

No. 17-1010

In the Supreme Court of Texas

**DAWN NETTLES,
Petitioner,**

v.

**GTECH CORPORATION,
Respondent.**

RESPONSE TO PETITION FOR REVIEW

**On Petition for Review from the
Court of Appeals for the Fifth District of Texas in Dallas**

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ABBREVIATIONS

PARTIES:

“Commission” means the Texas Lottery Commission.

“GTECH” means Respondent GTECH Corporation. GTECH’s corporate parent merged with International Game Technology Company and is now known as “IGT Global Solutions Corporation.” Because the parties and courts have continued to refer to GTECH by its former name, GTECH does so here.

“Nettles” means Petitioner Dawn Nettles.

RECORD REFERENCES:

The Appendix is cited as “Tab [tab letter]”

The Clerk’s Record is cited as “CR[pg.#]”

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HYPERLINKS:

Text in [blue and underlined](#) is hyperlinked to the Appendix attached to this brief.

SUPPLEMENTAL STATEMENT OF THE CASE

GTECH offers this supplement to clarify the nature of the case and the context provided by a parallel case.

This is one of two cases before the Court involving claims against GTECH, a contractor for the Texas Lottery Commission, concerning an allegedly deceptive lottery ticket called “Fun 5’s.” (See [Tab A](#).) The other case is *GTECH Corp. v. Steele*, No. 03-16-00172-CV, 2018 WL 454922 (Tex. App.—Austin Jan. 11, 2018) ([Tab B](#)), in which GTECH has filed a petition for review that is currently pending in case number 18-0159 (“*Steele*”) ([Tab C](#)).

The issue in both cases is whether GTECH has derivative sovereign immunity for following the Commission’s directions regarding the form of a \$5 scratch-off ticket. By statute, the Commission had complete control over the ticket’s design, and, by contract, GTECH was required to accept and support the Commission’s directions. Yet, in both cases, lottery-ticket purchasers assert fraud claims against GTECH and seek millions of dollars in damages because the design of the scratch-off ticket—which the Commission directed—allegedly misled them into believing they had won a prize. (CR439-43, 484, 486.)

The two courts of appeals reached different conclusions. The Dallas court held in this case that derivative sovereign immunity bars all claims while the *Steele* court permitted a fraud claim to be asserted against GTECH.

STATEMENT OF JURISDICTION

GTECH agrees this Court has jurisdiction, but respectfully submits that the issue presented by this case—how to apply derivative sovereign immunity under *Brown & Gay Engineering, Inc. v. Olivares*, 461 S.W.3d 117 (Tex. 2015)—is better decided by granting review in *Steele*, case number 18-0159. (See [Tab C](#).)

The lengthy, published opinion in *Steele* incorrectly permits a “mass action” against GTECH by 1,238 individuals who seek more than \$500 million in compensatory damages. More importantly, the opinion establishes expansive precedent that will permit decisions by the sovereign to be improperly attacked in a broad range of cases.

In contrast, the unpublished memorandum opinion in this case focuses narrowly on the claims of a single lottery-ticket purchaser. It correctly holds that GTECH is entitled to derivative sovereign immunity because it followed the Commission’s directions regarding the preparation of a scratch-off lottery ticket. The opinion does not threaten principles of state sovereignty and contains no error requiring correction.

ISSUES PRESENTED

Did the court of appeals correctly determine that GTECH has derivative sovereign immunity from claims that complain of lottery-ticket specifications directed by the Texas Lottery Commission, which GTECH was contractually bound to accept and implement?

Relatedly:

1) Did the court of appeals correctly conclude that extending immunity to GTECH is consistent with the fiscal justifications underlying sovereign immunity when the plaintiff's claims attack the Commission's statutorily authorized directives and challenge the state's choices about how to use public funds?

2) Did the court of appeals correctly hold that GTECH was acting on behalf of the Commission, without exercising independent discretion, when GTECH had no authority to reject the Commission's decisions and it is undisputed that the plaintiff's claims arise from decisions made by the Commission?

3) Is *GTECH Corp. v. Steele*, a related case pending before this Court as No. 18-0159, a better case in which to resolve a split of authority about how to apply derivative sovereign immunity principles, given that the court of appeals' published opinion in *Steele* has a much broader effect on the state's jurisprudence?

STATEMENT OF FACTS

GTECH provides the following background to clarify key facts and the legislative scheme that informs the analysis of the issues presented. *See* TEX. R. APP. P. 53.3(b).

A. The Legislature delegated exclusive authority to the Lottery Commission to develop and control lottery games.

This case concerns the Texas Lottery, which generates billions of dollars every year for education and veterans' services across Texas.¹ The Texas Lottery came into existence in 1991, when Texas voters adopted a constitutional amendment empowering the Legislature to “authorize the State to . . . operate lotteries.” TEX. CONST. art. III, § 47(e).

Acting on this authority, the Legislature enacted statutes requiring the Commission and its executive director to “exercise strict control and close supervision over all lottery games conducted in this state” and “ensure that games are conducted fairly and in compliance with the law.” TEX. GOV'T CODE §§ 466.014(a), 467.101(b). The Commission's executive director is charged with “prescrib[ing] the form of [lottery] tickets” and adopting (through publication in the Texas Register) rules governing all aspects of lottery games. *Id.* §§ 466.015, 466.251(a), 467.102; *see* 16 TEX. ADMIN. CODE § 401.302.

