exceeds the sales contribution for the fourth prize level. The Lotto Texas prize reserve fund may be used only for the Lotto Texas game.

The prize amounts for each drawing paid to each Lotto Texas player who selects a matching combination of numbers for prize level one, two, and three will vary because they are pari-mutuel prizes. Prize category four is a guaranteed prize (fixed prize) of \$3.00.

The pari-mutuel prize amounts, except the jackpot prize amount, are based on the total amount in the prize level for the Lotto Texas drawing distributed equally over the number of matching combinations in each prize level. The calculation of pari-mutuel prize for levels two and three will automatically be calculated by [REDACTED]. An amount of exactly fifty cents shall be rounded up to the nearest whole dollar. Any part of the second or third prize for a drawing that is not paid in prizes shall be carried forward and shall become part of the second or third prize tiers, respectively, for the next drawing. Therefore, prize levels two and three will not impact the Lotto Texas prize reserve fund.

If proceeds from Lotto Texas ticket sales and the Lotto Texas prize reserve fund are not sufficient to pay all jackpot prizes or fourth level prizes for a draw, the commission shall use funds from other authorized sources, including the State Lottery Account as identified in Government Code, Section 466.355.

Addendum: [REDACTED] Report

- “Tot” sales are the total amount of sales for the current draw.
- “Level” is the prize level for all prizes in the current draw.
- The transfer of cash contribution from the reserve fund or other authorized sources for the fourth prize level is calculated as the funds available for the fourth prize level less total liability. The transfer of additional funds to the jackpot prize, if applicable, is obtained from Lotto Texas Drawing Results & Reserve Entry Form.
- The “sales contribution” for each prize level is the percentage of sales attributed to each prize level.
- “Tot Liability” is the total liability for each prize level which is the number of prize tickets sold multiplied by the prize amount.
- “Breakage” is the amount remaining in each prize level after all prizes are paid for the drawing.