Commissioners: Robert G. Rivera, Chairman Cindy Fields Mark A. Franz Clark E. Smith

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RECEIVED By Opinion Committee at 1:32 pm, Feb 14, 2025

TEXAS LOTTERY COMMISSION

Ryan Mindell, Executive Director

LaDonna Castañuela, Charitable Bingo Operations Director

RQ-0582-KP

February 14, 2025

The Honorable Ken Paxton Office of the Attorney General P.O. Box 12548 Austin, Texas 78711-2548

Dear General Paxton:

Pursuant to Section 402.042 of the Texas Government Code, I respectfully request an official opinion on several questions relating to the Texas Lottery Commission's (TLC's) authority over lottery ticket courier companies (couriers) whose business involves commercial transactions where a person purchases a lottery ticket on behalf of a different person.

A brief discussion of the background regarding courier services and the TLC's relevant jurisdiction under the State Lottery Act, Chapter 466, Texas Government Code (SLA), may provide useful context for the questions on which I seek your opinion.

Courier Services in Texas

Couriers are service providers that take orders from customers online, either through an Internet website on a computer, or by using an application on a mobile device. Upon receipt of funds from a customer, the courier sends a representative to purchase lottery tickets in person from a licensed brick-and-mortar lottery retailer with whom the courier has a private business arrangement. The courier transmits a scanned image of the ticket to the customer and retains the ticket until it is determined to be a winning or non-winning ticket. By law, winning tickets with prizes of \$600 or more must be claimed at a Texas Lottery claim center and the courier will arrange to deliver those tickets to the customer to be claimed.

Our understanding is that most courier transactions involve the purchase of draw game tickets where a drawing to determine a winner occurs at a later time. But some couriers also sell scratch ticket games where winners (and non-winners) are pre-determined and a ticket's winning status can be determined at the time of purchase. The courier will sometimes offer a "digital play" experience for scratch tickets where the customer can remove a digital representation of latex from the picture of the scratch ticket.

We understand that couriers differ in operational details. For instance, we are aware of some couriers who purchase tickets from established Texas Lottery retailers with whom the courier does

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¹ SLA §466.402.

not have any special affiliation. Other couriers have created their own separate legal entities that can obtain a retailer's license; in this arrangement, the courier and the retailer are under common ownership. Some couriers accept customer orders exclusively via an application on a mobile phone/device, while others accept orders via a (non-telephone) computer. Some couriers may take orders both ways. Regardless of the potential differences, all couriers charge a fee for their service to purchase and manage their customers' tickets. Some media articles have described this service as analogous to an "Uber Eats" service for lottery tickets.² Accordingly, in many scenarios a retailer may have no idea whether the individual who purchases a lottery ticket in person at the point of sale is buying the ticket for himself, a relative, a neighbor, or a courier's customer.

Couriers began operating in Texas sometime between 2015 and 2019. The TLC has noted this development in both its Agency Strategic Plan and Agency Business Plan for the last several years. The TLC also noted the burgeoning industry and the TLC's lack of clarity on whether it could regulate couriers in several open meetings³ and as the agency's sole Major Issue in its Sunset Self-Evaluation Report as it started Sunset review.⁴ The Legislative Budget Board estimated couriers in Texas accounted for about \$173 million in fiscal year 2023, which represents more than 9 percent of TLC's total draw game sales.

Some couriers, prior to starting operations, have asked whether they need to obtain licenses or other forms of permission before performing their contemplated services in Texas. Based on the couriers' descriptions of their services (described above), the TLC determined the SLA does not require a courier to obtain a license or other authorization from the TLC. This conclusion is based on the TLC's determination that the downstream transaction between a courier and a customer does not appear to involve a regulated sale of lottery tickets like the courier's original purchase of a ticket from a retailer at the point of sale. Accordingly, there appears to be no existing statutory authority for the agency to regulate couriers as if they were lottery sales agents. Just as the TLC cannot regulate a father buying scratch-off lottery tickets for his children's Christmas stockings⁵ or an office creating a pool to purchase tickets,⁶ the TLC has concluded it cannot regulate individuals purchasing tickets in person on behalf of another individual with effective consent.

