

News From **The Lotto Report**

For Immediate Release

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"The Racing Form of the Texas Lottery"

Publisher

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Texas Lottery Proposing “Flexible” Payout Rules

For the third time in 8 months, Lotto Texas players have asked the Texas Lottery Commission to specify in the game rule what percentage of sales 6 of 6 winners will receive when they match 6 of 6 numbers. However, the Dec. 21 proposed rule still does not specify a figure that 6 of 6 winners will receive - on the contrary, the new rule still states that 6 of 6 winners “may” receive 68.24% of the prize pool. But last October 2001, the TLC said they would re-write the rule enabling them to pay the greater of either the amount advertised or the amount allocated from sales which is a minimum of 37.532% of sales or 68.24% of the prize pool.

“When Comptroller John Sharp originally wrote the Lotto Texas rule back in 1992, the rule stated that 6 of 6 winners “shall” receive a very specific percentage of the prize pool. But in 1997, the TLC changed the word “shall” to “may” which gave the TLC flexibility in the amount they could pay the 6 of 6 winners. The TLC staff never discussed this language change during the open meetings,” explained Dawn Nettles, owner and publisher of www.lottoreport.com and a bi-weekly publication titled, *The Lotto Report*.

The Lotto Texas rule has fixed percentages or guaranteed amounts for all prize categories except for the amount 6 of 6 winners are to receive. “I think it’s terribly unfair to the players. This past May and August, the TLC received over 1500 comments on this very subject, yet, the TLC came back with another proposal that still says the same thing. Now, I have more comments of opposition to turn in from the players,” said Ms. Nettles. “How many times is the TLC going to make us comment on the same subject and who is going to see that players are treated fairly?” Ms. Nettles asked.

The latest Lotto Texas proposed rule change was published in the Dec. 21st edition of the *Texas Register* and players were given 30 days to comment. This will be the third time players comments are turned over to the TLC - players have requested that the rule guarantee 6 of 6 winners a minimum fixed percentage of sales that they are to receive should they win. “If the TLC wants to pay more than the fixed percentage so they can guarantee the amount they advertise, that’s fine. But players should absolutely be guaranteed to receive a minimum fixed percentage of sales and it should be written in the rule like it originally was in 1992. This would be the first step in insuring the integrity of the TLC,” Ms. Nettles emphasized.

In the December proposed rule, the TLC is further proposing to delete a sentence that says, “no prize amount shall be less than \$5.” The TLC explains that due to the 4 of 6 prize being a “pari-mutuel” payout, then there is a remote possibility that the 4 of 6 players could actually receive less than \$5 while the 3 of 6 prize is a guaranteed \$5 prize.

"If there is even a remote possibility that players who match 4 out of 6 numbers could ever receive less than a 3 of 6 player, then this is a clear indication that the amounts allocated to the 4 of 6 prize is not enough," said Dawn Nettles.

The TLC added four balls to Lotto Texas in July 2000. With that rule change, the TLC re-structured the percentages paid for each prize category. The 4 of 6 category was substantially reduced from 18% to 12.51% while the 3 of 6 was increased from 11% to 12.18%. The reserve fund, which is needed when a lottery guarantees a fixed prize amount such as the guaranteed \$5 prize for matching 3 of 6, was increased from 2% of 50% of sales up to 2% of 55% of sales when they adopted the new rule in May 2000.

Since the inception of Lotto Texas in Nov.1992 through Jan 20, 2002, approximately *\$447,448,797 was allocated for paying 3 of 6 winners but only \$411,599,940 was held in winning tickets by players who matched 3 of 6 numbers. At the same time, the TLC withheld approx *\$80,165,431 in reserve which was intended for use when the 3 of 6 direct prize category did not have sufficient funds to pay all of the 3 of 6 prizes. (* Figures are approximate because total sales from the Jan. 19, 2002 drawing were estimated.)

The rule refers to funds in the "direct prize category" - which are funds from the current draw - and the "indirect prize category" - which are the funds carried over from the last draw. The calculation of the prize amounts are rounded down so that prizes can be paid in multiples of whole dollars. The carry-overs are to be paid to the next group of winners for each respective prize category except the 3 of 6 prize. The excess 3 of 6 funds were the only funds that were to be placed in the reserve fund. The original rule stated that the reserve fund could increase or decrease by paying Lotto Texas prizes and from roll-over amounts from the 4th prize (3 of 6 prize).

