

MINNESOTA STATE LOTTERY

In the Matter of the
Proposed Adoption of
Rules Relating to
Lottery Prize Payments

STATEMENT OF
NEED AND REASONABLENESS

I. GENERAL

In an effort to ensure the integrity and security of the Minnesota State Lottery (hereinafter referred to as the "Lottery"), and also to ensure the efficient operation and administration of the lottery, the Director of the lottery (hereinafter referred to as the "Director") proposes rules relating to prize payments. The proposed rules more specifically define the duties of the Director, and the requirements for persons purchasing lottery tickets and claiming prizes. The Director believes that the proposed rules are necessary and that they are reasonable. The burdens imposed on the public by these rules are not undue but will result in more efficient operation of the lottery as far as both the lottery and the public are concerned.

II. STATUTORY AUTHORITY

The Director is empowered by Minnesota Statutes, Section 349A.05(1989, Supplement) to adopt rules governing (1) the number and types of lottery retailers' locations; (2) qualification of lottery retailers and application procedures for lottery retailer contracts; (3) investigation of lottery retailer applicants; (4) appeal procedures for denial, suspension, or cancellation of lottery retailer contracts; (5) compensation of lottery retailers; (6) accounting for and deposit of lottery revenues by lottery retailers; (7) procedures for issuing lottery procurement contracts and for investigation of bidders on those contracts; (8) payment of prizes; (9) procedures needed to ensure the integrity and security of the lottery; and (10) other rules as necessary for the efficient operation and administration of the lottery.

7857.2000 Disclosure of Purchase

The requirement that a claimant for a lottery prize disclose, on request of the lottery, the location where the ticket was purchased is necessary for security reasons to ensure that the ticket was sold by a lottery retailer currently under contract. This requirement is reasonable to the extent that it does not cause any undue hardship on a claimant to disclose where the ticket was purchased.

7857.2010 Tickets Lost or Stolen

The requirement that the lottery may withhold prize money pending the funding of an investigation if the ticket has been reported stolen is necessary in order to prevent prizes from being paid for stolen tickets as required by Minnesota Statutes, Section 349A.08, subdivision 7, paragraph (b) (1989, Supplement).

This requirement is reasonable since the ticket was not purchased by the holder of the ticket, the holder has no right to the prize.

7857.3000 Purchase Restrictions

The provision defining which family members cannot purchase tickets is necessary in order to clarify the provision under Minnesota Statutes, Section 349A.08, subdivision 7, paragraph (a), and 349A.11, paragraph (a), clause (a) (1989, Supplement) that prohibits family members of the lottery employee from purchasing lottery tickets or receiving lottery prizes. This provision is reasonable that immediate family is usually limited to spouse, child, brother, sister, or parent.

Subpart 2. Vendor

This provision is necessary to prevent vendors who are under contract from purchasing lottery tickets in order to ensure the integrity of the lottery. This requirement is reasonable because under Minnesota Statutes, Section 349A.08, subdivision 7, paragraph (a) (1989, Supplement) those persons are prohibited from receiving a prize from a lottery ticket.

Subpart 3. Minors

The provision is necessary and reasonable since under Minnesota Statutes, Section 349A.12, subdivision 1 (1989, Supplement) persons under the age of 18 may not purchase lottery tickets but under Section 349A.08, subdivision 3 it is clear that prizes may be paid to minors if those tickets have not been purchased by them.

7857.3010 Sales are Final

The requirement that sales are final is necessary from an accounting and efficiency standpoint. It is essential for the operation of the lottery that it know that once a ticket has been purchased it may not be refunded, except under limited circumstances determined in game procedures. This provision is reasonable to the extent that it does not cause any undue hardship on the public so long as they realize that all sales are final.

7857.4000 Claim Verification

This requirement is necessary so that the lottery can receive the necessary information to pay the holder of a winning ticket. This requirement is reasonable since it does not cause an undue hardship to forward claims.

7857.4010 Claiming a Prize

Subpart 1. Payment by Retailers

The payment of prizes by retailers is necessary so that players can redeem prizes as conveniently as possible. This requirement is reasonable since payments will be made consistent with the retailer's security requirements.

Subpart 2. Claim Form.

It is necessary and reasonable that claimants of prizes over \$1,000 file a claim form with the lottery to properly verify the claim and conduct the proper checks on the claimant for any debts owed to the state as required under Minnesota Statutes, Section 349A.08, subdivision 8 (1989, Supplement).

7857.4020 Information To Be Furnished by Claimant

It is necessary for claimants to fill out a claim form so that the lottery can check the claimant as stated above. Also, the apparent winning ticket should be surrendered so that the lottery can verify if the ticket is fraudulent or has been altered. This provision is reasonable in that it causes little undue hardship for the claimant.

7857.4030 Time of Payment

This requirement is necessary and reasonable to ensure that only valid claims for prizes are paid by the Lottery.

