

**CALIFORNIA GOVERNMENT CODE**  
**Title 2. Government of the State of California**  
**Division 1. General**  
**Chapter 12.5. California State Lottery Act**

**HISTORY:**

[Added by initiative measure effective November 7, 1984 (Proposition 37).]

**Note:**

Proposition 37, effective November 7, 1984, provides:

Sec. 5. No provision of this Act may be changed except to further its purpose by a bill passed by a vote of two-thirds of the membership of both houses of the Legislature and signed by the Governor.

**Editor's Notes:**

This document is current for urgency legislation through Chapter 428 of the 2015 Legislative Session, approved October 2, 2015.

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**Article 1**  
**GENERAL PROVISIONS AND DEFINITIONS**

**§ 8880. Citation of Chapter**

This Chapter shall be known and may be cited as the California State Lottery Act of 1984.

**§ 8880.1. Purpose and Intent**

The People of the State of California declare that the purpose of this Act is support for preservation of the rights, liberties and welfare of the people by providing additional monies to benefit education without the imposition of additional or increased taxes.

The People of the State of California further declare that it is their intent that the net revenues of the California State Lottery shall not be used as substitute funds but rather shall supplement the total amount of money allocated for public education in California.

**§ 8880.2. Activities Not Affected**

Except for the state-operated lottery established by this Chapter, nothing in this Chapter shall be construed to repeal or modify existing State law with respect to the prohibition of casino

gambling, punch boards, slot machines, dog racing, video poker or blackjack machines paying prizes, or any other forms of gambling.

### **§ 8880.3. Prohibition on Use of State Funds**

No appropriations, loans, or other transfer of State funds shall be made to the California State Lottery Commission except for a temporary line of credit for initial start-up costs as provided in this Act.

### **§ 8880.4. Allocation of Revenues**

**[Currently in effect, see pg. 39 for 8880.4, operative date contingent.]**

Revenues of the state lottery shall be allocated so as to maximize the amount of funding allocated to public education, including from the first full fiscal year following enactment of the act adding Section 8880.4.5, as follows:

- (a)** Not less than 87 percent of the total annual revenues from the sale of state lottery tickets or shares shall be returned to the public in the form of prizes and net revenues to benefit public education.
  - (1)** The commission shall determine the percentage of total annual revenues that shall be returned to the public in the form of prizes as described in this chapter, however the percentage shall not be less than 50 percent of the total revenues.
  - (2)** **(A)** The percentage of the total annual revenues to be allocated to the benefit of public education, as specified in Section 8880.5, shall be established by the commission at a level that maximizes the total net revenues allocated to the benefit of public education.
    - (B)** However, for the 1998-99 fiscal year and each fiscal year thereafter, 50 percent of any increase in the amount calculated pursuant to this paragraph from the amount calculated in the 1997-98 fiscal year shall be allocated to school districts and community college districts for the purchase of instructional materials, on the basis of an equal amount per unit of average daily attendance, as defined by law, and through a fair and equitable distribution system across grade levels.
  - (3)** All unclaimed prize money shall revert to the benefit of public education, as provided for in subdivision (e) of Section 8880.32.
  - (4)** All of the interest earned upon funds held in the State Lottery Fund shall be allocated to the benefit of public education, as specified in Section 8880.5. This interest is in addition to, and shall not be considered as any part of, the total annual revenues that are required to be allocated for the benefit of public education as specified in paragraph (2).
  - (5)** No more than 13 percent of the total annual revenues shall be allocated for payment of expenses of the lottery as described in this chapter. To the extent that

expenses of the lottery are less than 13 percent of the total annual revenues, any surplus funds also shall be allocated to the benefit of public education, as specified in this section or in Section 8880.5.

- (b) Funds allocated for the benefit of public education pursuant to subdivision (a) are in addition to other funds appropriated or required under existing constitutional reservations for educational purposes. No program shall have the amount appropriated to support that program reduced as a result of funds allocated pursuant to subdivision (a). Funds allocated for the benefit of public education pursuant to subdivision (a) shall not supplant funds committed for child development programs.
- (c) None of the following shall be considered revenues for the purposes of this section:
  - (1) Revenues recorded as a result of a nonmonetary exchange. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.
  - (2) Reimbursements received by the lottery for the cost of goods or services provided by the lottery that are less than or equal to the cost of the same goods or services provided by the lottery.
- (d) Reimbursements received in excess of the cost of the same goods and services provided by the lottery, as specified in paragraph (2) of subdivision (c), are not a part of the total annual revenues required to be allocated for the benefit of public education, as specified in paragraph (2) of subdivision (a). However, this amount shall be allocated for the benefit of public education as specified in Section 8880.5.
- (e) This section shall become inoperative on April 1 of the year following notification from the Controller to the Legislature and the Governor that the events described in paragraphs (1) and (2) of subdivision (c) of Section 8880.4.5 have occurred, and as of the following January 1 is repealed, unless a later enacted statute, that is enacted before January 1 of that following year, deletes or extends the dates on which it becomes inoperative and is repealed.

**§ 8880.4.5. Annual Calculation of Total Net Revenues Allocated to Benefit of Public Education; Report to Controller and Legislature**

- (a) Following the end of each full fiscal year, the commission shall calculate and report to the Controller and to the Legislature the amount of total net revenues allocated to the benefit of public education from the California State Lottery Education Fund for that fiscal year.
- (b) To ensure increases in lottery net revenues allocated to public education, if in any one of the first five full fiscal years after the enactment of the act adding this section, the Controller determines that both of the events described in paragraphs (1) and (2) of subdivision (c) occur, then the Controller shall notify the Legislature and the Governor, and post that notification on the Controller's Internet Web site, and on January 1 of the following year, both of the following shall occur:

- (1) The amendments made to Sections 8880.4, 8880.63, and 8880.64 by the act adding this section shall become inoperative.
  - (2) Sections 8880.4, 8880.63, and 8880.64, as they existed prior to the effective date of the act adding this section shall become operative.
- (c) No later than December 31 following each of the first five fiscal years in which the amendments made by the act adding this section are in effect, the Controller shall report to the Legislature whether either of the following occurred in the prior fiscal year:
  - (1) The total net revenues allocated to the benefit of public education from the California State Lottery Education Fund are less than the total net revenues allocated to the benefit of public education in the last full fiscal year prior to the enactment of the act adding this section.
  - (2) The annual average of total net revenues allocated to the benefit of public education from the California State Lottery Education Fund after the enactment of the act adding this section is less than the total net revenues allocated to the benefit of public education in the last full fiscal year prior to the enactment of the act adding this section, adjusted for an annual growth rate of 1.8 percent or the actual growth rate of lottery revenues since enactment of the act adding this section, whichever is greater.
- (d) If the conditions specified in subdivision (c) do not occur, then in subsequent fiscal years, to ensure continued growth in lottery net revenues allocated to public education, the commission, when setting the percentage required in subparagraph (A) of paragraph (2) of subdivision (a) of Section 8880.4, shall ensure that net revenues allocated to public schools are at least as much as were allocated on average in the prior five fiscal years, and increased in proportion to any upward increases in lottery net revenues.
- (e) At the end of the first five full fiscal years following enactment of the act adding this section, the Controller shall convene a lottery review group to consist of the Controller, the Superintendent of Public Instruction, and the chairperson of the commission. The review group shall report to the Legislature, no later than March 31 following the final fiscal year, on whether the amendments made by the act adding this section have furthered the purposes of the California State Lottery Act of 1984 as intended.
- (f) This section shall become inoperative on April 1 of the year following notification from the Controller to the Legislature and the Governor that the events described in paragraphs (1) and (2) of subdivision (c) have occurred, and as of the following January 1 is repealed, unless a later enacted statute, that is enacted before January 1 of that following year, deletes or extends the dates on which it becomes inoperative and is repealed.

## **§ 8880.5. Allocations for Education; Payments**

Allocations for education:

The California State Lottery Education Fund is created within the State Treasury, and is continuously appropriated for carrying out the purposes of this chapter. The Controller shall draw warrants on this fund and distribute them quarterly in the following manner, provided that the payments specified in subdivisions (a) to (g), inclusive, shall be equal per capita amounts.

- (a) (1)** Payments shall be made directly to public school districts, including county superintendents of schools, serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law and adjusted pursuant to subdivision (l).
- (2)** For purposes of this paragraph, in each of the 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, 2013-14, and 2014-15 fiscal years, the number of units of average daily attendance in each of those fiscal years for programs for public school districts, including county superintendents of schools, serving kindergarten and grades 1 to 12, inclusive, shall include the same amount of average daily attendance for classes for adults and regional occupational centers and programs used in the calculation made pursuant to this subdivision for the 2007-08 fiscal year.
- (b)** Payments shall also be made directly to public school districts serving community colleges, on the basis of an equal amount for each unit of average daily attendance, as defined by law.
- (c)** Payments shall also be made directly to the Board of Trustees of the California State University on the basis of an amount for each unit of equivalent full-time enrollment. Funds received by the trustees shall be deposited in and expended from the California State University Lottery Education Fund, which is hereby created or, at the discretion of the trustees, deposited in local trust accounts in accordance with subdivision (j) of *Section 89721 of the Education Code*.
- (d)** Payments shall also be made directly to the Regents of the University of California on the basis of an amount for each unit of equivalent full-time enrollment.
- (e)** Payments shall also be made directly to the Board of Directors of the Hastings College of the Law on the basis of an amount for each unit of equivalent full-time enrollment.
- (f)** Payments shall also be made directly to the Department of the Youth Authority for educational programs serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law.
- (g)** Payments shall also be made directly to the two California Schools for the Deaf, the California School for the Blind, and the three Diagnostic Schools for Neurologically

Handicapped Children, on the basis of an amount for each unit of equivalent full-time enrollment.