¹ *See* Tex. Lottery Comm'n, Summary Financial Information, *available at* <https://www.txlottery.org/export/sites/lottery/Documents/financial/Monthly-Transfer-Document.pdf>.

Consistent with its legislative authority, the Commission's rules provide that if a dispute arises about whether a ticket is a winner, the claimant's "exclusive remedy" is reimbursement "for the cost of the disputed ticket." 16 TEX. ADMIN. CODE § 401.302(i).

B. The Commission contracted with GTECH to help it develop lottery tickets, but retained exclusive control over all details.

The constitutional amendment allowing for a lottery permitted the Legislature to "authorize the State to enter into a contract with one or more legal entities that will operate lotteries on behalf of the State." TEX. CONST. art. III, § 47(e). The Legislature in turn authorized the Commission to "contract with or employ a person to perform a function, activity, or service in connection with the operation of the lottery." TEX. GOV'T CODE § 466.014(b).

Based on this authority, the Commission contracted with GTECH. (CR117, 475.) The parties' contracts delineate their respective roles. The contracts specify that while GTECH will "work closely with [the Commission] to identify instant ticket games," the Commission "make[s] all final decisions regarding the selection" of a scratch-off ticket. (RFP at 70.)²

² Tex. Lottery Comm'n Request for Proposals for Instant Ticket Mfg. & Servs. (Nov. 7, 2011), *available at* https://www.txlottery.org/export/sites/lottery/Documents/procurement/Book_1_ITM_RFP_FINAL_110711.pdf (the "RFP"). The parties agree that the RFP "is a matter of public record" and "was incorporated into and made a part of" GTECH's contracts with the Commission. (CR421; *see* [Tab A](#) at *2; *see also* TEX. R. EVID. 201(b)-(c).)

When the Commission selects a concept for a lottery ticket, GTECH submits draft working papers that include a proposed design, prize structure, and rules. (CR475.) The Commission's staff members mark up the draft working papers and direct GTECH to make specific changes. (CR475-76.) GTECH revises the draft working papers as directed and sends them back for further review. (*Id.*) The Commission often makes several rounds of revisions before it approves final working papers, which set forth detailed specifications that GTECH must follow when manufacturing the tickets to be sold by the Commission through retail outlets. (*Id.*)

Nettles asserts that the Commission "relies on GTECH for [lottery-ticket] language," that GTECH's representatives independently review the Commission's directions and decide "whether to make the requested change," and that GTECH has "responsibility" for the clarity of instructions on lottery tickets. (Pet. at 4-6, 8.) None of that is correct. In truth, the Commission relies on GTECH's draft working papers only "as a starting point" (CR397); GTECH cannot refuse to make changes directed by the Commission (RFP at 14); and the Commission has exclusive control over the ultimate design and specifications of lottery tickets (TEX. GOV'T CODE § 466.251(a); RFP at 14; CR130).

Indeed, GTECH's role is contractually limited to submitting *proposed* specifications; it has no authority to determine *final* specifications. The contracts specify that:

- “[f]inal decisions regarding the direction or control of the Lottery are always the prerogative of the [Commission] in its sole discretion” (RFP at 14);
- scratch-off tickets “shall in all respects conform to, and function in accordance with, Texas Lottery-approved specifications and designs” (CR130); and
- the Commission “reserves the sole right to reject [GTECH's] guidance for any reason” while “[GTECH], conversely, must accept and support the decisions of the [Commission]” (RFP at 14).

C. The Commission selected the final design of the “Fun 5’s” lottery ticket.

The “Fun 5’s” lottery ticket included five games, one of which was a tic-tac-toe game. (CR425-26, 475-76.) The tic-tac-toe game consisted of a 3-by-3 grid of symbols, a “PRIZE” box, and a box labeled “5X BOX,” which is known as a “multiplier.” (CR426.) If a player scratched off the grid and revealed “three [matching] symbols in any one row, column, or diagonal line,” the player would win the prize revealed by scratching off the “PRIZE” box. (*Id.*) And if the player scratched off the multiplier “5X BOX” and revealed a symbol in that box, the player would “win 5 times that PRIZE.” (*Id.*) The final, Commission-approved ticket looked like this:



(CR432.)

GTECH's draft working papers for "Fun 5's" proposed that a symbol would appear in the multiplier "5X BOX" only on tickets with a winning tic-tac-toe game, and not on non-winning tickets. (CR476.) However, the Commission was concerned that this design could make the ticket an easy target for "microscratching," a technique by which an individual (often an employee of a retail ticket outlet) uses a pin to reveal a microscopic portion of an unsold ticket to

determine whether it is a winner. (CR367, 476.) Because only the “5X BOX” would need to be microscratched to identify a winning ticket, the Commission directed GTECH to revise the game to include a symbol in the “5X BOX” on a percentage of both winning and non-winning tickets. (CR428, 466, 476.)