The TLC's Authority Under the State Lottery Act

The TLC is charged with generating revenue for the State of Texas to fund public education and veterans' services through the responsible management and sale of lottery tickets. Thus, the TLC has both an operational role with respect to running the lottery, and a regulatory role focused on the licensing and regulation of retailers who sell lottery tickets and the payment of prizes to holders of winning tickets.

² See Susanna Sudborough, Jackpocket Bets on Becoming Uber Eats of Lottery Tickets, AUSTIN AMERICAN STATESMAN (June 27, 2019) at A1.

³ See TLC Commission Meeting Transcript, April 13, 2023 at 25-26; TLC Commission Meeting Transcript, June 21, 2023 at 22-28; TLC Commission Meeting Transcript, August 17, 2023 at 45-47; TLC Commission Meeting Transcript, August 7, 2024 at 34; TLC Commission Meeting Transcript, October 29, 2024 at 17 and 42.

⁴ See Texas Lottery Commission Sunset Self-Evaluation Report, September 2023 at 115-17.

⁵ See SLA §466.405 (establishing that minors may be entitled to prize money on winning tickets).

⁶ See SLA §466.015 (authorizing the TLC to adopt rules to govern the division of a prize among members of a group purchase pool).

<u>Interpreting the TLC's statutory authority</u>. As a state agency, the TLC is mindful that its authority comes from the Legislature. In interpreting the scope of its authority, the TLC is keenly aware that gambling is a sensitive topic. It is a primary aim of the TLC to be respectful of the opinions of Texans who are opposed to gambling and the expansion of gambling. Accordingly, in the absence of express statutory authority, the TLC interprets its authority (including any "implied powers")⁷ narrowly, without seeking to expand its jurisdiction beyond the plain meaning of the language in the SLA. We understand this to be the appropriate approach for construing statutes as stated by Texas courts.⁸

For instance, the SLA contains no reference to the Internet and does not expressly prohibit the sale of lottery tickets via the Internet. However, the TLC understands the Legislature's concern regarding the use of the Internet in connection with the lottery and has publicly stated its position on several occasions: The sale of tickets over the Internet is a significant policy decision best determined by the Legislature. In the absence of express statutory authority, the TLC has no intention of pursuing Internet lottery ticket sales.⁹

The TLC has taken a similar approach to courier services. As with the Internet, the SLA does not address the activities of third-party courier services. This determination was confirmed in the last legislative session by the Senate Research Center in its analysis of the committee substitute for S.B. 1820 (relating to the prohibited play and facilitation of play of a lottery game by telephone or through the Internet). ¹⁰

Courier activities involve entities other than, and in addition to, a licensed retailer. A courier's activities occur prior to and following the purchase of a lottery ticket in person at a licensed brick-and-mortar retail location, activities not expressly addressed in the SLA. Thus, as with the issue of the TLC selling lottery tickets via the Internet, the TLC believes that the regulation or prohibition of courier service is a significant policy decision best determined by the Legislature. The TLC is concerned that, if it asserted jurisdiction over courier service without express authority,

⁷ The TLC understands that "when the Legislature expressly confers a power on an agency, it also impliedly intends that the agency have whatever powers are reasonably necessary to fulfill its express functions or duties," but, in determining the TLC's implied powers under the SLA, we are mindful of the admonition of Texas courts that "an agency has no authority to 'exercise what is effectively a new power, or a power contradictory to the statute, on the theory such a the [sic] power is expedient for administrative purposes." *Liberty Mut. Ins. Co. v. Adcock*, 412 S.W.3d 492, 494 (Tex. 2013) (citing *Pub. Util. Comm'n of Tex. v. City Pub. Serv. Bd. of San Antonio*, 53 S.W.3d 310, 316 (Tex.2001)).

⁸ See Liberty Mut. Ins. Co., 412 S.W.3d at 494 ("The plain meaning of the text, given the context of the statute as a whole, provides the best expression of legislative intent"); Entergy Gulf States, Inc. v. Summers, 282 S.W.3d 433, 437 (Tex. 2009) ("The meaning of a statute is a legal question..... Where text is clear, text is determinative of that intent....") (internal citations omitted).