- (h) Payments shall also be made directly to the State Department of Developmental Services and the State Department of State Hospitals for clients with developmental or mental disabilities who are enrolled in state hospital education programs, including developmental centers, on the basis of an equal amount for each unit of average daily attendance, as defined by law.
- (i) No Budget Act or other statutory provision shall direct that payments for public education made pursuant to this chapter be used for purposes and programs (including workload adjustments and maintenance of the level of service) authorized by Chapters 498, 565, and 1302 of the Statutes of 1983, Chapter 97 or 258 of the Statutes of 1984, or Chapter 1 of the Statutes of the 1983-84 Second Extraordinary Session.
- (j) School districts and other agencies receiving funds distributed pursuant to this chapter may at their option utilize funds allocated by this chapter to provide additional funds for those purposes and programs prescribed by subdivision (i) for the purpose of enrichment or expansion.
- (k) As a condition of receiving any moneys pursuant to subdivision (a) or (b), each school district and county superintendent of schools shall establish a separate account for the receipt and expenditure of those moneys, which account shall be clearly identified as a lottery education account.
- (l) Commencing with the 1998-99 fiscal year, and each year thereafter, for purposes of subdivision (a), average daily attendance shall be increased by the statewide average rate of excused absences for the 1996-97 fiscal year as determined pursuant to the provisions of Chapter 855 of the Statutes of 1997. The statewide average excused absence rate, and the corresponding adjustment factor required for the operation of this subdivision, shall be certified to the Controller by the Superintendent of Public Instruction.
- (m) It is the intent of this chapter that all funds allocated from the California State Lottery Education Fund shall be used exclusively for the education of pupils and students and no funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other noninstructional purpose.

#### **§ 8880.6. Other Statutory Provisions**

Sections 320, 321, 322, 323, 324, 325, 326, and 328 of the Penal Code do not apply to the California State Lottery or its operations. This exemption applies only to the operators of the Lottery and shall not be construed to change existing law relating to lotteries operated by persons or entities other than the Lottery.

### **§ 8880.7. Governing Definitions**

The definitions contained in this Chapter shall govern the construction of this Chapter unless the context requires otherwise.

### **§ 8880.8. "Lottery" or "California State Lottery"**

"Lottery" or "California State Lottery" means the California State Lottery created and operated pursuant to this Chapter.

### **§ 8880.9. "Commissioner"**

"Commissioner" means one of the members of the Lottery Commission appointed by the Governor pursuant to this Chapter to oversee the California State Lottery.

### **§ 8880.10. "Director"**

"Director" means the Director of the California State Lottery appointed by the Governor pursuant to this Chapter as the chief administrator of the California State Lottery.

### **§ 8880.11. "Lottery Commission" or "Commission"**

"Lottery Commission" or "Commission" means the five members appointed by the Governor pursuant to this Chapter to oversee the Lottery and the Director.

### **§ 8880.12. "Lottery Game"**

"Lottery Game" means any procedure authorized by the commission whereby prizes are distributed among persons who have paid, or who have unconditionally agreed to pay, for tickets or shares which provide the opportunity to win those prizes.

### **§ 8880.13. "Lottery Game Retailer"**

"Lottery Game Retailer" means a person or organization with whom the Lottery Commission may contract for the purpose of selling tickets or shares in Lottery Games to the public.

### **§ 8880.14. "Lottery Contractor"**

"Lottery Contractor" means a person or organization with whom the Lottery has contracted for the purpose of providing goods and services required by the Lottery.

**Article 2**  
**CALIFORNIA STATE LOTTERY COMMISSION**

**§ 8880.15. Creation of Commission**

The California State Lottery Commission is hereby created in state government.

**§ 8880.16. Membership; Appointment; Vacancies; Political Affiliation; Removal**

- (a) The Commission shall consist of five members appointed by the Governor with the advice and consent of the Senate.
- (b) The members shall be appointed for terms of five years, except of those who are first appointed, one member shall be appointed for a term of two years, one member shall be appointed for a term of three years, one member shall be appointed for a term of four years, and two member shall be appointed for a term of five years
- (c) All initial appointments shall be made within 30 days of the effective date of this Chapter.
- (d) Vacancies shall be filled within 30 days by the Governor, subject to the advice and consent of the Senate, for the unexpired portion of the term in which they occur.
- (e) No more than three members of the Commission shall be members of the same political party.
- (f) The Governor may remove any Commissioner upon notification to the Commission and the Secretary of State.

**§ 8880.17. Qualifications of Commissioners**

At least one of the Commissioners shall have a minimum of five years experience in law enforcement, and at least one of the Commissioners shall be a certified public accountant.

**§ 8880.18. Compensation and Expenses**

Commissioners shall be compensated at the rate of one hundred dollars (\$100) for each day they are engaged in commission business. Commission members shall be reimbursed for actual expenses incurred on commission business, including necessary travel expenses as determined by the Department of Human Resources.

**§ 8880.19. Annual Selection of Chairperson**

The Commission shall select annually from its membership a chairperson. The chairperson shall have the power to convene special meetings of the Commission upon 48 hours' written notice to members of the Commission.

### **§ 8880.20. Meetings**

Meetings of the Commission shall be open and public in accordance with the Bagley-Keene Open Meeting Act (Article 9 (commencing with Section 11120) of Chapter 1 of Part 1 of Division 3).

### **§ 8880.21. Quorum; Voting**

A quorum shall consist of three members of the Commission. All decisions of the Commission shall be made by a majority vote of the Commission.

### **§ 8880.22. Reports`**

The Commission shall make quarterly reports of the operation of the Lottery to the Governor, the Attorney General, the Controller, the Treasurer, and the Legislature. The reports shall be due 75 days after the close of the quarter for which the information is being required. The reports shall include a full and complete statement of lottery revenues, prize disbursements, expenses, net revenues, and all other financial transactions involving lottery funds, including a statement of assets, statement of revenues, expenses, changes in net assets, and changes in financial position with all attached financial notes.

### **§ 8880.23. Appointment of Director; Removal**

The Governor, with the advice and consent of the Senate, shall appoint a Director within thirty days of the effective day of this Chapter. The Governor may remove the Director upon notification to the Commission and the Secretary of State. The Director shall be responsible for managing the affairs of the Commission. The Director shall be qualified by training and experience to direct the operations of a state-operated lottery.

**Article 3**  
**POWERS AND DUTIES OF THE COMMISSION**

**§ 8880.24. Powers and Duties of Commission**

- (a) The California State Lottery Commission shall exercise all powers necessary to effectuate the purposes of this chapter. In all decisions, the commission shall take into account the particularly sensitive nature of the California State Lottery and shall act to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the Lottery.
- (b) In decisions relating to advertising and promotion of the California State Lottery, the commission shall ensure that the California State Lottery complies with both the letter and spirit of the laws governing false and misleading advertising, including Section 17500 et seq. of the Business and Professions Code. The commission shall also ensure that the overall estimated odds of winning some prize or prizes in a particular lottery game are posted on all television and print advertising, exclusive of outdoor advertising displays, signs, or banners, related to that game.

**§ 8880.25. Operation of the Lottery**

The Lottery shall be initiated and operated so as to produce the maximum amount of net revenues to supplement the total amount of money allocated for public education in California.

**§ 8880.25.5. Additional Powers of Commission**

- (a) Notwithstanding any other provision of law, the Lottery Commission may do all of the following:
  - (1) Purchase and sell assets in its own name.
  - (2) Invest funds on deposit in the State Lottery Fund within or outside the State Treasury system.
  - (3) Purchase and sell securities, including entering into bond purchase agreements with the state to purchase state general obligation bonds, or invest in other evidence of indebtedness issued by the state, including, but not limited to, notes issued pursuant to Part 5 (commencing with Section 17300) of Division 4 or warrants issued pursuant to Part 4 (commencing with Section 17000) of Division 4.
- (b) The bonds or other evidence of indebtedness specified in subdivision (a), upon delivery to the Lottery Commission, shall, for all purposes, be valid and binding obligations of the issuer thereof, be validly issued and outstanding in accordance with their stated terms, and shall not be deemed to be owned by or on behalf of the issuer thereof.

**§ 8880.26. Exemptions; Review by Office of Administrative Law; Telephone Information Services Disclosures; Application**

- (a) The provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 are not applicable to any rule or regulation promulgated by the commission.
- (b) Section 2889 of the Public Utilities Code shall not be applicable to any live, recorded, or recorded-interactive audio text access telephone service under contract to the commission, as of the effective date of the act adding this subdivision, that provides the public with lottery game draw results.
- (c) The provisions of the Public Contract Code shall not apply to expenditures made by the lottery in furtherance of its duty to produce the maximum amount of net revenues.

**§ 8880.27. Meetings with the Director**

The Commission shall meet with the Director not less than once each quarter to make recommendations and set policy, to approve or reject reports of the Director and transact such other business that may be properly brought before it.

**§ 8880.28. Limitations on Types of Lottery Games**

- (a) The commission shall promulgate regulations specifying the types of lottery games to be conducted by the lottery, provided:
  - (1) No lottery game may use the theme of roulette, dice, baccarat, blackjack, Lucky 7s, draw poker, slot machines, or dog racing.
  - (2) In lottery games utilizing tickets, each ticket in these games shall bear a unique number distinguishing it from every other ticket in that game; and no name of an elected official shall appear on these tickets.
  - (3) In games utilizing computer terminals or other devices, no coins or currency shall be dispensed as prizes to players from these computer terminals or devices.
- (b) Notwithstanding subdivision (a), no changes in the types of games or methods of delivery of these games that incorporate technologies or mediums that did not exist, were not widely available, or were not commercially feasible at the time of the enactment of this chapter in 1984 shall be made, unless all of the following conditions are met:
  - (1) This chapter is amended by statute to expressly authorize these changes.
  - (2) The act making the amendments contains express legislative findings that the amendments are consistent with the terms of, and further the purposes of, this chapter.
  - (3) The amendments comport with applicable state and federal law.