GTECH followed the Commission’s directions and prepared final working papers. (CR476.) The Commission approved the final working papers and prepared official rules and specifications that it published in the Texas Register. *See* Tex. Lottery Comm’n, Instant Game No. 1592 “Fun 5’s,” 39 Tex. Reg. 4799 (2014). GTECH was not involved in preparing the official rules and specifications, selling the tickets, or communicating with prospective purchasers. (CR373, 476.) As Nettles admits, GTECH did not do “anything contrary to what the [Commission] signed off on.” (RR13.)

D. Nettles and the plaintiffs in *Steele* sued GTECH, claiming to be defrauded by the tic-tac-toe game on the “Fun 5’s” lottery ticket.

Soon after the Commission began selling “Fun 5’s” tickets, the media reported that some purchasers were claiming to be confused by the tic-tac-toe game.³ They complained that the design of the tickets misled them into believing they were entitled to receive five times the prize in the “PRIZE” box merely because they found a symbol in the “5X BOX”—even though they did not have

³ *E.g.*, Brittney Martin, *A half-million win? Scratch that, lottery tells disappointed ticket buyers*, DALLAS MORNING NEWS (Sept. 16, 2014), <http://www.dallasnews.com/news/state/headlines/20140916-a-half-million-win-scratch-that-lottery-tells-dissappointed-ticket-buyers.ece>.

tic-tac-toe. Some expressed their complaints to Nettles, who operates a website devoted to critiquing the Texas Lottery. Nettles thereafter bought “Fun 5’s” tickets and sued GTECH in Dallas, alleging fraud, fraud by non-disclosure, aiding-and-abetting fraud, and conspiracy. (CR439-42.) She also asserted claims against the Commission for fraud and fraud by non-disclosure. (CR439-42; 448-51.) Nettles sought more than \$4 million in compensatory damages, plus exemplary damages. (CR69-71, 439-43.)

Meanwhile, more than 1,200 other ticket purchasers filed the *Steele* case, a “mass action” in Austin asserting nearly identical claims. Like Nettles, the *Steele* plaintiffs allege that the design of the “Fun 5’s” tickets misled them into believing they were entitled to five times the “PRIZE” box prize even though they did not have tic-tac-toe, merely because they found a symbol in the “5X BOX.” (CR416-43, 448-51; see [Tab B](#) at *16.) They seek compensatory damages in excess of \$500 million, plus exemplary damages. ([Tab B](#) at *16.)

E. Nettles’s claims against GTECH were dismissed, while the fraud claim against GTECH in *Steele* was allowed to move forward.

In response to Nettles’s claims, the Commission filed a plea to the jurisdiction based on sovereign immunity, and GTECH filed a plea to the jurisdiction based on derivative sovereign immunity. (CR101-06, 452; [Tab A](#) at *3.) The trial court granted both pleas and dismissed Nettles’s lawsuit. (CR317; CR490.) Nettles appealed (CR491), though she later dismissed her appeal as to the

Commission ([Tab A](#) at *3). The Dallas Court of Appeals affirmed, holding that GTECH “met its burden to establish that Nettles’s claims are barred by sovereign immunity.” (*Id.* at *9.)

GTECH also filed a plea to the jurisdiction in *Steele*, but the trial court in that case denied its plea. ([Tab B](#) at *2.) The Austin Court of Appeals reversed in part and dismissed some—but not all—of the claims against GTECH. It held that GTECH has immunity from the claims of aiding-and-abetting fraud and conspiracy because those claims “complain substantively of underlying decisions or directives of [the Commission], not any actions by GTECH within its independent discretion, thereby implicating sovereign immunity.” (*Id.* at *20.) But the Austin Court of Appeals held that immunity did not bar the plaintiffs’ direct fraud claim, reasoning that GTECH had “discretion to choose to . . . alert” the Commission that ticket purchasers might become confused by the specifications the Commission directed GTECH to implement. (*Id.* at *25.) GTECH’s petition for review in *Steele* is pending in this Court. ([Tab C.](#))

SUMMARY OF THE ARGUMENT

The doctrine of derivative sovereign immunity plays an important role in safeguarding sovereign prerogatives by immunizing state-directed decisions implemented by government contractors. But questions about the doctrine have arisen as courts of appeals have struggled with how to apply this Court’s decision

in *Brown & Gay Engineering, Inc. v. Olivares*, 461 S.W.3d 117 (Tex. 2015). Those questions can best be addressed in *Steele*, rather than this case.

Here, the court of appeals correctly applied the doctrine of derivative immunity to hold that GTECH is immune from Nettles's claims attacking the form of a lottery ticket that was directed by the Commission under its exclusive statutory authority. GTECH was contractually required to accept and support the Commission's decisions and manufacture lottery tickets that "in all respects conform to, and function in accordance with, Texas Lottery-approved specifications and designs." (CR130; *see* RFP at 14.) Nettles therefore challenges actions GTECH took *as* the Commission and at its direction, not actions taken *for* the Commission in the exercise of independent discretion. This is precisely the type of claim that derivative immunity bars.

The decision below is also consistent with the fiscal justifications for immunity. When claims against a government contractor would effectively override governmental directives, the claims inherently seek to divert public funds from their government-intended purpose. Nettles admits that the Commission directed the complained-of acts, so her claims necessarily seek to override the Commission's decisions, which were made within its legislatively delegated authority and fueled by public funds. Accordingly, just as Nettles cannot sue the

Commission for its decisions, she cannot sue the Commission's contractor for implementing those decisions.