⁹ "The TLC strongly believes that conducting lottery drawings via the Internet and the sale of lottery tickets via the Internet are both policy decisions best determined by the Texas Legislature. In the absence of express authority, the TLC has no intention of pursuing Internet lottery sales or conducting drawings via the Internet." TLC Brief to the Attorney General of Texas in Opinion Request RQ-1037-GA at 2-3 (Feb. 22, 2012). "[W]e have concluded that, since the State Lottery Act neither expressly authorizes nor prohibits the Internet sell [sic] of lottery tickets, that the sale of Texas Lottery tickets over the internet is a significant policy decision best determined by the Legislature. As a result, in the absence of such express authority, we have no intention of pursuing internet lottery sales." TLC Commission Meeting Transcript, Feb. 2, 2012 at 54 (Statement of Gary Grief).

¹⁰ See Senate Research Center Bill Analysis of C.S.S.B. 1820 of the 88th Legislature at 1 ("Third-party couriers are not comprehended in current law....").

it would be interpreting its implied powers too broadly, contrary to the Legislature's expectations, by exercising "what is effectively a new power ... on the theory such . . . [a] power is expedient for administrative purposes," contrary to Texas law.

The TLC closely follows the directives of the Texas Legislature and would promptly implement the regulation or prohibition of courier services, should it be authorized by the legislature, either explicitly or implicitly in statute. But the TLC is also mindful of the limits on its authority, and does not seek to expand its powers without legislative directive. The TLC is uncertain what authority exists with respect to courier services and is hesitant to assume jurisdiction without clear direction. The TLC is also concerned about giving the appearance of arbitrary enforcement by selectively asserting jurisdiction on some—but not all—persons that purchase tickets for another person.

<u>Licensing retailers</u>. The TLC interprets its jurisdiction over the sale and redemption of lottery tickets, as it is relevant to a discussion of couriers, as encompassing two "windows" of activities: (1) the licensing and oversight of Texas Lottery ticket sales agents (retailers), including enforcing requirements governing the in-person sale of lottery tickets at a physical, licensed location, and (2) the payment of prizes, either by a licensed retailer (for prizes under \$600) or at a TLC claim center (for any prize). This discussion will focus on the licensing and regulation of retailers as it relates to their relationship with couriers.

Two SLA provisions address the standards for the TLC to approve, suspend, or revoke a retailer's license. SLA §466.155(a)¹² is the more detailed of the two statutes, essentially setting forth a checklist of eligibility criteria (see Attachment 1 hereto). The other licensing statute, SLA §466.151(e),¹³ provides that the Lottery Operation Director may license a person only if "the director finds that the person's experience, character, and general fitness are such that the person's participation as a sales agent will not detract from the integrity, security, honesty, and fairness of the operation of the lottery." While the SLA elsewhere contains several criminal offense statutes enforced by law enforcement agencies, the TLC's enforcement authority as set forth in §466.155 is limited to the suspension or revocation of a retailer's license. The SLA does not specify that the sale of a lottery ticket to a person other than the person who is playing that lottery game is a basis for suspension or revocation.

<u>Prohibition of playing a lottery game/selling tickets by telephone</u>. As noted above, the SLA contains no reference to courier services, nor to use of the Internet in connection with the purchase and sale of lottery tickets. However, the SLA does contain a single reference to the TLC's duty under its rulemaking authority to adopt rules "governing the ... enforcement of prohibitions on a person playing a lottery game by telephone." The SLA does not further address such prohibitions, their scope, or what they entail. Pursuant to that statutory authority, for decades the TLC by rule has prohibited licensed retailers from selling tickets by telephone. From time to time, the TLC

¹¹ Liberty Mut. Ins. Co., 412 S.W.3d at 494.

¹² (Denial of Application or Suspension or Revocation of License.)

¹³ (License Required.)

¹⁴ SLA §466.015(b)(4).

¹⁵ 16 Tex. Admin. Code §§401.158(b)(28) (Suspension or Revocation of License) (the TLC may suspend or revoke a license if a licensee "sells tickets over the telephone"); 401.160 (Standard Penalty Chart); and 401.355(a) (Restricted Sales) ("Retailers shall not sell lottery tickets by mail, phone, fax, or other similar method of communications…").

has suspended retailer licenses when TLC investigators established that a licensed retailer (or their employee) arranged to sell tickets over the telephone.