- (c) For purposes of this section, a change in the method of delivery means a material change in the way a consumer directly interacts with the game.
- (d) Subdivision (b) does not apply to technological changes implemented prior to October 11, 1993.
- (e) This section does not limit any internal technological changes made to the equipment or components utilized by the lottery.

#### **§ 8880.29. Number and Value of Prizes**

- (a) The commission shall promulgate regulations that specify the number and value of prizes for winning tickets or shares in each lottery game including, without limitation, cash prizes, merchandise prizes, prizes consisting of deferred payments or annuities, and prizes of tickets or shares in the same lottery game or other games conducted by the lottery, provided:
  - (1) In lottery games utilizing tickets, the overall estimated odds of winning some prize or some cash prize as appropriate for the lottery game shall be printed on each ticket or on a play slip.
  - (2) A detailed tabulation of the estimated number of prizes of each particular prize denomination that are expected to be awarded in each lottery game, or the estimated odds of winning the prizes, shall be available at each location at which tickets or shares in the lottery games are offered for sale to the public.
- (b) Annuity contracts that are purchased for prizes shall be exempt from the requirements of Section 8880.57.

#### **§ 8880.30. Method for Determining Winners**

The commission shall promulgate regulations that specify the method for determining winners in each lottery game, provided:

- (a) A lottery game may be based on the results of a horse race with the consent of the association conducting the race and the California Horse Racing Board. Any compensation received by an association for the use of its races to determine the winners of a lottery game shall be divided equally between commissions and purses.
- (b) If a lottery game utilizes a drawing of winning numbers, a drawing among entries, or a drawing among finalists, the drawings shall always be open to the public. No manual or physical selection in the drawings shall be conducted by any employee of the Lottery. Except for computer automated drawings, drawings shall be witnessed in person or via live audio and video feed by an independent lottery contractor having qualifications established by the commission. Any equipment used in the drawings shall be inspected in person or via live audio and video feed by the independent lottery contractor and an employee of the Lottery both before and after the drawings. The drawings and the inspections shall be both audio and video recorded.

- (c) It is the intent of this chapter that the commission may use any of a variety of existing or future methods or technologies in determining winners.

### **§ 8880.31. Sale Price of Tickets and Shares**

The Commission shall promulgate rules and regulations specifying the retail sales price for each ticket or share for each Lottery Game, provided:

- (a) Except as provided in subdivision (b), no ticket or share shall be sold for more or less than the retail sales price established by the Commission.
- (b) The retail price of each ticket or share in any Lottery Game conducted by the Lottery shall be at least one dollar (\$1), except to the extent of any discounts authorized by the Commission.

### **§ 8880.32. [Section repealed 1996.]**

### **§ 8880.321. Regulations for Validation and Payment of Prizes; Restrictions**

The commission shall promulgate regulations to establish a system of verifying the validity of prizes and to effect payment of the prizes, provided that:

- (a) For convenience of the public, lottery game retailers may be authorized by the commission to pay winners of up to six hundred dollars (\$600) after performing validation procedures on their premises appropriate to the lottery game involved.
- (b) No prize may be paid arising from tickets or shares that are stolen, counterfeit, altered, fraudulent, unissued, produced or issued in error, unreadable, not received or not recorded by the lottery by applicable deadlines, lacking in captions that confirm and agree with the lottery play symbols required by the lottery game involved, purchased by a minor, or not in compliance with additional specific rules and regulations and confidential validation and security tests appropriate to the particular lottery game. The lottery may pay a prize even though the actual winning ticket is not received by the lottery if the lottery validates the claim for the prize based upon substantial proof. "Substantial proof" means any evidence that would permit the lottery to use established validation procedures, as specified in lottery regulations, to validate the claim.

The commission may require that any form relating to a claim for a prize shall be signed under penalty of perjury. This declaration shall meet the requirements of Section 2015.5 of the Code of Civil Procedure.

- (c) No particular prize in any lottery game shall be paid more than once.
- (d) The commission may specify that winners of less than twenty-five dollars (\$25) claim the prizes from either the same lottery game retailer from whom the ticket or share was purchased or from the lottery itself.

- (e) Players shall have the right to claim prize money for 180 days after the drawing or the end of the lottery game or play in which the prize was won, or, if a multistate lottery game, up to one year for jackpots and grand prizes. The commission may define shorter time periods for eligibility for participation in, and entry into, drawings involving entries or finalists. If a valid claim is not made for a prize directly payable by the commission or for any online game prize within the period applicable for that prize, the unclaimed prize money shall be treated as set forth in subdivision (a) of Section 8880.4 or, commencing with the 2009-10 fiscal year, be treated as total revenues as set forth in Section 8880.4.5.
- (f) After the expiration of the claim period for prizes for each lottery game, the commission shall make available a detailed tabulation of the total number of tickets or shares actually sold in a lottery game and the total number of prizes of each prize denomination that were actually claimed and paid directly by the commission.
- (g) A ticket or share shall not be purchased by, and a prize shall not be paid to, a member of the commission, any officer or employee of the commission, any officer or employee of the Controller who is designated in writing by the Controller as having possible access to confidential lottery information, programs, or systems, or any spouse, child, brother, sister, or parent of that person who resides within the same household of the person. Any person who knowingly sells or purchases a ticket or share in violation of this section, or who knowingly claims or attempts to claim a prize with a ticket or share that was purchased or sold in violation of this section, is guilty of a misdemeanor.
- (h) No prize shall be paid to any person under the age of 18 years. Any person who knowingly claims or attempts to claim a prize with a ticket or share purchased by a person under the age of 18 years is guilty of a misdemeanor.

#### **§ 8880.325. Assignment of Prizes; Conditions**

The right of any person to a prize shall not be assignable, except that the payment of any prize may be assigned, in whole or in part, as provided by Section 8880.326 and this section, under any of the following circumstances:

- (a) An assignment executed by the prizewinner on a form approved by, and filed with, the commission during the prizewinner's lifetime in accordance with regulations adopted by the commission, to a trust that by its terms is revocable, and that is established by the prizewinner for the benefit of the prizewinner as a beneficiary and governed by the laws of the state.
- (b) An appropriate judicial order appointing a conservator or a guardian for the protection of the prizewinner, or for adjudicating rights to, or ownership of, the prize.
- (c) An assignment, as collateral, to a person to secure a loan pursuant to Division 9 (commencing with Section 9101) of the Commercial Code. The assignment as collateral of the right to receive payment of a prize shall be subject to all of the following:
  - (1) All security agreements, rights of the prizewinner, and rights of the secured creditor shall be determined pursuant to the laws of the state.

- (2) In the event of a default under the loan or security agreement, the secured creditor's rights shall be limited to receiving the regular payments made by the lottery, based on the prizewinner's right to receive a regular prize payment until the obligation has been paid in full or the prize has been paid in full, whichever occurs first. Notwithstanding Division 9 (commencing with *Section 9101*) of the *Commercial Code*, the secured creditor shall not have the right to sell or assign the prizewinner's rights to payments to itself or to any other person. This section shall not limit the secured creditor's right to sell, assign, or transfer the obligation of the debtor and related security interest to a third party.
- (3) The prizewinner and secured creditor may agree, and may jointly instruct the lottery, to directly deposit all prizewinning payments into an account maintained by the prizewinner at a federally insured financial institution located within the state. This account may be subject to the secured creditor's lien. Upon receipt of these instructions, the lottery shall continue to deposit all payments due to the prizewinner into the account until the lottery receives notification from both the secured creditor and the prizewinner that the payments are to be made to an account maintained at another bank, or that the secured creditor releases or terminates the security interest in the prizewinner's payments.
- (4) (A) The prizewinner, pursuant to an order of the court obtained in compliance with subdivision (d), may direct the lottery to make the prize payments, in whole or in part, directly to the secured creditor. A direction to the lottery to make a prize payment to a secured creditor shall not, in itself, constitute an assignment of the prize payment to the secured creditor.

(B) For purposes of this paragraph and subdivision (d), "assignee" and "secured creditor" are synonymous, and "assignment" or "prize payment" means the payment that is directed to be paid to the secured creditor.
- (5) For purposes of perfecting the security interest of the secured creditor, the right of the prizewinner to receive payments is deemed to be a contract right that is perfected by the filing of a financing statement with the office of the Secretary of State.
- (6) A copy of the security agreement, an endorsed copy of the financing statement, and the joint instruction to deposit the prizewinner's payments directly into an account, if any, at the financial institution shall be filed with the lottery. Notwithstanding the security interest granted a creditor, all lottery payments shall be made payable directly to the prizewinner, except as follows:

(A) Payments sent directly to the financial institution designated pursuant to paragraph (3).

(B) In the event of a default under the security agreement or obligation it secures, payments sent directly to the secured creditor pursuant to an order of a court

of competent jurisdiction determining that the payments are to be made directly to the secured creditor.