In contrast to the correct decision in this case, the decision of the Austin Court of Appeals in *Steele* erroneously permits hundreds of individuals to pursue a fraud claim against GTECH based on the faulty premise that GTECH had independent discretion to second-guess the Commission's directions instead of complying. That reasoning has adverse, far-reaching consequences. It opens the door for artfully pleaded claims in future cases that attack the state's sovereign choices. And it undermines the carefully tailored statutory scheme the Legislature established for the Texas Lottery, which vests the Commission with absolute authority while enabling the Commission to implement its decisions by providing specific directions to government contractors.

This Court should address the confusion surrounding *Brown & Gay* in the *Steele* case while holding this case pending that resolution. (See [Tab C.](#))

ARGUMENT

I. The court of appeals correctly held that GTECH has immunity for following the Commission's directions.

Under this Court's sovereign-immunity jurisprudence, a government contractor is immune from claims arising from its state-directed acts. *See Brown & Gay*, 461 S.W.3d at 127; *K.D.F. v. Rex*, 878 S.W.2d 589, 597 (Tex. 1994). The court of appeals correctly applied this principle to hold that GTECH is immune

from Nettles's claims, which complain that GTECH followed the Commission's directions regarding the "Fun 5's" ticket.

Nettles admits that "it was the Texas Lottery who made the changes that [she is] complaining about." (CR486; *see* CR484.) Nevertheless, Nettles asserts that there cannot be derivative immunity because her claims pose "no danger to the public fisc" and relate to a purported exercise of "independent discretion" by GTECH. (*E.g.*, Pet. at 11, 13-15, 17.) Both arguments fail.

A. Because Nettles attacks the Commission's directions, her claims implicate the fiscal justifications for immunity.

Nettles misreads this Court's opinion in *Brown & Gay*. She contends that even when a contractor's acts were directed by the state, there is no immunity in the absence of a proven loss of specifically identified public funds. (Pet. at 13.) But this Court's precedent shows that state-directed acts and the public fisc are intrinsically linked: whenever a plaintiff attacks decisions made by the state, her claims inherently seek to control the state's choices about the use of public funds and thereby implicate the fiscal justifications supporting sovereign immunity.

In *Brown & Gay*, this Court considered a narrow question: whether a government contractor with complete "discretion to design [a roadway's] signage and road layouts" shared in the government's immunity when it was sued for the roadway's negligent design. 461 S.W.3d at 126. The Court's answer was similarly narrow: it held "only that no [government] control [was] determinative." *Id.* In so

holding, the Court recognized that extending immunity to a contractor's discretionary acts would not further sovereign immunity's modern justification of protecting the public from "unforeseen expenditures." *Id.* at 123-24. But the decision did not turn on that. The Court stressed that the lawsuit did not implicate the government's immunity because the plaintiffs did "not seek to hold [the contractor] liable merely for following the government's directions," but instead complained of an exercise of that contractor's independent discretion. *Id.* at 124-27. In concurrence, Chief Justice Hecht likewise emphasized that courts should resolve immunity questions by determining whether the contractor's acts were performed "as" the government (resulting in immunity) or merely "for" the government (resulting in no immunity). *Id.* at 130-31 (Hecht, C.J., concurring).

Nettles refuses to acknowledge that in *Brown & Gay* this Court extensively analyzed the contractor's discretion even *after* it determined that the lawsuit would have no fiscal impact on the state. 461 S.W.3d at 124-27. Her analysis renders the discretion-focused section of this Court's opinion superfluous.

Nettles not only misreads *Brown & Gay*, but also disregards this Court's broader sovereign-immunity jurisprudence, which has long focused on whether a suit challenges an action that stems from the sovereign will. For example, the Court has held that:

- municipalities share in the state's immunity only when they act pursuant to the sovereign will of the state, and not when they act at their discretion for

the good of the municipality's inhabitants, *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427, 433-34 (Tex. 2016);

- government officials share in the state's immunity only when there is a nexus between their acts and the sovereign will, and not when they commit *ultra vires* acts, *Houston Belt & Term. Ry. Co. v. City of Houston*, 487 S.W.3d 154, 163-64 (Tex. 2016); and
- government units, which exist "where the governing statutory authority [i.e., the sovereign will] demonstrates legislative intent to grant an entity the 'nature, purposes, and powers' of an 'arm of the State government,'" are generally entitled to immunity, *Ben Bolt-Palito Blanco Consol. ISD v. Tex. Political Subdivisions Prop./Cas. Joint Self-Ins. Fund*, 212 S.W.3d 320, 325 (Tex. 2006); *see also Fort Worth Transp. Auth. v. Rodriguez*, No. 16-0542, ___ S.W.3d ___, 2018 WL 1976712 (Tex. Apr. 27, 2018).