Additionally, the TLC has an "unclaimed prize fund" consisting of funds players actually won but never did claim. The monies in the unclaimed prize fund is transferred each year to teaching hospitals.

The Lotto Texas rule states that the prize pool "shall" be a minimum of 55% of sales. "Players are suppose to receive 55% of sales - though players never saw \$116,014,288 that was actually in the players prize pool. How can players receive a 'minimum of 55% of sales' when the TLC hasn't paid out this \$116,014,288. It's quite evident the TLC doesn't need a reserve fund to pay the 3 of 6 prizes - they've allocated entirely too much money for the prize category and they keep an extra 2% of the prize pool. So why don't they re-evaluate and correct the prize structure? There is something seriously wrong should a 4 of 6 winner ever receive less than a 3 of 6 winner with all this excess money being available," Ms. Nettles said.

Liz Wikstrom, an avid lotto player from Houston who opposes the rule change, made her point with this scenario. "Let's say you start a new job and your boss tells you: "If you work hard and get 50 folders typed today, I will pay you an extra \$20.00 but if you only get 20 folders typed today, I will pay you an extra \$40.00." I am sure a 6 year old child can think more reasonably than the people working at the TLC..."

Jim Ellis from San Antonio wrote a lengthy letter to the TLC. It said in part, "I oppose any rule that would not be specific about the percentage that the winner would receive. That is like saying go ahead and put up your money, if you win then I will tell you how much. Get real."

Larry Foster, a loyal Pick3 player who commented on the recent proposed rule to conduct twice daily drawings for the Pick3 game wrote, "The TLC feels the need for greed and I for one will not participate. The Pick3 is a game, not an occupation, and we play for fun. I can't believe the TLC would be foolish enough to try this one, one might say they are LOTTO TERRORIST."

Bill Conley from Cedar Hill wrote, "I've expressed my sentiments twice about the necessity I feel it is for the game rules to reflect the amount each prize group will receive when they win playing any Texas lottery games. If, in the end, the rule states, "the direct prize category "may" be 68.24% of the prize pool for the drawing" then my comment to the Texas Lottery is that I "may" play the lotto in the future too.

Comments of opposition have come in from across the state as a result of www.lottoreport.com. "I think it's really sad that the TLC doesn't send out press releases as a way to keep the people informed of their rule changes. Kim Kiplin, General Counsel of the TLC, admitted during a Commissioners meeting that the TLC had received no comments in favor of the proposed rule changes. Quite frankly, many players feel it is a waste of their time to comment again because the TLC totally disregards their comments. Players are angry and frustrated - they feel cheated and that's one reason sales are down. Maybe this is why the TLC is proposing the same thing again ... they are banking on players not commenting so they can get this rule through," Nettles concluded.

In other lottery related news, the **State Council on Competitive Government** (CCG) released a report last week advising that the TLC should:

1. Not be allowed to purchase broadband equipment - the TLC did not perform an extensive long-term cost benefit analysis needed to support a decision to purchase broadband equipment.
2. Allow their two ad agencies to communicate with each other. The CCG found that non-communication between the agencies resulted in overlapping media buys and wasted revenues. The TLC has not allowed the two agencies to communicate with each other independently.
3. Have a 5 year marketing plan - the TLC had no marketing plan in place during the entire 1st quarter of fiscal 2002 but approved advertising strategies.
4. Do a cost benefit analysis on each new game and before introducing expanding games. This month, the TLC proposed to expand the Pick3 game to twice daily drawings though the TLC never did a cost benefit analysis prior to proposing this rule.
5. Use general funds to pay for minority vendor recruiting. The TLC used funds from the games advertising budget to pay for minority recruiting resulting in less advertising for the games.
6. Reduce the staff in Customer Service. Both the State Auditor and the CCG found that 9 full time employees were not needed to answer 300 to 350 calls per day, 2 or 3 pieces of traditional mail and 180 emails per week.

The next Commissioners meeting is tentatively scheduled for Feb 12 at TLC headquarters. The Commissioners could adopt this rule during that meeting.

For more information regarding the activities of the TLC, visit www.lottoreport.com.