- (7) Upon the termination or release of the security interest, the secured creditor shall file an endorsed copy of the release or termination of the security interest with the lottery.
- (d) Except as provided in subdivision (k), an assignment of future payments to another person designated pursuant to an appropriate judicial order of a California superior court or a federal court having jurisdiction over property located within California, if the court determines and states in its order all of the following:

  - (1) That the prizewinner was represented by independent legal counsel whose name and State Bar of California number appears as counsel of record on all pleadings filed in all court proceedings. The prizewinner's legal counsel shall appear as counsel of record at any proceedings that are required by the court.
  - (2) That the prizewinner has represented to the court, either by sworn testimony if a personal appearance is required by the court, or by written declaration filed with the court under penalty of perjury, and that the court has determined these representations to be true and correct, that the prizewinner (A) has reviewed and understands the terms and effects of the assignment, (B) understands that he or she will not receive the prize payments, or portions thereof, for the years assigned, (C) has entered into the agreement of his or her own free will without undue influence or duress and not under the influence of drugs or alcohol, (D) has had an opportunity to retain independent financial and tax advice, and (E) has been represented by independent legal counsel, who has advised the prizewinner of his or her legal rights and obligations under the assignment.
  - (3) It shall be the responsibility of the prizewinner to bring to the attention of the court, either by sworn testimony or by written declaration submitted under penalty of perjury, the existence or nonexistence of a current spouse. If married, the prizewinner shall identify his or her spouse and submit to the court a signed and notarized statement wherein the spouse consents to the assignment. If the prizewinner is married, and the notarized statement is not presented to the court, the court shall determine, to the extent necessary and as appropriate under applicable law, the ability of the prizewinner to make the proposed assignment without the spouse's consent.
  - (4) The specific prize payment or payments assigned, or any portion thereof, including the dates and amounts of the payments to be assigned, the years in which each payment is to begin and end, the gross amount of the annual payments assigned before taxes, the prizewinner's name as it appears on the lottery claim form, the full legal name of the assignor if different than the prizewinner's name as it appears on the lottery claim form, the assignor's social security or tax identification number, the assignee's full legal name and social security or tax identification number, and, if applicable, the citizenship or resident alien number of the assignee if a natural person.

- (5) Expressly identifies the amount, the date if available, any nonspouse coowner, claimant, or lienholder, and the interests, liens, security interests, assignments, or offsets asserted by the state or other persons against any of the prize payments, including, but not limited to, those payments that are the subject of the proposed assignment as those interests, liens, security interests, assignments, or offsets have been represented to the court by the prizewinner in a written declaration signed under penalty of perjury and filed with the court.
  - (6) That the lottery and the State of California are not parties to the proceeding, and that the lottery and the state may rely upon the order in disbursing the prize payments that are the subject of the order. Further, that upon payment of prize moneys pursuant to an order of the court, the lottery, the director, the commission, and the employees of the lottery and the state shall be discharged of all liability for the prize paid, and these persons and entities shall have no duty or obligation to any person asserting another interest in, or right to receive, the prize payment.
  - (7) That the prizewinner or the proposed assignee has obtained and filed with the court a notification from the lottery of any liens, levies, or claims, and from the Controller's office of any offsets, asserted as of that time against the prizewinner, as reflected in their respective official records as of the time of the notification. The date of the notification shall not be more than 20 days prior to the court hearing, unless extended by the court.
- (e) The assignment of the right to receive any prize payment or payments by the prizewinner pursuant to subdivision (d) shall be conditioned on the following terms, conditions, and rights, which may not be waived or modified by the prizewinner:
- (1) The payment of moneys to, or on behalf of, the prizewinner by the assignee, in consideration for the assignment of the prize payment or payments, shall be made in full prior to the time when, under the terms of the assignment, the lottery is required to make the first prize payment to the assignee, or may be made in two installments, the first being paid prior to the time when, under the terms of the assignment, the lottery is required to make the first prize payment to the assignee and the second installment within 11 months thereafter. The second installment shall not be in an amount that exceeds the first installment. Notwithstanding this paragraph, any other installment payment schedule is permitted if the installment obligation relating to the installments is guaranteed by a financial institution, as defined in paragraph (2) of subdivision (a) of Section 4981 of the Financial Code, or a brokerage firm that is a member of the Securities Investor Protection Corporation (SIPC), as required by the federal Securities Investor Protection Act of 1970 (15 U.S.C. Sec. 78aaa et seq.).
  - (2) If the prizewinner elects to accept the consideration to be paid for the assignment in two installments as provided in paragraph (1), the prizewinner shall have a special lien for the balance of any payment due, effective without any further action, agreement, or notice, on any of the prize payments assigned by the prizewinner for the payment of moneys from the assignee. This lien shall terminate upon the

prizewinner receiving actual payment of the moneys. The tendering of a check, payment instrument, or recital of payment shall not constitute actual payment of moneys for the purposes of this paragraph. Notwithstanding this paragraph, if a prizewinner accepts an installment obligation guaranteed by a Federal Deposit Insurance Corporation (FDIC) or SIPC insured entity, then the lien created by this section shall automatically terminate upon delivery of the installment obligation.

- (3)** The Legislature finds and declares that the creation of a statutory lien in favor of a prizewinner is necessary to protect the rights of the prizewinner from any creditors, subsequent bankruptcy trustees of the assignee, or from any subsequent assignees when the prizewinner has not received full payment for the assigned prize payments.
- (f)** Prior to the assignment of any prize as provided in subdivisions (c) and (d), the Controller shall determine whether the prizewinner owes any obligation that is subject to offset under Article 2 (commencing with Section 12410) of Chapter 5 of Part 2 of Division 3, and shall provide written notification of that determination to the lottery and to the Secretary of State.
- (g)** If the lottery determines that the court order issued pursuant to subdivision (d) is complete and correct in all respects, the lottery shall send the prizewinner and the assignee or assignees written confirmation of receipt of the court-ordered assignment and of the lottery's intention to rely on that assignment in making future payments to the assignee or assignees named in the court order.
- (h)** Notwithstanding any other law, by entering into an agreement to assign any prize payments pursuant to subdivision (c) or (d), a prizewinner shall be deemed to have waived any statutory period of limitation as to the State of California enforcing any rights against annual prize payments due after the last assigned payment is paid or released, if assigned as collateral, from the lien granted the secured creditor.
- (i)** The assignment of prize payments pursuant to either subdivision (c) or (d) shall not be valid or allowed for the final three annual prize payments from the lottery to the prizewinner unless the contract assigning all or any part of the final three annual prize payments is entered into on or after the effective date of the act adding this subdivision.
- (j)** Any loans made to a prizewinner pursuant to this section shall be exempt from the usury provisions of Article XV of the California Constitution with respect to an assignment of a lottery prize as collateral to secure a loan.
- (k) (1)** Notwithstanding any other provision of this section, a prizewinner shall not have the right to assign prize payments pursuant to subdivision (d), or to direct the payment of a prize pursuant to paragraph (4) of subdivision (c), if either of the following occurs:
  - (A)** The issuance by the United States Internal Revenue Service (IRS) of a technical rule letter, revenue ruling, or other public ruling of the IRS in which the IRS determines that, based upon the right of assignment provided in subdivision (d), a California lottery prizewinner who does not assign any prize

payments pursuant to subdivision (d) would be subject to an immediate income tax liability for the value of the entire prize rather than annual income tax liability for each installment when paid.

- (B) The issuance by a court of competent jurisdiction of a published decision holding that, based upon the right of assignment provided in subdivision (d), a California lottery prizewinner who does not assign any prize payments pursuant to subdivision (d) would be subject to an immediate income tax liability for the value of the entire prize rather than annual income tax liability for each installment when paid.
- (2) Upon receipt of a letter or ruling from the IRS or a published decision of a court of competent jurisdiction, as specified in paragraph (1), the director shall immediately file a copy of that letter, ruling, or published decision with the Secretary of State. Immediately upon the filing by the director of a letter, ruling, or published decision with the Secretary of State, a prizewinner shall be ineligible to assign a prize pursuant to subdivision (d), or to direct the payment of a prize pursuant to paragraph (4) of subdivision (c).

#### **§ 8880.326. Death of Prizewinner; Payment Options**

Upon the death of the prizewinner, the prize may be paid by any of the following methods:

- (a) To the trustee of a trust established pursuant to subdivision (a) of Section 8880.325, or, if the trust has been terminated, to those beneficiaries entitled to distribution under Section 8880.325.
- (b) To one or more beneficiaries designated on a form approved by the commission for that purpose, executed by the prizewinner, filed with the commission in accordance with regulations adopted by the commission to govern those designations, and in effect upon the prizewinner's death.
- (c) In the absence of an assignment to a trust or a beneficiary designation, the prizewinner's prize may be paid, as follows:

  - (1) To the personal representative of the testate or intestate estate of a deceased prizewinner upon receipt by the commission of a court order and letters appointing an executor, administrator, or other personal representative of the estate of the deceased prizewinner, or pursuant to a final order of distribution.
  - (2) As provided under Part 1 (commencing with Section 13000) or Part 2 (commencing with Section 13500) of Division 8 of the Probate Code.
  - (3) To a person or persons designated under an appropriate judicial order adjudicating rights to the ownership of the prize.

#### **§ 8880.327. Assignments, Transfers, or Security Interests; Fee; Liability of State; Regulations**

For any assignments, transfers, or security interests provided for in Sections 8880.325 and 8880.326, the following shall apply:

- (a) The commission may establish a reasonable fee for all expenses incurred in order to comply with Section 8880.325 or 8880.326 relating to an authorized assignment, transfer, or security interest. The fee may be deducted from the prize moneys paid by the lottery pursuant to Section 8880.325 or 8880.326.
- (b) Upon the payment of prize moneys pursuant to Section 8880.325 or 8880.326 or an order of a court, the lottery, the director, the commission, and the employees of the lottery and the state shall be discharged of any and all liability for the prize paid, and they shall have no duty or obligation to any persons asserting another interest in, or right to receive, the prize payment.
- (c) The commission shall adopt regulations necessary to implement Section 8880.325 or 8880.326 allowing for a limited right of prizewinners to assign their rights to prize payments and setting the reasonable fee for expenses to be recovered by the lottery. The regulations shall be consistent with and shall further the Legislature's intent that prizewinners who wish to do so should be afforded the opportunity to currently enjoy more of their winnings as provided by Section 1 of Chapter 890 of the Statutes of 1994. If the commission deems it necessary, the regulations may require, as a condition to any voluntary assignment pursuant to subdivision (d) of Section 8880.325, that the prizewinner be represented by independent legal counsel and receive independent financial and tax advice concerning the effect of the assignment.