And this Court has repeatedly recognized that when plaintiffs attack the sovereign will, immunity's fiscal justifications are necessarily implicated. In *Wasson*, for example, the Court observed that protecting acts "not done pursuant" to the sovereign will is "not an efficient way to ensure efficient allocation of state resources." 489 S.W.3d at 437. And in *City of El Paso v. Heinrich*, the Court distinguished acts deriving their authority from the sovereign will from those performed "without legal authority," concluding that "extending immunity to officials using state resources in violation of the law would not be an efficient way of ensuring those resources are spent as intended." 284 S.W.3d 366, 372 (Tex. 2009); *see also Houston Belt*, 487 S.W.3d at 163-64 ("while governmental immunity serves the pragmatic purpose of protecting public

resources, . . . extending immunity to officers who violate the law does not further that goal”).

Thus, this Court’s jurisprudence refutes Nettles’s suggestion that sovereign immunity turns solely on proof of unexpected government expenditures. As this Court has explained, the “disrupt[ion] [of] government services . . . that sovereign immunity addresses” is the disruption that occurs when a sovereign decision is attacked in court, thereby forcing the government’s hand and “interfering with the Legislature’s prerogative to allocate tax dollars.” *Brown & Gay*, 461 S.W.3d at 121, 124. This understanding of sovereign immunity properly ties the doctrine’s fiscal justifications to its core function of preserving sovereign authority. *See Wasson*, 489 S.W.3d at 433-34. And it is why the Court’s most recent *Wasson* decision focused solely on the nature of immunity and whether the municipality acted “as a branch” of the state, not whether the suit independently impacted the public fisc.⁴ *Wasson Interests, Ltd. v. City of Jacksonville*, No. 17-0198, ___ S.W.3d ___, 2018 WL 2449184 (Tex. June 1, 2018).

For the most part, the courts of appeals have interpreted *Brown & Gay* in a manner consistent with this Court’s broader immunity jurisprudence, rightly concluding that suits “seek[ing] to hold [a contractor] liable merely for following

⁴ To be sure, the public fisc *is* impacted here. The Texas Lottery is operated by the state through public money, so the Commission’s choices implicate state dollars. And its revenues—representing billions of dollars—are directed by statute to fund education and veterans’ services in Texas. *See* TEX. GOV’T CODE § 466.355.

the government’s directions” are barred by sovereign immunity, while suits arising from an exercise of the contractor’s independent discretion are not. *See Brown & Gay*, 461 S.W.3d at 127; [Tab B](#) at *9, *12; *Brown v. Waco Transit Sys.*, 2017 WL 4872801, at *4 (Tex. App.—Amarillo Oct. 27, 2017, no pet.); *Lenoir v. UT Physicians*, 491 S.W.3d 68, 82-86 (Tex. App.—Houston [1st Dist.] 2016, pet. denied); *Freeman v. Am. K-9 Detection Servs.*, 494 S.W.3d 393, 404-08 & n.3 (Tex. App.—Corpus Christi 2015, pet. granted). One court, though, focused exclusively on fiscal impact, without discussing discretion. *See Univ. of Incarnate Word v. Redus*, 2018 WL 1176652, at *4-5 (Tex. App.—San Antonio Mar. 7, 2018, no pet. h.).

Here, the court of appeals aligned itself with the majority approach. It properly focused on whether Nettles’s suit challenges an exercise of independent discretion by GTECH and concluded it did not. The court recognized that “Nettles’s claims arise from decisions made by the [Commission], not GTECH,” and “the contract between GTECH and the [Commission] does not permit GTECH to evaluate and reject the [Commission’s] decisions.” ([Tab A](#) at *8.) The court contrasted these facts against *Brown & Gay*, where there was “no indication that the decisions that were the basis for the plaintiffs’ claims . . . were made by the [government].” (*Id.*) And it concluded that “GTECH met its burden to establish that it was acting as the [Commission], not exercising independent discretion, in

making the changes to the Fun 5's tickets that are the basis for Nettles's claims.”
(*Id.*)

The court of appeals rightly held that extending immunity to GTECH is consistent with policy considerations because Nettles “challenge[s] the [Commission's] performance of the duties assigned to it by the Legislature.” (*Id.* at *9.) Given that Nettles is attacking acts directed by the sovereign, it necessarily follows that her claims implicate the fiscal justification for immunity.

B. Immunity shields GTECH from litigation arising from its compliance with its contractual obligation to accept and implement the Commission's directions.

Nettles next contends that, apart from fiscal considerations, GTECH should be denied immunity under the theory that “GTECH exercised discretion in the final preparation of the ticket.” (Pet. at 17.) The court of appeals rejected that contention, concluding that GTECH “was acting as the [Commission], not exercising independent discretion, in making the changes to the Fun 5's tickets that are the basis for Nettles's claims.” ([Tab A](#) at *8.) The court of appeals was correct, given that the Commission is statutorily required to “exercise strict control . . . over all lottery games conducted in this state,” TEX. GOV'T CODE § 466.014(a), and GTECH is contractually bound to “accept and support” the Commission's decisions (RFP at 14).