7857.4040 Manner of Payment

Payment of prizes by the Lottery of prizes by check, draft or free ticket is necessary and reasonable to the extent that because the Lottery should not handle cash for security reasons.

7857.4050 Discharge of Liability

The requirement that payment discharges liability of the Lottery is necessary and reasonable because it is required under Minnesota Statutes, Section 349A.08, subdivision 4 (1989, Supplement).

7857.5000 Ownership of Tickets

Lottery tickets are bearer instruments. Anyone who legally holds the ticket owns it and may file a claim if the ticket is a winning ticket. Because of the nature of a lottery ticket this rule is necessary to make clear that the person who possesses the ticket owns it and makes a claim for the prize by endorsing the ticket. Similar to a check, the Lottery will make payment if the ticket is valid, to the person whose name appears on that ticket. For efficiency purposes it is necessary to limit payment to a single person, so that if more than one person's name appears on the ticket, the claim form must designate who should receive payment. This rule is reasonable since it does not cause any undue hardship on a claimant.

7857.5010 Unclaimed Prizes

This rule allowing a person one year after a drawing or end of a game to claim a lottery prize is necessary and reasonable because it is required under Minnesota Statutes, Section 349A.08, subdivision 5 (1989, Supplement).

5857.6000 Prizes Payable After Death of Prize Winner

Subpart 1. General.

This provision is necessary in order to clarify that any prize due, or portion of prize due, to a person that dies will remain payable even after death according to the same time schedule set for payment. It is necessary not to accelerate payment for accounting and tax purposes. This provision is reasonable since if a prize winner dies that person's estate should receive the benefit of the prize.

Subpart 2. Prizes Not Payable Over Time.

This provision is necessary in order for the Lottery to be able to determine to whom a prize that is not payable over time should be paid if the claimant dies before the prize is paid. This provision is reasonable since it provides that the Lottery will pay the prize to the person designated in the person's will or if no will exists, according to intestate succession under Minnesota Statutes, chapter 524 (1988).

Subpart 3. Prizes Paid Over Time.

This provision is necessary in order for the Lottery to determine to whom a prize that is paid over time should be paid if the prize winner dies before all of the payments are made. This provision is reasonable since the prize winner will be able to designate the beneficiary with the Lottery. If a beneficiary has not been so designated the prize will be paid to the designated beneficiary under the person's will, or if no will exists under the intestate succession provisions under Minnesota Statutes, chapter 524 (1988).

7857.6010 Payment of Prizes to Persons Under 18 Years of Age

This rule is necessary and reasonable because it is required under Minnesota Statutes, section 349A.08, subdivision 3 (1989, Supplement).

7857.6020 Assignability of Prizes

This rule is necessary in order to prevent persons from assigning prizes in violation of Minnesota Statutes, section 349A.08, subdivision 2 (1989, Supplement). Part B of this rule is further necessary in order to prevent individuals from circumventing the prohibition against assigning through assigning a prize to another and then getting a court order to enforce that assignment. This provision is reasonable because the prize has been awarded to one individual and Minnesota Statutes, Section 349A.08, subdivision 2 (1989, Supplement) prevents it from being assigned.

If persons were allowed to circumvent this prohibition the person might be susceptible to unscrupulous individuals who may attempt to buy the prize, which is normally to be paid over time, for an immediate payment up front which is for less than the value of the prize. Further, if the Internal Revenue Service determined that prizes could be readily assigned, then they would tax the full value of the prize at the time it is won, not in each year that the prize is normally received. This possible interpretation by the I.R.S. would be extremely detrimental to winners who did not assign their prize.

7857.7000 Promotional Prizes

This provision is necessary in order to give the Director the flexibility to offer special prizes. This provision is reasonable because it will be required that the public be informed of such promotional prizes or drawings prior to it being conducted.

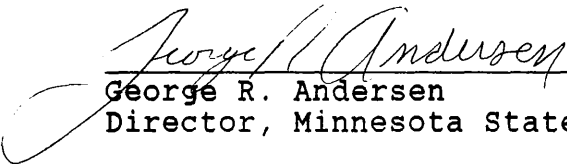
IV. OTHER STATUTORY REQUIREMENTS

Minnesota Statute, Section 14.115 (1988) requires agencies, when proposing a new rule or amending an existing rule which may effect small businesses, to consider certain methods for reducing the impact of the rule on small businesses. The proposed rules to not impact small businesses.

Minnesota Statute, Section 14.11, subdivision 2, is inapplicable because the proposed rules will not have any direct and substantial adverse impact on agricultural land. Section 115.43, subdivision 1, 116.07, subdivision 6, and 144A.29, subdivision 4 are not applicable. Likewise, a fiscal note is not required pursuant to Section 3.892 as the rule will not force any local agency or school district to incur costs.

CONCLUSION

Based on the foregoing, the Director's proposed rules are both necessary and reasonable.



George R. Andersen
Director, Minnesota State Lottery

Date: January 2, 1990