#### **§ 8880.33. Distribution of Tickets and Shares**

- (a) The commission shall promulgate regulations specifying the manner of distribution, dissemination, or sale of lottery tickets or shares to lottery game retailers or directly to the public, and the incentives, if any, for lottery employees engaged in the distribution or sales activities.
- (b) The commission shall also make available upon request to lottery game retailers a model agreement to govern the division of prizes among multiple purchasers of a winning ticket or tickets purchased through a group purchase or pooling arrangement.

#### **§ 8880.335. Electronic or Electromechanical Devices to Dispense Lottery Tickets; Requirements for Use; Specifications**

The commission may promulgate regulations to authorize the use of an electronic or electromechanical device to dispense lottery tickets to be used in the play of any lottery game, if the device satisfies all of the following specifications:

- (a) The lottery ticket dispenser dispenses a paper or cardboard ticket that provides the purchaser of the ticket with an opportunity to win a prize in a lottery game, and the ticket fits one of the following descriptions:

- (1) The ticket has an ascertainable prize value, including a null prize value or an opportunity to enter another lottery game at the time it is dispensed, provided that the prize value of the ticket may be revealed to the purchaser of the ticket only after the purchaser has removed the ticket from the dispenser and only by physically removing a covering that hides numbers or symbols that are imprinted on the ticket.
  - (2) The ticket has no value at the time it is dispensed, except for restitution of the purchase price, but may acquire a redemption value as the result of a draw that occurs after the ticket is dispensed.
- (b) If the lottery ticket dispenser dispenses tickets described in paragraph (1) of subdivision (a), then neither the operation or functioning of the ticket dispenser nor the operation or functioning of any component, subcomponent, part, chip, or program of the ticket dispenser, or of any device in direct or indirect communication with the ticket dispenser, may affect the probability that a ticket that is dispensed will have a prize value other than a null prize value.
  - (c) If a lottery ticket dispenser includes any component, subcomponent, mechanism, or feature that is capable of generating numbers or symbols for use in the play of a lottery game, or if the lottery ticket dispenser communicates directly or indirectly with any device that includes any component, subcomponent, mechanism, or feature that is capable of generating numbers or symbols for use in the play of a lottery game, that component, subcomponent, mechanism, or feature may be used only in the production and dispensing of lottery tickets described in paragraph (2) of subdivision (a).
  - (d) A lottery ticket dispenser that dispenses tickets described in paragraph (2) of subdivision (a) shall not also be the device used in the subsequent draw to determine winning tickets and shall not be capable of causing, directly or indirectly, the operation of any device used in the subsequent draw to determine winning tickets.
  - (e) The lottery ticket dispenser shall not make change or otherwise dispense coins, currency, or any thing of value other than a lottery ticket.
  - (f) No lottery ticket dispenser that utilizes a television monitor or video screen shall display or reproduce the image or facsimile of, or any other visual representation of, a lottery ticket that will be or has been dispensed or issued from that lottery ticket dispenser. Nothing herein shall preclude the use of television monitors or video screens to transmit messages about lottery games and game results, if those messages are not generated by the lottery ticket dispenser.

**Article 4**  
**POWERS AND DUTIES OF THE DIRECTOR**

**§ 8880.34. Salary**

The Director shall receive the salary provided for by Chapter 6 (commencing with Section 11550 of Part 1 of Division 3 of Title 2. The Director shall devote his or her entire time and attention to the duties of his or her office and shall not be engaged in any other profession or occupation.

**§ 8880.35. Duties, Powers, and Jurisdiction**

The director shall, subject to the approval of the commission, perform all duties, exercise all powers and jurisdiction, assume and discharge all responsibilities, and carry out and effect all purposes of this chapter. The director shall act as secretary of the commission and executive officer of the lottery. The director shall supervise and administer the operation of the lottery in accordance with this chapter and the regulations promulgated by the commission. In addition, the director shall have access to criminal history information pursuant to Sections 11105 and 11105.01 of the Penal Code. In all decisions, the director shall take into account the particularly sensitive nature of the California State Lottery and shall act to promote and ensure integrity, security, honesty, and fairness of the operation and administration of the lottery. In decisions relating to advertising and promotion of the lottery, the director shall ensure that the lottery complies with both the letter and spirit of the laws governing false and misleading advertising, including Section 17500 and following of the Business and Professions Code.

**§ 8880.36. Power to Hire**

The Director shall hire, pursuant to the approval of the Commission, such professional, clerical, technical and administrative personnel as may be necessary to carry out the provisions of this Chapter.

**§ 8880.37. Deputy Directors**

Upon recommendation of the Director, the Governor shall appoint up to four deputy directors. The Director shall supervise each deputy director's activities. The Commission shall determine the compensation of each deputy director.

**§ 8880.38. Deputy Director for Security**

- (a) One of the deputy directors shall be the Deputy Director for Security, and be responsible for a security division to assure integrity, honesty, and fairness in the operation and administration of the California State Lottery, including, but not limited to, an examination of the qualifications and criminal history of all prospective and current employees, prospective and current Lottery Game Retailers, and prospective and current Lottery suppliers as defined in Section 8880.57. Fingerprints shall be obtained in this process and shall be furnished to the Department of Justice. The Department of Justice shall submit one set of the fingerprints to the Federal Bureau of Investigation as required, and

shall retain the other set to obtain the California criminal history record that may be maintained.

- (b) The Deputy Director for Security shall be qualified by training and experience, including at least five years of law enforcement experience, and shall have knowledge and experience in computer security, to fulfill these responsibilities. The Deputy Director for Security shall confer with the Attorney General or his or her designee and the Controller or his or her designee as the Deputy Director for Security deems necessary and advisable to promote and ensure integrity, security, honesty, and fairness of the operation and administration of the Lottery. The Deputy Director for Security shall report any alleged violation of any law related to the operations of the California State Lottery to the appropriate law enforcement agency and the Attorney General for further investigation and action. The Deputy Director for Security and lottery security officers shall have access to criminal history information pursuant to Sections 11105 and 11105.01 of the Penal Code.
- (c) Notwithstanding subdivision (a), the commission may adopt regulations for alternate methods of examining the qualifications and criminal history of lottery game retailers and lottery suppliers, as defined in Section 8880.57.

#### **§ 8880.39. Coordination with Commission**

The director shall confer as frequently as necessary or desirable, but not less than once every quarter, with the commission, on the operation and administration of the lottery. The director shall make available for inspection by the commission, upon request, all books, records, files, and other information and documents of the lottery, advise the commission and recommend any matters as he or she deems necessary and advisable to improve the operation and administration of the lottery.

#### **§ 8880.40. Study of Lottery Systems; Recommendations for Improvement**

The Director shall make an on-going study of the operation and the administration of the lotteries which may be in operation in other states or countries, of available literature on the subject, of Federal laws which may affect the operation of the Lottery, and of the reaction of citizens of the State to existing or proposed features in Lottery Games, with a view toward recommending improvements that will tend to serve the purposes of this Chapter. The Director may make recommendations to the Commission, Governor, and Legislature on any matters concerning the secure and efficient operation and administration of the lottery and the convenience of the purchasers of tickets and shares.

#### **§ 8880.41. Accountability; Books and Records**

The director shall make and keep books and records that accurately and fairly reflect each day's transactions, including, but not limited to, the distribution of tickets or shares to lottery game retailers, receipt of funds, prize claims, prize disbursements or prizes liable to be paid, expenses and other financial transactions of the lottery necessary so as to permit preparation of financial statements in conformity with generally accepted accounting principles and maintain daily accountability.

#### **§ 8880.42. Sales Reports; Form; Reporting Period**

The director shall provide a monthly cumulative sales report to the commission and the Controller within 15 days after the end of each month. The report shall include cumulative lottery sales by product, compared to the commission-approved budget and the estimated administrative expenses for the current fiscal year.

#### **§ 8880.43. [Section repealed 2009.]**

#### **§ 8880.44. Demographic Study of Lottery Players**

After the first six months of sales to the public, the Director shall engage an independent firm experienced in demographic analysis to conduct a special study which shall ascertain the demographic characteristics of the players of each Lottery Game, including but not limited to their income, age, sex, education, and frequency of participation. This report shall be presented to the Commission, the Governor, the State Controller, the State Treasurer, and the Legislature. Similar studies shall be conducted from time to time as determined by the Director.

#### **§ 8880.45. Study of the Effectiveness of Lottery Communications**

After the first full year of sales to the public, the Director shall engage in independent firm experienced in the analysis of advertising, promotion, public relations, incentives, and other aspects of communications to conduct a special study of the effectiveness of such communication activities and make recommendations to the Commission on the future conduct and future rate of expenditure for such activities. This report shall be presented to the Commission, the Governor, the State Controller, and the State Treasurer. Until the presentation of such report and action by the Commission, the Commission shall expend as close to 3 1/2 % as practical of the projected sales of all lottery tickets and shares for advertising, promotion, public relations, incentives, and other aspects of communications. Similar studies shall be conducted from time to time after the first such study as determined by the Director.