This allocation of responsibility, mandated by both statute and contract, is what distinguishes this case from *Brown & Gay*. The details of the roadway project there “were delegated to [the contractor],” so the contractor was “independently negligent in designing the signs and traffic layouts” underlying the plaintiffs’ claims. 461 S.W.3d at 126 & n.10. The Court held that “no control” by the government over the roadway’s safeguards was determinative—the contractor’s “decisions in designing [those] safeguards [were] its own.” *Id.*

In contrast, the decisions related to the design of the “Fun 5’s” ticket were not—and could not have been—GTECH’s own. (See [Tab A](#) at *8.) No color, word, or specification of the ticket could result from any control on the part of GTECH because the Commission strictly supervised and controlled every step of the process. (*E.g.*, CR466, 476.) Indeed, *Nettles admits* GTECH did not “do anything contrary to what the [Commission] signed off on” and “it was the Texas Lottery who made the changes that [she is] complaining about.” (CR486; RR13.)⁵

Nettles is wrong to fault GTECH for not second-guessing the Commission’s discharge of its legislatively assigned authority. She emphasizes language in GTECH’s contract requiring “[e]xecuted working papers [to be] complete and free

⁵ Nettles is wrong about GTECH’s “burden.” (Pet. at 11.) Sovereign immunity is not an affirmative defense that must be pleaded and proved. See *Brown & Gay*, 461 S.W.3d at 128 (“*unlike sovereign immunity from suit . . . official immunity is an affirmative defense that must be pled and proved by the party asserting it*” (emphasis added)). Where, as here, “the relevant evidence is undisputed or fails to raise a fact question on the jurisdictional issue, the trial court rules on the plea to the jurisdiction as a matter of law.” See *Tex. Dep’t of Parks & Wildlife v. Miranda*, 133 S.W.3d 217, 228 (Tex. 2004).

of any errors.” (RFP at 73.) According to Nettles, this language required GTECH to override the Commission’s directions if GTECH deemed them ill-advised. In truth, the phrase “complete and free of any errors” means just the opposite: GTECH was required to deliver to the Commission tickets that precisely conformed to the Commission’s directions, without error.

This is confirmed by the context in which the phrase “free of any errors” appears: it is surrounded by terms emphasizing that working papers must be “in a format designated by the Texas Lottery” and that any changes “must be approved . . . by the [Commission].” (RFP at 73.) Elsewhere, the contract is even more explicit: “Final decisions regarding the direction and control of the Lottery are always the prerogative of the [Commission] in its sole discretion.” (*Id.* at 14.) This is consistent with the governing statutes giving the Commission “strict control and close supervision” over all aspects of the lottery, including “the form of tickets.” TEX. GOV’T CODE §§ 466.014(a), 466.251(a). Thus, the requirement to submit work “free of any errors” further confirms that GTECH lacked any discretion to stray from the Commission’s directions.

In sum, when the state directs or controls a private party’s act, as the Commission did here, the act stems from the sovereign will and shares in the benefits of sovereignty—including immunity. *See Wasson*, 489 S.W.3d at 433-34; *Brown & Gay*, 461 S.W.3d at 124 (noting that both government “control” and

“direction” support derivative immunity). The court of appeals correctly held that GTECH shared in the Commission’s immunity for following the Commission’s directions regarding the “Fun 5’s.”

II. To clarify derivative sovereign immunity, this Court should grant review in *Steele*.

GTECH agrees with Nettles on one point: this Court should clarify *Brown & Gay*. But *Steele* is the better case in which to do so. (See [Tab C](#).)

First, for the reasons discussed above, the court of appeals correctly decided this case. The Court need not review an unpublished, correct opinion that does no harm to Texas sovereign-immunity law. That is especially so given the pending petition for review in *Steele*, which involves a “mass action” brought by more than 1,200 ticket purchasers who seek more than \$500 million in compensatory damages—more than 100 times the amount sought here. (*See id.*)

Second, the opinion in *Steele* addresses an important, related issue: whether plaintiffs should be allowed to circumvent derivative immunity by pleading that a contractor retained discretion to second-guess the government’s directions, even when the contractor had no ultimate control or authority over the complained-of decision. That issue was not addressed by the court of appeals here.

Finally, the court of appeals here focused its analysis on narrow grounds that are specific to the Texas Lottery, whereas the broader holding in *Steele*—that virtually every government contractor may be stripped of immunity on the ground

that it could have second-guessed the government—will permit plaintiffs to plead around derivative immunity in nearly every case.

Though the Court should clarify *Brown & Gay*, it should do so in *Steele*.

PRAYER

GTECH respectfully requests that the Court hold this case for disposition in light of *Steele*, and either deny review or affirm on the merits at that time. GTECH also requests all further relief to which it may be entitled.

Respectfully Submitted,

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CERTIFICATE OF COMPLIANCE WITH RULE 9.4(e), (i)

1. This brief complies with the type-volume limitation of Texas Rule of Appellate Procedure 9.4(i)(2)(B) because, according to the Microsoft Word 2010 word count function, it contains 4,375 words on pages 1-20, excluding the parts of the brief exempted by Texas Rule of Appellate Procedure 9.4(i)(1).
2. This brief complies with the typeface requirements of Texas Rule of Appellate Procedure 9.4(e) because it has been prepared in a proportionally spaced typeface using Microsoft Word 2010 software in Times New Roman 14 point font in text and Times New Roman 12 point font in footnotes.