<u>Prohibition of minors purchasing lottery tickets</u>. The SLA prohibits the sale of a lottery ticket to a minor. ¹⁶ The TLC has suspended retailer licenses when TLC investigators established that a licensed retailer sold a ticket to a minor. In a specially called meeting in September 2024, the TLC proposed amending its rule to reflect a zero tolerance policy for any retailer selling lottery tickets to minors. ¹⁷ Those rules were adopted in October 2024. ¹⁸ While lottery retailers are held to a high standard based on the SLA prohibition, the agency currently has no information on whether couriers are selling to minors, including what, if any, age verification measures are in place for courier transactions.

The TLC's 2015, 2020, and 2024 Rules Changes

In 2015 and 2020, the TLC made a series of rules changes to add additional entries of play options for players (including a QR code on the official TLC app) and generally standardized the rules governing its games. These rules were not intended to facilitate or legalize courier activity in any way. In a question-and-answer session during the proposal of the 2015 rules, staff made clear that the changes were not intended to facilitate or allow the purchase or play of lottery tickets online (see Attachment 2 hereto). In its 2020 rule changes, the TLC removed certain duplicative language regarding being present at the terminal along with other clarifying changes (see Attachment 3 hereto). Notably, neither rules change modified the prohibition on a lottery retailer selling by phone.

In 2024, the TLC proposed changes to its lottery rules to revert some of the 2020 rules changes and otherwise address what the Sunset Advisory Commission had identified as rulemaking gaps. This included clarifying whether internet sales of lottery products are prohibited and an explanation of what it means for a person to engage in business exclusively as a sales agent. As made clear during the proposal of these rules, staff stated that the TLC did not intend to facilitate courier services with its earlier rulemaking. ¹⁹ In reverting some of the 2020 rules changes, the TLC did not change how it applied any of the rules with regard to couriers and retailers that work with couriers.

¹⁶ SLA §466.015(b)(3).& §466.3051.

¹⁷ TLC Commission Meeting Transcript, Sept. 11, 2024 at 5 (Statement of Robert Rivera).

¹⁸ TLC Commission Meeting Transcript, Oct. 29, 2024 at 11.

¹⁹ TLC Commission Meeting Transcript, October 29, 2024 at 16-17 (Statement of Ryan Mindell).

Questions

I request your opinion on several questions regarding the TLC's authority, if any, to regulate courier services and/or to take action against retailers working with couriers.

- 1. Does the TLC have regulatory authority over downstream transactions between a courier and its customer?
- 2. If so, what is the basis for and extent of that authority? For instance, can the TLC revoke the license of or deny an application from a point-of-sale retailer based the interactions of a courier with a downstream third party? Can the TLC take any action against a courier directly for actions taken after the original sale of a lottery ticket?
- 3. Would the business activities undertaken by a courier to convey a lottery ticket already purchased in a sale from a retailer constitute an independent "sale" of a lottery ticket? If so, would the similar actions of a family member who conveys a lottery ticket to a relative likewise constitute a "sale"?

Respectfully submitted,

Ryan Mindell Executive Director

Attachments

cc: Robert Rivera, Chairman, Texas Lottery Commission

ATTACHMENT 1

Sec. 466.155. DENIAL OF APPLICATION OR SUSPENSION OR REVOCATION OF

LICENSE. (a) After a hearing, the director shall deny an application for a license or the commission shall suspend or revoke a license if the director or commission, as applicable, finds that the applicant or sales agent:

- (1) is an individual who:
 - (A) has been convicted of a felony, criminal fraud, gambling or a gambling-related offense, or a misdemeanor involving moral turpitude, if less than 10 years has elapsed since the termination of the sentence, parole, mandatory supervision, or probation served for the offense;
 - (B) is or has been a professional gambler;
 - (C) is married to an individual:
 - (i) described in Paragraph (A) or (B); or
 - (ii) who is currently delinquent in the payment of any state tax;
 - (D) is an officer or employee of the commission or a lottery operator; or
 - (E) is a spouse, child, brother, sister, or parent residing as a member of the same household in the principal place of residence of a person described by Paragraph (D);
- (2) is not an individual, and an individual described in Subdivision (1):
 - (A) is an officer or director of the applicant or sales agent;
 - (B) holds more than 10 percent of the stock in the applicant or sales agent;
 - (C) holds an equitable interest greater than 10 percent in the applicant or sales agent;
 - (D) is a creditor of the applicant or sales agent who holds more than 10 percent of the applicant's or sales agent's outstanding debt;
 - (E) is the owner or lessee of a business that the applicant or sales agent conducts or through which the applicant will conduct a ticket sales agency;
 - (F) shares or will share in the profits, other than stock dividends, of the applicant or sales agent; or
 - (G) participates in managing the affairs of the applicant or sales agent;
- (3) has been finally determined to be delinquent in the payment of a tax or other money collected by the comptroller, the Texas Workforce Commission, or the Texas Alcoholic Beverage Commission;
- (4) is a person whose location for the sales agency is:
 - (A) a location licensed for games of bingo under Chapter 2001, Occupations Code;
 - (B) on land that is owned by:
 - (i) this state; or
 - (ii) a political subdivision of this state and
 - on which is located a public primary or secondary school, an institution of higher education, or an agency of the state; or (C) a location for which a person holds a wine and malt beverage retailer's permit, mixed beverage permit, mixed beverage permit with a retailer late hours certificate, private club registration permit, or private club registration permit with a retailer late hours certificate issued under Chapter 25, 28, 29, or 32, Alcoholic Beverage Code, other than a location for which a person holds a wine and malt beverage retailer's permit issued under Chapter 25, Alcoholic Beverage Code, that derives less than 30 percent of the location's gross receipts from the sale or service of alcoholic beverages; or
- (5) has violated this chapter or a rule adopted under this chapter.

ATTACHMENT 2

TEXAS LOTTERY COMMISSION 2015 RULE CHANGES REGARDING THE WAYS PLAYERS MAY SELECT DRAW GAME NUMBERS

The 2015 rule amendments provided players two additional ways to provide their draw ticket game numbers to a licensed brick-and-mortar retailer.

On May 28th, 2015, the TLC voted to publish proposed changes to the agency's draw game rules "to enhance and clarify the methods by which a lottery player may communicate numbers and play selections to a lottery retailer in order to purchase a Texas Lottery draw game ticket."

- The proposal added two methods for a player to select the numbers they want to play:
 - o Using a previously-generated draw game ticket (for players using the same numbers); and
 - o Generating a QR code of their numbers using the official Texas Lottery mobile app, which allows the licensed lottery retailer to scan the code to get the numbers.
- The Commission adopted the rule changes on August 27th, 2015.

The primary reason for the amendments was to improve the overall experience of lottery players and licensed lottery retailers by increasing convenience.

• The Commission is authorized under Texas Government Code §466.015(c)(15)(B) to adopt rules regarding the operation of the lottery for "the convenience of players...."

The Commission addressed potential concerns regarding generation of a QR code on the Texas Lottery app in the rule preamble, and clarified there would be no ability for players to purchase lottery tickets or play lottery games on a mobile device or the Internet:

The Texas Lottery understands that the introduction of new technology for use with lottery games is a sensitive topic with many members of the public, and is very mindful it is the Texas Legislature who provides the policy framework to administer the lottery. The Texas Lottery, therefore, wishes in its proposal to be very clear that the amendments proposed here will in no way enable lottery players to purchase lottery tickets or to play lottery games solely using mobile devices, or through the **Internet.** The Texas Lottery strongly believes that any questions regarding the sale of lottery tickets via mobile devices or the Internet are policy decisions to be determined by the Texas Legislature. In the absence of clear, express authority delegated to the Commission by the Texas Legislature, the Texas Lottery has no intention to pursue mobile-based or Internet-based lottery ticket sales. Accordingly, the Texas Lottery states here: Nothing contained within this proposal enables the sales of Texas Lottery tickets over mobile devices or the Internet. Apart from the Texas Lottery itself, licensed Texas Lottery retailers are the only source for purchase of valid Texas Lottery tickets, and those tickets must be purchased in-person at a licensed retail location using one of the approved methods of play.