#### **§ 8880.46. Independent Audit of Lottery Security**

After the first nine months of sales to the public, the Commission shall engage an independent firm experienced in security procedures, including, but not limited to, computer security and systems security, to conduct a comprehensive study and evaluation of all aspects of security in the operation of the Lottery. This study shall include, but not be limited to, personnel security, Lottery Game Retailer security, Lottery Contractors security, security of manufacturing operations of Lottery Contractors, security against ticket counterfeiting and alterations and other means of fraudulently winning, security of drawings, computer security, data communications security, data base security, security controls and physical security, security in distribution, security involving validation and payment procedures, security involving unclaimed prizes, security aspects applicable to each particular Lottery Game, security against locating winners in Lottery Games having preprinted winners, and any other aspects of security applicable to the Lottery and its operations. The portion of the report containing the

overall evaluation of the Lottery in terms of each aspect of security shall be presented to the Commission, the Governor, the Controller, the Treasurer, the Attorney General, and the Legislature. The portion of the report containing specific recommendations shall be exempt from public disclosure and shall be presented only to the Commission, the Attorney General, the Controller and the Governor. Upon request, all materials and data used in the production of the report shall be made available to the Commission, the Attorney General, the Controller, and the Governor. Similar audits of security shall be conducted every two years after the completion of the first audit.

**Article 4.5**  
**PUBLIC AND FINANCIAL ACCOUNTABILITY**

**§ 8880.46.5. Independent Audit of Lottery Finances**

The director shall engage an independent firm of certified public accountants to conduct an annual audit of all accounts and transactions of the lottery. The audited financial statements shall be presented to the commission, the Governor, the Controller, the Treasurer, the Attorney General, and the Legislature not more than 120 days after the close of the fiscal year. The independent auditor's report shall be posted on the Internet.

**§ 8880.46.6. Quarterly and Annual Postaudits of Commission Accounts and Transactions**

The Controller shall conduct quarterly and annual postaudits of all accounts and transactions of the commission and other special postaudits as the Controller deems necessary. The Controller or his or her agents conducting an audit under this chapter shall have access and authority to examine any and all records of the commission, its distributing agencies, lottery contractors, and lottery game retailers. The Controller may issue a public report of any annual postaudit, which shall be posted on the Internet.

**Article 5**  
**LOTTERY GAME RETAILERS**

**§ 8880.47. Contracting with Retailers**

The commission shall promulgate regulations specifying the terms and conditions for contracting with lottery game retailers so as to provide adequate and convenient availability of tickets or shares to prospective buyers of lottery games.

**§ 8880.48. Selection of Retailers**

- (a) The director shall, pursuant to this chapter and the regulations of the commission, select as lottery game retailers those persons and organizations as the director deems shall best serve the public convenience and promote the sale of tickets or shares. No person under the age of 18 years shall be a lottery game retailer. In the selection of lottery game retailers, the director shall consider factors such as financial responsibility, integrity, reputation, accessibility of the place of business or activity to the public, security of the premises, the sufficiency of existing lottery game retailers to serve the public convenience, and the projected volume of the sales for the lottery game involved.
- (b) In order to allow an evaluation of the competence, integrity, and character of potential lottery game retailers, the commission may require information it deems necessary of any person, corporation, trust, association, partnership, or joint venture applying for authority to act as a lottery game retailer.
- (c) No person shall be a lottery game retailer if the person is engaged exclusively in the business of selling lottery tickets or shares. A person lawfully engaged in nongovernmental business on state property, an owner or lessee of an establishment which sells alcoholic beverages, and a civic and fraternal organization may be selected as a lottery game retailer. The director may contract with lottery game retailers on a seasonal or temporary basis.
- (d) The commission shall establish a formal written appeal process concerning the denial of an application for, or revocation of, a contract to be a lottery game retailer.

**§ 8880.49. Non-Assignability**

A contract with a lottery game retailer shall not be assignable or transferable.

**§ 8880.50. Termination of Lottery Game Retailer**

- (a) The commission shall promulgate regulations that prescribe the procedure by which a contract with a lottery game retailer may be terminated and the reasons for the termination, including, but not limited to, instances where a lottery game retailer knowingly sells a ticket or share to any person under the age of 18 years.

- (b) Any lottery game retailer who employs or uses the services of any person under the age of 18 years for the sale of lottery tickets or shares shall be subject to suspension or revocation of his or her contract. However, a person under the age of 18 years may be employed or used to sell lottery tickets or shares, if that person is under the continuous supervision of a person 21 years of age or older.

#### **§ 8880.51. Compensation for Lottery Game Retailers**

Unless the Commission shall otherwise determine, the compensation paid to Lottery Game Retailers shall be a minimum of 5% of the retail price of tickets or shares. In addition, an incentive bonus may be paid to such Lottery Game Retailers based on attainment of sales volume or other objectives as specified by the Director for each Lottery Game. In the case of a Lottery Game Retailer whose rental payments for his premises are contractually computed, in whole or in part, on the basis of a percentage of his retail sales, and where such computation of his retail sales is not explicitly defined to include sales of tickets or shares in a state-operated lottery, the compensation received by the Lottery Game Retailer from the Lottery shall be deemed as the amount of the retail sale for purposes of computing his rental payment.

#### **§ 8880.52. Sales to Minors**

- (a) No tickets or shares in Lottery Games shall be sold to persons under the age of 18 years. Any person who knowingly sells a ticket or share in a Lottery Game to a person under the age of 18 years is guilty of a misdemeanor. Any person under the age of 18 years who buys a ticket or share in a Lottery is guilty of a misdemeanor. In the case of lottery tickets or shares sold by Lottery Game Retailers or their employees, these persons shall establish safeguards to assure that the sales are not made to persons under the age of 18 years. In the case of the dispensing of tickets or shares by vending machines or other devices, the Commission shall establish safeguards to help assure that the vending machines or devices are not operated by persons under the age of 18 years.
- (b) All tickets or shares in Lottery Games shall include, and any devices which dispense tickets or shares in Lottery Games shall have posted in a conspicuous place thereupon, a notice which declares that state law prohibits the selling of a lottery ticket or share to, and the payment of any prize to, a person under the age of 18 years.

#### **§ 8880.53. Certificate of Authority**

No lottery tickets or shares shall be sold by a lottery game retailer unless the retailer has a certificate of authority, issued by the lottery, to sell lottery tickets.

#### **§ 8880.54. Bonding**

The Director may require a bond from any Lottery Game Retailer in an amount specified by regulation or may purchase blanket bonds covering the activities of selected Lottery Game Retailers. These bonds shall be payable upon order of the Commission.

**§ 8880.55. Lottery Game Retailer Payments**

- (a)** No payment by lottery game retailers to the lottery for tickets or shares shall be in cash. All payments for tickets or shares shall be in the form of a check, bank draft, electronic fund transfer, or other recorded financial instrument as determined by the director.
- (b)** Notwithstanding any other provision of law, the lottery may pay to lottery game retailers, by electronic fund transfer, subject to approval by the Controller's office, any credit balances that may result from lottery activities.

**Article 6**  
**LOTTERY SUPPLIERS**

**§ 8880.56. Procurement**

- (a) Notwithstanding other provisions of law, the director may purchase or lease goods and services as are necessary for effectuating the purposes of this chapter. The director may not contract with any private party for the operation and administration of the California State Lottery, created by this chapter. However, this section does not preclude procurements which integrate functions such as game design, supply, advertising, and public relations. In all procurement decisions, the director shall, subject to the approval of the commission, award contracts to the responsible supplier submitting the lowest and best proposal that maximizes the benefits to the state in relation to the areas of security, competence, experience, and timely performance, shall take into account the particularly sensitive nature of the California State Lottery and shall act to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery and the objective of raising net revenues for the benefit of the public purpose described in this chapter.
- (b) Notwithstanding any other provision of this chapter, the following shall apply to contracts or procurement by the lottery:
- (1) To ensure the fullest competition, the commission shall adopt and publish competitive bidding procedures for the award of any procurement or contract involving an expenditure of more than one hundred thousand dollars (\$100,000). The competitive bidding procedures shall include, but not be limited to, requirements for submission of bids and accompanying documentation, guidelines for the use of requests for proposals, invitations to bid, or other methods of bidding, and a bid protest procedure. The director shall determine whether the goods or services subject to this paragraph are available through existing contracts or price schedules of the Department of General Services.
  - (2) The contracting standards, procedures, and rules contained in this subdivision shall also apply with respect to any subcontract involving an expenditure of more than one hundred thousand dollars (\$100,000). The commission shall establish, as part of its bidding procedures for general contracts, subcontracting guidelines that implement this requirement.
  - (3) The provisions of Article 1 (commencing with Section 11250) of Chapter 3 of Part 1 of Division 3 apply to the commission.
  - (4) The commission is subject to the Small Business Procurement and Contract Act, as provided in Chapter 6.5 (commencing with Section 14835) of Part 5.5 of Division 3.
  - (5) In advertising or awarding any general contract for the procurement of goods and services exceeding five hundred thousand dollars (\$500,000), the commission and

the director shall require all bidders or contractors, or both, to include specific plans or arrangements to utilize subcontracts with socially and economically disadvantaged small business concerns. The subcontracting plans shall delineate the nature and extent of the services to be utilized, and those concerns or individuals identified for subcontracting if known.

It is the intention of the Legislature in enacting this section to establish as an objective of the utmost importance the advancement of business opportunities for these small business concerns in the private business activities created by the California State Lottery. In that regard, the commission and the director shall have an affirmative duty to achieve the most feasible and practicable level of participation by socially and economically disadvantaged small business concerns in its procurement programs.

