



TEXAS LOTTERY COMMISSION

OFFICE OF THE CONTROLLER

PROCEDURE

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PROCEDURE NUMBER

OC-JE-002 [Supersedes OC-JE-002 effective October 2, 2009]

PURPOSE

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

SCOPE

This procedure applies to staff of the Texas Lottery Commission.

RESPONSIBILITY

The final approval for the estimated annuitized jackpot amount to advertise will be provided by the Texas Lottery Commission Executive Director.

GENERAL

The Texas Lottery Commission (TLC) ensures that *Lotto Texas* sales and other information necessary to estimate the jackpot amount to be advertised is utilized in preparation of the jackpot estimation. The Executive Director, or their designee, has the sole authority to approve the final projected estimated annuitized jackpot amount to advertise for *Lotto Texas* Drawings.

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."

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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.

PROCEDURE

I. Timeline

1. 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.
2. 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.
3. 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 prior to each estimation. Commission staff requests the estimated cost of 25 annual payments to yield the advertised jackpot. The interest 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.
2. Compile actual *Lotto Texas* draw sales for the current drawing.

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

Commission staff will 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.

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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 Commission 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.
 - 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
 - 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 for games such as Mega Millions and Powerball
 - 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 are not sufficient to pay a jackpot prize, the TLC shall use funds from 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.

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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.

IV. Approval of Estimated Annuitized Jackpot Amount to Advertise:

1. 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.
2. 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.
3. The recommended jackpot amount to advertise is presented 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.

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

1. The Commission 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*, Commission staff will post to the agency website the amount of ticket sales, if any, for previous drawings in the roll cycle, the amount of projected ticket sales for the upcoming drawing,

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investment information used to determine the advertised estimated jackpot, and other information used to determine the advertised estimated jackpot.

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 posted 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 posted 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 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, Commission personnel will communicate the new *Lotto Texas* estimated annuitized jackpot prize amount to advertise to all pertinent TLC and vendor staff. Media Relations will notify the media that there is a new estimated annuitized jackpot prize amount being advertised.