/s/ Kent Rutter

Kent Rutter

CERTIFICATE OF SERVICE

I hereby certify that on June 20, 2018, the foregoing document was filed with the Clerk of the Court using the electronic case filing system of the Court. I also certify that a true and correct copy of the foregoing was served on all counsel of record as shown below via e-service and/or e-mail.

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APPENDIX

- [Tab A](#) — *Nettles v. GTECH Corp.*, 2017 WL 3097627 (Tex. App.—Dallas July 21, 2017)
- [Tab B](#) — *GTECH Corp. v. Steele*, 2018 WL 454922 (Tex. App.—Austin Jan. 11, 2018, pet. filed)
- [Tab C](#) — GTECH’s Petition for Review in *GTECH Corp. v. Steele*, No. 18-0159 (supporting appendix omitted)

Tab A

 KeyCite Yellow Flag - Negative Treatment
Distinguished by [GTECH Corporation v. Steele](#), Tex.App.-Austin,
January 11, 2018

2017 WL 3097627

Only the Westlaw citation is currently available.

SEE TX R RAP RULE 47.2 FOR
DESIGNATION AND SIGNING OF OPINIONS.

Court of Appeals of Texas,
Dallas.

Dawn NETTLES, Appellant
v.
GTECH CORPORATION, Appellee

No. 05-15-01559-CV

|
Opinion Filed July 21, 2017

|
Rehearing/Rehearing En Banc
Denied November 1, 2017

Synopsis

Background: Lottery ticket purchaser brought action against independent contractor of the state for fraud in the sale of lottery scratch-off tickets. The 160th Judicial District Court, Dallas County, [Jim Jordan](#), J., granted independent contractor's plea to the jurisdiction and dismissed the case. Purchaser appealed.

[Holding:] The Court of Appeals, [Richter](#), J., Retired, sitting by assignment, held that purchaser's claims were barred by sovereign immunity.

Affirmed.

West Headnotes (1)

[1] [States](#)
 [Independent contractors](#)

Lottery ticket purchaser's claims against independent contractor of the state for fraud in the sale of lottery scratch-off tickets were

barred by sovereign immunity; purchaser's claims arose from decisions made by state lottery agency, not contractor, contract between contractor and state agency did not permit contractor to evaluate and reject state agency's decisions, and state agency's review of contractor's working papers was extensive and detailed.

[2 Cases that cite this headnote](#)

On Appeal from the 160th Judicial District Court, Dallas County, Texas, Trial Court Cause No. DC-14-14838. [Jim Jordan](#), Judge.

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Before Justices [Lang](#)–[Miers](#), [Myers](#), and [Richter](#)¹

¹ The Honorable Martin Richter, Justice of the Court of Appeals for the Fifth District of Texas—Dallas, Retired, sitting by assignment.

MEMORANDUM OPINION

Opinion by Justice [Richter](#)

*1 Appellant Dawn Nettles sued appellee GTECH Corporation, a private contractor, for fraud in the sale of a Texas Lottery scratch-off ticket called “Fun 5’s.” The trial court granted GTECH's plea to the jurisdiction and dismissed Nettles's suit. In this appeal, we consider whether derivative sovereign immunity bars Nettles's

claims against GTECH. We conclude that it does, and affirm the trial court's order granting GTECH's plea.

BACKGROUND

A. Nettles's claims

Nettles purchased tickets in the Texas Lottery's "Fun 5's" scratch-off game. The tickets included a tic-tac-toe game containing a three-by-three grid of symbols, a "prize box," and a box labeled "5X," known as a "multiplier." Nettles contends that the instructions on the tickets misled her to believe that she would win five times the amount in the tickets' prize box, when in fact her tickets were "non-winning."

Nettles alleges the instructions described two ways to win five times the amount in the prize box, by either (1) matching three symbols in a row, column, or diagonal in the grid, or (2) finding a "money bag" symbol in the multiplier box. The tickets, however, were non-winning unless both of these conditions were met. On some of the tickets Nettles purchased, one or the other of the conditions was met, but not both. When she learned that her tickets were non-winning, Nettles sued GTECH for an amount in excess of \$4,000,000 that she alleges she should have won.

B. The Texas Lottery and GTECH

The Texas Lottery is owned and operated by the Texas Lottery Commission ("TLC"), a state agency. The TLC and its executive director "have broad authority and shall exercise strict control and close supervision over all lottery games conducted in this state to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery." [TEX. GOV'T CODE ANN. § 466.014\(a\)](#) (West Supp. 2016). By statute, the executive director of the TLC "shall prescribe the form of tickets." [TEX. GOV'T CODE ANN. § 466.251\(a\)](#) (West 2012).

GTECH² is the United States subsidiary of an Italian gaming company which operates lotteries, sports betting, and commercial bookmaking throughout the world. On December 14, 2010, TLC and GTECH executed a "Contract for Lottery Operations and Services" (the "Operations Contract") that gives GTECH the exclusive right to operate the Texas Lottery through 2020.

According to the Operations Contract, GTECH is an independent contractor and not an employee or agent of the TLC. In the "warranties" section, the Operations Contract provides:

GTECH warrants and agrees that its tickets, games, goods and services shall in all respects conform to, and function in accordance with, Texas Lottery-approved specifications and designs.