By July 1, 1986, the commission shall adopt proposal evaluation procedures, criteria, and contract terms which are consistent with the advancement of business opportunities for small business concerns in the private business activities created by the California State Lottery and which will achieve the most feasible and practicable level of participation by socially and economically disadvantaged small business concerns in its procurement programs. The proposal evaluation procedures, criteria, and contract terms adopted shall be reported in writing to both houses of the Legislature on or before July 1, 1986.

For the purposes of this section, socially and economically disadvantaged persons include women, Black Americans, Hispanic Americans, Native Americans (including American Indians, Eskimos, Aleuts, and Native Hawaiians), Asian-Pacific Americans (including persons whose origins are from Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, the United States Trust Territories of the Pacific, Northern Marianas, Laos, Cambodia, and Taiwan), and other minorities or any other natural persons found by the commission to be disadvantaged.

The commission shall report to the Legislature by July 1, 1987, and by each July 1 thereafter, on the level of participation of small businesses, socially and economically disadvantaged businesses, and California businesses in all contracts awarded by the commission.

- (6)** The commission shall prepare and submit to the Legislature by October 1 of each year a report detailing the lottery's purchase of goods and services through the Department of General Services. The report shall also include a listing of contracts awarded for more than one hundred thousand dollars (\$100,000), the name of the contractor, amount and term of the contract, and the basis upon which the contract was awarded.

The lottery shall fully comply with the requirements of paragraphs (2) to (5), inclusive, except that any function or role which is otherwise the responsibility of the Department of Finance or the Department of General Services shall instead, for purposes of this subdivision, be the sole responsibility of the lottery, which shall have the sole authority to perform that function or role.

## **§ 8880.57. Disclosures**

In order to allow an evaluation of the competence, integrity, and character of potential Lottery Contractors for the California State Lottery, any person, corporation, trust, association, partnership, or joint venture that submits a bid, proposal, or offer as part of procurement for a contract for any goods or services for the California State Lottery, other than materials, supplies, services, and equipment which are common to the ordinary operations of state agencies, shall comply with each of the following:

- (a)** Bidders, as required by the Lottery, shall disclose the bidder's name and address and, as applicable, the name and address of the following:
  - (1)** If the bidder is a corporation, the officers, directors, and each owner, directly or indirectly, of any equity security or other ownership interest in the corporation. However, in the case of owners of publicly held equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to beneficially own 5 percent or more of the publicly held securities need be disclosed.
  - (2)** If the bidder is a trust, the trustee and all persons entitled to receive income or benefit from the trust.
  - (3)** If the bidder is an association, the members, officers, and directors.
  - (4)** If the bidder is a subsidiary, the officers, directors, and stockholders of the parent company thereof. However, in the case of owners of publicly held equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to beneficially own 5 percent or more of the publicly held securities need be disclosed.
  - (5)** If the bidder is a partnership or joint venture, all of the general partners, limited partners, or joint venturers.
  - (6)** If the parent company, general partner, limited partner, or joint venturer of any bidder is itself a corporation, trust, association, subsidiary, partnership, or joint venture, then the disclosure of information needed to determine ultimate ownership. However, in the case of owners of publicly held equity securities of a publicly traded corporation, only the names and addresses of those known to the corporation to beneficially own 5 percent or more of the publicly held securities need be disclosed.
  - (7)** If the bidder proposes to subcontract any substantial portion of the work to be performed to a subcontractor, then all of the information required in this section shall be disclosed for the subcontractor as if it were itself a bidder.
- (b)** After receipt of a bid, proposal, or offer, but prior to the award of a contract, the Commission may require a potential Lottery Contractor to provide any or all of the following information:

- (1) A disclosure of all the states and jurisdictions in which the bidder does business, and the nature of that business for each state or jurisdiction.
- (2) A disclosure of all the states and jurisdictions in which the bidder has contracts to supply gaming goods or services, including, but not limited to, lottery goods and services, and the nature of the goods or services involved for each state or jurisdiction.
- (3) A disclosure of all the states and jurisdictions in which the bidder has applied for, has sought renewal of, has received, has been denied, has pending, or has had revoked a gaming license of any kind, and the disposition in each state or jurisdiction. If any gaming license has not been renewed or any gaming license application has been either denied or has remained pending for more than six months, all of the facts and circumstances underlying this failure to receive a gaming license shall be disclosed.
- (4) A disclosure of the details of any conviction or judgment of a state or federal court against the bidder of any gambling-related offense, or criminal offense other than traffic violations.
- (5) A disclosure of the details of any bankruptcy, insolvency, or reorganization, or any judgment or pending litigation involving fraud or deceit against the bidder.
- (6) A disclosure for each bidder of the employment, residence, educational, and military history since the age of 18 years of any of its owners, directors, members, officers, employees, or agents identified by the Lottery.
- (7) A disclosure consolidating all reportable information on all reportable contributions by the bidder to any local, state, or federal political candidate or political committee in this state for the past five years that is reportable under any existing state or federal law.
- (8) A disclosure of the identity of any entity with which the bidder has a joint venture or other contractual arrangement to supply any state or jurisdiction with gaming goods or services, including, but not limited to, lottery goods or services; including a disclosure with regard to the entity of all of the information requested under paragraphs (1) to (8), inclusive.
- (9) In the instance of a procurement for the printing of lottery tickets, for goods or services involving the receiving or recording of number selections, or for goods or services involving the determination of winners, an additional disclosure consisting of the individual federal and state income tax returns for the past three years and a current individual financial statement for each bidder and any of the bidder's owners, directors, members, officers, employees, or agents identified by the Lottery. The disclosures provided in this paragraph shall be considered confidential and shall be transmitted directly to the Deputy Director for Security and the Attorney General for their review.

- (10) Any additional disclosures and information as may be appropriate for the procurement involved as determined by the Commission.
- (c) With respect to the persons or entities described in paragraphs (1) to (7), inclusive, of subdivision (a), the Commission may request the disclosure of any information required in subdivision (b), which shall be relevant to the award of any contract.
- (d) No contract with any bidder who has not complied with the disclosure requirements described in this section shall be entered into or be enforceable. Any contract with any lottery contractor who does not comply with these requirements for maintaining the currency of the disclosures during the term of the contract as may be specified in the contract may be terminated by the Commission. In addition, the Commission may deny or cancel a contract with a lottery contractor or any of the persons or entities included in paragraphs (1) to (7), inclusive, of subdivision (a) if any of the following apply:
- (1) False statements have been made in any information which is required under this section.
  - (2) Any of the persons or entities have been convicted of a crime punishable as a felony.
  - (3) Any of the persons or entities have been convicted of an offense involving dishonesty or any gambling-related offense.
- (e) This section shall be construed broadly and liberally to achieve the end of full disclosure of all information necessary to allow for a full and complete evaluation of the competence, integrity, and character of potential suppliers of the California State Lottery Commission.

#### **§ 8880.58. Compliance with Applicable Laws**

Each Lottery Contractor shall perform its contract consistent with the laws of this State, Federal law, and laws of the state or states in which such supplier is performing or producing, in whole or in part, any of the goods or services contracted for hereunder.

#### **§ 8880.59. Performance Bond**

Any Lottery Contractor may be required by the Lottery to post, with the Commission an acceptable performance bond, letter of credit, or other form of security or guarantee of performance, using a surety acceptable to the Commission, in an amount sufficient to protect the Lottery in case of default by the contractor. The Commission may require any Lottery Game Retailer to provide a fidelity bond which shall be payable upon order of the Commission.

#### **§ 8880.60. Acceptance by Commission Member of Consideration or Employment with Lottery Contractor; Prohibition**

No member of the commission shall, for a two-year period after the end of the member's term, accept any consideration from, whether directly or indirectly, and shall not accept any employment with, whether as an employee, independent contractor, or consultant, any lottery

contractor successful in a major procurement whose contract award was subject to formal approval by the commission. No director shall accept any consideration from, whether directly or indirectly, and shall not accept any employment with, whether as an employee, independent contractor, or consultant, any lottery contractor successful in a major procurement for a period of two years commencing on the last day that the director is employed by the lottery. No other lottery employee involved in the evaluation of or recommendation to award a major procurement shall accept any consideration from, or employment with, any lottery contractor successful in that procurement for a period of one year commencing on the last day that the person is employed by the lottery. In the event that the director, any member of the commission, or other lottery employee violates this subdivision, the commission may terminate the contract between the lottery and the lottery contractor for the major procurement. The Attorney General shall investigate the facts surrounding the violation and shall recommend to the commission any appropriate civil remedies which the lottery has against the lottery contractor, member of the commission, director, or other lottery employee due to the violation, including, but not limited to, action to terminate the lottery contractor's contract where appropriate.

For purposes of this subdivision, "major procurement" means any procurement of materials, supplies, services, or equipment other than those common to the ordinary operations of state agencies.

The prohibitions imposed by this section shall not apply to any person who left government service prior to September 28, 1987, except that a person who returns to government service on or after that date shall thereafter be covered thereby.

**Article 7**  
**STATE LOTTERY FUND**

**§ 8880.61. State Lottery Fund**

- (a) A special fund to be known as the "State Lottery Fund" is created within the State Treasury that is continuously appropriated for carrying out the purposes of this chapter. The fund shall receive all proceeds from the sales of lottery tickets or shares, the temporary line of credit for initial startup costs, and all other moneys credited to the Lottery from any other source. The Treasurer shall designate a depository to receive lottery proceeds for transmission to the State Treasury and for deposit in the State Lottery Fund.
- (b) Except as provided by this chapter, moneys in the General Fund or any other state fund shall not be transferred to the State Lottery Fund or otherwise used to support the California State Lottery or the Lottery Commission, or to pay the debts, obligations, or encumbrances of the State Lottery Fund or the Commission.
- (c) Notwithstanding any other law, the Controller may use the moneys in the State Lottery Fund for loans to the General Fund as provided in Sections 16310 and 16381. Interest shall be paid on all moneys loaned to the General Fund from the State Lottery Fund. Interest payable shall be computed at a rate of 110 percent of the Pooled Money Investment Account rate, with the interest accruing on the date the loan is made from the State Lottery Fund to the General Fund. This subdivision does not authorize any transfer that will interfere with the carrying out of the object for which the State Lottery Fund was created.

