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March 1, 2012

NOTICE OF EMERGENCY RULE DECISION BY THE SECRETARY OF STATE

AGENCY: Lottery Commission

RULE: 179CSR1 State Lottery Rules

DATE FILED AS AN EMERGENCY RULE: February 27, 2012

DECISION NO. 2-12

Following review under W. Va. Code §29A-3-15a, it is the decision of the Secretary of State that the above emergency rule is **approved**. A copy of the complete decision with required findings is available from this office.

A handwritten signature in black ink that reads "Natalie E. Tennant".

NATALIE E. TENNANT
Secretary of State

EMERGENCY RULE DECISION
(ERD 2-12)

AGENCY: Lottery Commission
RULE: 179CSR1, State Lottery Rules
FILED AS AN EMERGENCY RULE: February 27, 2012

- par. 1 The WV Lottery Commission has filed the above amendment to an existing rule as an emergency rule.
- par. 2 W. Va. Code §29A-3-15a requires the Secretary of State to review all emergency rules filed after March 8, 1986. This review requires the Secretary of State to determine if the agency filing such emergency rule: 1) has complied with the procedures for adopting an emergency rule; 2) exceeded the scope of its statutory authority in promulgating the emergency rule; or 3) can show that an emergency exists justifying the promulgation of an emergency rule.
- par. 3 Following review, the Secretary of State shall issue a decision as to whether or not such an emergency rule should be disapproved [§29A-3-15a].
- par. 4 (A) Procedural Compliance: W. Va. Code §29A-3-15 permits an agency to adopt, amend or repeal, without hearing, any legislative rule by filing such rule, along with a statement of the circumstances constituting the emergency, with the Secretary of State and forthwith with the Legislative Rule-Making Review Committee (LRMRC).
- par. 5 If an agency has accomplished the above two required filings with the appropriate supporting documents by the time the emergency rule decision is issued or the expiration of the forty-two day review period, whichever is sooner, the Secretary of State shall rule in favor of procedural compliance.
- par. 6 The Commission filed this emergency rule with supporting documents with the Secretary of State February 27, 2012 and with the LRMRC February 27, 2012.
- par. 7 It is the determination of the Secretary of State that the Commission has complied with the procedural requirements of W. Va. Code §29A-3-15 for adoption of an emergency rule.
- par. 8 (B) Statutory Authority -- W. Va. Code §§29-22-5 reads:

§29-22-5. State lottery commission; powers and duties; cooperation of other agencies.

(a) The commission has the authority to:

(1) Promulgate rules in accordance with chapter twenty-nine-a of this code: Provided, That those rules promulgated by the commission that are necessary to begin the lottery games selected shall be exempted from the provisions of chapter twenty-nine-a of this code in order that the selected games may commence as soon as possible;

(2) Establish rules for conducting lottery games, a manner of selecting the winning tickets and manner

of payment of prizes to the holders of winning tickets;

(3) Select the type and number of public gaming systems or games, to be played in accordance with the provisions of this article;

(4) Contract, if deemed desirable, with the educational broadcasting authority to provide services through its microwave interconnection system to make available to public broadcasting stations servicing this state and, at no charge, for rebroadcast to commercial broadcasting stations within this state, any public gaming system or games drawing;

(5) Enter into interstate and international lottery agreements with other states or foreign countries, or any combination of one or more states and one or more foreign countries;

(6) Adopt an official seal;

(7) Maintain a principal office and, if necessary, regional suboffices at locations properly designated or provided;

(8) Prescribe a schedule of fees and charges;

(9) Sue and be sued;

(10) Lease, rent, acquire, purchase, own, hold, construct, equip, maintain, operate, sell, encumber and assign rights of any property, real or personal, consistent with the objectives of the commission as set forth in this article;

(11) Designate one of the deputy directors to serve as acting director during the absence of the director;

(12) Hold hearings on any matter of concern to the commission relating to the lottery, subpoena witnesses, administer oaths, take testimony, require the production of evidence and documentary evidence and designate hearing examiners and employees to so act; and

(13) To make and enter into all agreements and do all acts necessary or incidental to the performance of its duties and the exercise of its powers under this article.

(b) Departments, boards, commissions or other agencies of this state shall provide assistance to the state lottery office upon the request of the director.