The public discussion prior to the vote at the May 28th meeting addressed this issue:

COMM. LOWE: So as I understand it, what you're going to do is have some -- are you going to have some communication between a cell phone or some mobile device? Is that—

MS. BURNETT: What would happen with the Texas Lottery mobile application is the individual would on their phone, not communicating with the system itself but could at another location or anywhere that they were wishing to do so generate play selections for a particular game.... A QR code could then be generated on your telephone. You would still have to take

the telephone to a retailer whose system would then scan the code that's on your phone. Now, the code is not stored in the phone. It's generated at the time you make your purchase. It is scanned by a scanner similar to how groceries are scanned across the scanner, and then you would purchase the ticket with those selections.

COMM. LOWE: So there's no communication. There's no -- I can't sit here and buy a lottery ticket on my cell phone.

MS. BURNETT: No. This is not intended to enable someone on their phone to purchase tickets, which would be something that we believe we do not have authority to do from the Texas Legislature.

MR. ANGER: ... So to the question that you asked, Commissioner Lowe, there will be no sales taking place via the mobile application. The sales transaction is exactly the same as it is today. The player has to interact with the retailer or one of our retail sales devices, our Gemini sales machines, in order to conduct the sales transaction to purchase their tickets. So that's not a change. It's really just the difference between providing a paper play slip or presenting their phone with the QR code that will allow them to submit their play selections to the retailer.

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From the Commission's understanding of how the lottery ticket courier process works, the Commission's rules (including these 2015 changes) do not in any way authorize or condone lottery ticket courier services in Texas.

Legislative Oversight Committees.

A standard practice for the agency is to provide written notifications on all TLC proposed and adopted rulemaking to the members of the House Committee on Licensing and Administrative Procedures and the members of the Senate State Affairs Committee.

ATTACHMENT 3

TEXAS LOTTERY COMMISSION 2020 RULE CHANGES RESULTING FROM THE STATUTORILY-REQUIRED RULE REVIEW

The 2020 Texas Lottery Commission (TLC) lottery rule amendments were the result of the TLC's rule review conducted every four years in accordance with Texas Government Code §2001.039. The purpose of the amendments was to simplify and update the rules.

There were no proposed or adopted rule changes regarding selling lottery tickets by phone. The 2020 rule amendments made no change to the prohibition on selling tickets by phone. The TLC rules address this prohibition three places: Rule 401.158(b)(28) (Suspension or Revocation of License), Rule 401.160(h)(28) (Standard Penalty Chart), and Rule 401.355(a) (Restricted Sales).

There were non-substantive changes to the lottery rule definitions regarding a player being "present at the terminal" and a related provision in the general draw game rule.

"Present at the terminal" was formerly a definition at Rule 401.301(33), but the term only appeared one other place in the rules to address customer service requirements and thus was deleted because the matter was adequately addressed in the other rule. The definition formerly read as follows:

Present at the terminal--A player remains physically present at the terminal from the time the player's order for the purchase of draw game tickets is paid for and accepted by the retailer until the processing of the order is completed and the tickets are delivered to the player at the retailer terminal location.

The only place this term appeared was in the general draw game rule at 401.304(b)(1) (now 401.304(b)(2)) that addressed customer service requirements. The text below shows this section and the following section (now 401.304(b)(3)), which is also relevant, and how they were amended to eliminate redundant language:

Except to the extent that sales in draw games are impeded by draw breaks, draw game tickets may be sold [during all normal business hours of the lottery retailer] during draw game operating hours. Retailers must give prompt service to lottery customers present and waiting at the terminal to purchase tickets for draw games. [Prompt service includes interrupting processing of draw game ticket orders for which the customer is not present at the terminal.]

Draw game tickets shall be sold only at the location listed on each retailer's license from the commission. For purposes of this section, the sale of a draw game lottery ticket at the licensed location means a lottery transaction in which all elements of the sale between the retailer and the purchaser must take place at the retailer location using their terminal, including the exchange of consideration, the exchange of the playslip if one is used, and the exchange of the draw game ticket. [No part of the sale may take place away from the terminal.]

These amendments were non-substantive and did not change the requirement that all lottery tickets must be purchased in person at a brick and mortar licensed lottery location.