**§ 8880.62. Fund Disbursement**

Funds shall be disbursed from the State Lottery Fund by the Controller for any of the purposes authorized by this chapter.

**§ 8880.63. Prize Payments**

***[Currently in effect, see pg. 40 for 8880.63, operative date contingent.]***

- (a) As nearly as practical, at least 50 percent of the total projected revenue, computed on a fiscal-year basis, accruing from the sales of all lottery tickets or shares shall be apportioned for payment of prizes.
- (b) This section shall become inoperative on April 1 of the year following notification from the Controller to the Legislature and the Governor that the events described in paragraphs (1) and (2) of subdivision (c) of Section 8880.4.5 have occurred, and as of the following January 1 is repealed, unless a later enacted statute, that is enacted before January 1 of that following year, deletes or extends the dates on which it becomes inoperative and is repealed.

**§ 8880.64. Expenses**

*[Currently in effect, see pg. 41 for 8880.64, operative date contingent.]*

- (a) Expenses of the lottery shall include all costs incurred in the operation and administration of the lottery and all costs resulting from any contracts entered into for the purchase or lease of goods and services required by the lottery, including, but not limited to, the costs of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, incentives, public relations, communications, compensation paid to the lottery game retailers, bonding for lottery game retailers, printing, distribution of tickets or shares, reimbursement of costs of services provided to the lottery by other governmental entities, and for the costs of any other goods and services necessary for effectuating the purposes of this chapter. As a promotional expense, the commission may supplement the prize pool of a game or games upon its determination that a supplement will benefit the public purpose of this chapter.
- (b)
  - (1) Not more than 13 percent of the total annual revenues accruing from the sale of all lottery tickets and shares from all lottery games shall be expended for the payment of the expenses of the lottery.
  - (2) Expenses recorded as a result of a nonmonetary exchange shall not be considered an expense for the purposes of Section 8880.4 and this section. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.
- (c) This section shall become inoperative on April 1 of the year following notification from the Controller to the Legislature and the Governor that the events described in paragraphs (1) and (2) of subdivision (c) of Section 8880.4.5 have occurred, and as of the following January 1 is repealed, unless a later enacted statute, that is enacted before January 1 of that following year, deletes or extends the dates on which it becomes inoperative and is repealed.

**§ 8880.65. Transfer of Net Revenues**

The funds remaining in the State Lottery Fund after accrual of all revenues to the State Lottery Fund, and after accrual of all obligations of the Lottery for prizes, expenses, and the repayment of any funds advanced from the temporary line of credit for initial startup costs and interest thereon shall be deemed to be the net revenues of the Lottery. The net revenues of the Lottery shall be transferred from the State Lottery Fund not less than quarterly to the California State Lottery Education Fund.

**§ 8880.66. Intergovernmental Reimbursements for Services**

The Commission shall reimburse all other governmental entities for any and all services necessary to effectuate the purpose of this Chapter provided by such governmental entities to the State Lottery Commission.

**§ 8880.67. [Section repealed 2009.]**

**Article 8**  
**MISCELLANEOUS**

**§ 8880.68. Taxes**

Except as provided in subdivision (d), no state or local taxes shall be imposed upon the following:

- (a) The sale of lottery tickets or shares of the lottery.
- (b) Any prize awarded by the lottery.
- (c) Any amount received by a prizewinner pursuant to an assignment under Section 8880.325.
- (d) This section does not prohibit the imposition of property taxes or license fees for any noncash prize that is awarded by the lottery.

**§ 8880.69. Preemption of Local Laws**

It is the intent of this Chapter that all matters related to the operation of the Lottery as established hereby be governed solely pursuant to this Chapter and be free from regulation or legislation of local governments, including a city, city and county, or county.

**§ 8880.70. Lawful Activity**

Any other state or local law providing any penalty, disability, restriction, or prohibition for the possession, manufacture, transportation, distribution, advertising, or sale of any lottery tickets or shares shall not apply to the tickets or shares of the California State Lottery.

A business or entity may manufacture, assemble, repair, maintain, print, or otherwise produce and transport various devices, paraphernalia, equipment, tickets, or other products which are used in a state lottery.

**§ 8880.71. Restrictions**

No person shall be selected, appointed or hired to be a Commissioner, Director, deputy director, or Commission employee who has been convicted of a felony or any gambling-related offense.

**§ 8880.72. Service of Process; Actions Against Director, Commission, or Lottery**

All civil process in any action brought against the Director, the Commission, or the Lottery and any subpoena for the production of Lottery records shall be served upon the Director or his or her designated representative at the Lottery headquarters in Sacramento.

**LOTTERY ACT PROVISIONS:**  
**OPERATIVE DATE CONTINGENT**

**§ 8880.4. Allocation of Revenues [*Operative date contingent.*]**

Revenues of the state lottery shall be allocated as follows:

- (a)** Not less than 84 percent of the total annual revenues from the sale of state lottery tickets or shares shall be returned to the public in the form of prizes and net revenues to benefit public education.
  - (1)** Fifty percent of the total annual revenues shall be returned to the public in the form of prizes as described in this chapter.
  - (2)** At least 34 percent of the total annual revenues shall be allocated to the benefit of public education, as specified in Section 8880.5. However, for the 1998-99 fiscal year and each fiscal year thereafter, 50 percent of any increase in the amount calculated pursuant to this paragraph from the amount calculated in the 1997-98 fiscal year shall be allocated to school districts and community college districts for the purchase of instructional materials, on the basis of an equal amount per unit of average daily attendance, as defined by law, and through a fair and equitable distribution system across grade levels.
  - (3)** All unclaimed prize money shall revert to the benefit of public education, as provided for in subdivision (e) of Section 8880.32.
  - (4)** All of the interest earned upon funds held in the State Lottery Fund shall be allocated to the benefit of public education, as specified in Section 8880.5. This interest is in addition to, and shall not be considered as any part of, the 34 percent of the total annual revenues that is required to be allocated for the benefit of public education as specified in paragraph (2).
  - (5)** No more than 16 percent of the total annual revenues shall be allocated for payment of expenses of the lottery as described in this chapter. To the extent that expenses of the lottery are less than 16 percent of the total annual revenues, any surplus funds also shall be allocated to the benefit of public education, as specified in this section or in Section 8880.5.
- (b)** Funds allocated for the benefit of public education pursuant to subdivision (a) are in addition to other funds appropriated or required under existing constitutional reservations for educational purposes. No program shall have the amount appropriated to support that program reduced as a result of funds allocated pursuant to subdivision (a). Funds allocated for the benefit of public education pursuant to subdivision (a) shall not supplant funds committed for child development programs.

- (c) None of the following shall be considered revenues for the purposes of this section:
  - (1) Revenues recorded as a result of a nonmonetary exchange. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.
  - (2) Reimbursements received by the lottery for the cost of goods or services provided by the lottery that are less than or equal to the cost of the same goods or services provided by the lottery.
- (d) Reimbursements received in excess of the cost of the same goods and services provided by the lottery, as specified in paragraph (2) of subdivision (c), are not a part of the 34 percent of total annual revenues required to be allocated for the benefit of public education, as specified in paragraph (2) of subdivision (a). However, this amount shall be allocated for the benefit of public education as specified in Section 8880.5.
- (e) This section shall become operative on April 1 of the year following notification from the Controller to the Legislature and the Governor that the events described in paragraphs (1) and (2) of subdivision (c) of Section 8880.4.5 have occurred.

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**§ 8880.63. Prize Payments [*Operative date contingent.*]**

- (a) As nearly as practical, 50 percent of the total projected revenue, computed on a fiscal-year basis, accruing from the sales of all lottery tickets or shares shall be apportioned for payment of prizes.
- (b) This section shall become operative on April 1 of the year following notification from the Controller to the Legislature and the Governor that the events described in paragraphs (1) and (2) of subdivision (c) of Section 8880.4.5 have occurred.

**§ 8880.64. Expenses [*Operative date contingent.*]**

- (a)** Expenses of the lottery shall include all costs incurred in the operation and administration of the lottery and all costs resulting from any contracts entered into for the purchase or lease of goods and services required by the lottery, including, but not limited to, the costs of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, incentives, public relations, communications, compensation paid to the lottery game retailers, bonding for lottery game retailers, printing, distribution of tickets or shares, reimbursement of costs of services provided to the lottery by other governmental entities, and for the costs of any other goods and services necessary for effectuating the purposes of this chapter. As a promotional expense, the commission may supplement the prize pool of a game or games upon its determination that a supplement will benefit the public purpose of this chapter.
- (b)**

  - (1)** Not more than 16 percent of the total annual revenues accruing from the sale of all lottery tickets and shares from all lottery games shall be expended for the payment of the expenses of the lottery.
  - (2)** Expenses recorded as a result of a nonmonetary exchange shall not be considered an expense for the purposes of Section 8880.4 and this section. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.
- (c)** This section shall become operative on April 1 of the year following notification from the Controller to the Legislature and the Governor that the events described in paragraphs (1) and (2) of subdivision (c) of Section 8880.4.5 have occurred.