(c) Upon the request of the deputy director for the security and licensing division in conjunction with the director, the attorney general, department of public safety and all other law-enforcement agencies shall furnish to the director and the deputy director such information as may tend to assure the security, honesty, fairness and integrity in the operation and administration of the lottery as they may have in their possession, including, but not limited to, manual or computerized information and data. The director is to designate such employees of the security and licensing division as may be necessary to act as enforcement agents. Such agents are authorized to investigate complaints made to the commission or the state lottery office concerning possible violation of the provisions of this article and determine whether to recommend criminal prosecution. If it is determined that action is necessary, an agent, after approval of the director, is to make such recommendation to the prosecuting attorney in the county wherein the violation occurred or to any appropriate law-enforcement agency.

par. 9 It is the determination of the Secretary of State that the Commission has not exceeded its statutory authority in promulgating this emergency rule.

par. 10 (C) Emergency -- W. Va. Code §29A-3-15(f) defines "emergency" as follows:

(f) For the purposes of this section, an emergency exists when the promulgation of a rule is necessary for the immediate preservation of

the public peace, health, safety or welfare or is necessary to comply with a time limitation established by this code or by a federal statute or regulation or to prevent substantial harm to the public interest.

par. 11 There are essentially three classes of emergency broadly presented with the above provision: 1) immediate preservation; 2) time limitation; and 3) substantial harm. An agency need only document to the satisfaction of the Secretary of State that there exists a nexus between the proposal and the circumstances creating at least one of the above three emergency categories.

par. 12 The facts and circumstances as presented by the Commission are as follows:

The West Virginia Lottery generates revenue for the State of West Virginia by selling online and instant scratch off tickets that consumers trust. The impeccable reputation of the Lottery as a traditional game provider is imperative for continued successful generation of the millions of dollars of annual revenue from these ticket sales that the State Relies on for a multitude of initiatives affecting a wide range of citizens and activities, including seniors, education and tourism.

Enacting an emergency rule is critical for the Lottery to continue distributing prize winnings to its players in a timely manner. Under the current rule, the Prize Disbursement Account must be a zero balance demand deposit account. This restriction has resulted in over 200 overdraft items since January 1, 2011, a quarter of which occurred in the last quarter alone. Because of regulatory scrutiny, the bank informed the Lottery that effective February 1, 2012, it would charge a fee for each overdraft and has refused to cash any mor checks from the Prize Disbursement Account without a carrying balance in the account. The Lottery maintains adequate funds in its Treasury account; however, the overly restrictive rule prevents a transfer for payment until a check is actually written. This practice is counter to any reasonable or responsible banking practice. Even though the total prize payout percentage over the life of a game is predetermined, no monies may be transferred until a player comes to the Lottery headquarters to claim a prize. The same applies to on-line games, such as Powerball and MegaMillions, with rapidly rising jackpots that often result in multi-million dollar payouts. This situation presents serious and potentially devastating customer service issues for the Lottery and poses a threat to ongoing sales of Lottery products.

Some winners claim prizes by mailing the ticket to the Lottery and receiving a check by mail. However, the vast majority of winners claims a prize in person and immediately receives a check for that prize after the ticket is validated. The validation of the ticket, issuance of the check, and the initial transfer of the funds are all performed by the Lottery. The actual transfer to the bank is ultimately accomplished by the Auditor and the Treasurer. By the time this process is complete, the winner has had plenty of time to cash the check, resulting in an overdraft. The bank has suggested several options to the Lottery that provide overdraft security, such as utilizing a line of credit or transferring a balance to hold in the account to avoid overdraft fees, none of which is permitted under current law.

The Lottery therefore proposes to remove the restriction that requires this

account to be a zero balance account so that the Lottery may maintain a modest cushion to prevent any future overdrafts for prize payments. The Lottery will continue to maintain its primary revenue accounts in the Treasury. Both the Auditor's office and Treasurer's office have been consulted in crafting a solution to this issue and have indicated that they would be supportive of this effort.

par. 13 It is the determination of the Secretary of State that this proposal qualifies under the definition of an emergency as defined in §29A-3-15(f). . . "immediate preservation of public peace, health, safety or welfare".

par. 14 This decision shall be cited as Emergency Rule Decision 2-12 or ERD 2-12 and may be cited as precedent. This decision is available from the Secretary of State and has been filed with the Lottery Commission, the Attorney General and the Legislative Rule Making Review Committee.

A handwritten signature in black ink, reading "Natalie E. Tennant", written in a cursive style. The signature is positioned above a horizontal line.

NATALIE E. TENNANT

Secretary of State

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