² The record reflects that GTECH is now known as "IGT Global Solutions Corporation." The parties' briefs, however, refer to appellee as "GTECH."

Section 3.33.1 of the Operations Contract provides in relevant part, "GTECH shall indemnify, defend and hold the Texas Lottery, its commission members, [and] the State of Texas ... harmless from and against any and all claims ... arising out of a Claim for or on account of the Works, or other goods, services, or deliverables provided as the result of this Contract" Section 3.34 of the Operations Contract addresses requirements for bonds and insurance. Among other coverages, GTECH must maintain general liability insurance and errors and omissions insurance.

^{*2} In her operative petition, Nettles cites to a "Request for Proposals for Instant Ticket Manufacturing and Services" available on the TLC's website, alleging that "GTECH is obligated, under Section 7.8 of the Instant Ticket RFP to provide working papers for each instant game and is further obligated to provide executed working papers that 'must be complete and free from any errors.'" Joseph Lapinski, an account development manager for GTECH, also testified that GTECH submits "draft working papers" to the TLC containing specifications for proposed scratch-off tickets, including the design, artwork, prize structures, and rules of the game. Lapinski also testified that the TLC then notifies GTECH of any desired changes to the working papers.

C. Development of the Fun 5's game

In March 2013, GTECH made a presentation to the TLC, providing examples of scratch-off games that had been successful in other states. The TLC selected the Fun 5's game as one of the scratch-off games it intended to purchase from GTECH for use during fiscal year 2014.

Although the Fun 5's game ticket included five different games, only Game 5 is at issue here.

Penny Whyte, GTECH's customer service representative, prepared the initial draft of the working papers for the Fun 5's game. Whyte testified that before the draft was sent to the TLC, GTECH undertook an internal review of the artwork, instructions, and parameters for the game. Lapinski testified that initial draft working papers were based on the game that GTECH had operated in other states. He explained that the instructions for the game in the initial draft working papers were based on a game used in Nebraska. The instructions for Game 5 provided:

Reveal three Dollar Bill [graphic of symbol] symbols in any one row, column, or diagonal line, win PRIZE in PRIZE box. Reveal a "5" symbol in the 5X BOX, win 5 times that PRIZE.

Gary Grief, the Executive Director of the TLC, testified that because GTECH has "experience in the industry," the TLC "do[es] rely on them, at least as a starting point, when we're looking at language that goes on tickets." He agreed that he expected GTECH to exercise reasonable care to propose language that is not misleading.

Lapinski testified that after the working papers were submitted to the TLC, the TLC requested changes to Game 5. First, the TLC requested that the "5" symbol be changed to a "Money Bag" symbol. Second, the TLC requested that the "Dollar Bill" symbol be changed to a "5" symbol. Third, the TLC requested that GTECH change the parameters of Game 5. In an email marked "High Importance" from Jessica Burrola, an Instant Product Specialist for the TLC, to Laura Thurston, a client services representative of GTECH, the TLC instructed:

Game # 5: Game parameters # 33 and # 34 (see below) mention the money bag symbol as only appearing on winning tickets. This would make it an easy target for micro-scratching since only the rest of game 5 would not have to be micro-scratched to know that it is a winner. We would prefer to have the

money bag symbol appear on non-winning tickets, too.

Walter Gaddy, a Regional Sales Manager for GTECH, explained in an affidavit that:

The TLC ordered this change as a security measure against "micro-scratching." Micro-scratching consists of someone using a small sharp object to unveil a microscopic portion of the play area of the scratch ticket to discern whether a ticket is a winner or a non-winner in a way that is largely undetectable. If the Money Bag symbol only appeared on winning tickets, this might make the game an easy target for micro-scratching since only the rest of Game 5 would not have to be micro-scratched to know that it is a winner.

Gaddy also testified that "[u]pon the instructions of the TLC, GTECH incorporated the TLC's changes to the game's parameters and programmed its computers so that 25% of the tickets that had not won the tic-tac-toe game would reveal a Money Bag Play symbol in the 5X box."

*3 GTECH then prepared a set of final working papers for the TLC's approval. In accordance with the TLC's instructions, a "money bag" symbol appeared on approximately 25% of the non-winning tickets, and the rules for Game 5 read:

Reveal three "5" symbols in any one row, column or diagonal, win PRIZE in PRIZE box. Reveal a Money Bag "[graphic of symbol]" in the 5X BOX, win 5 times that prize.

In her operative petition, Nettles alleges that on May 16, 2014, TLC Executive Director Grief "executed the final working papers and approved the Fun 5's game as proposed by GTECH." Nettles's operative pleading also acknowledges that the parameters of the game were changed "[a]t the request of the TLC."

Nettles elicited testimony from both GTECH and TLC witnesses that she relies on to support her allegations

that it was GTECH's responsibility to (1) check the parameters of the game in the working papers, (2) conduct a comprehensive review of the game's instructions to make sure that the change in parameters requested by the TLC did not require a change in the language of the game's instructions, (3) compare the language on the tickets to make sure it was not misleading or deceptive, and (4) make sure the final executed working papers were free of errors. She alleges that GTECH's customer service representative and software department had the knowledge and expertise necessary to ensure that the language was clear, unambiguous, and not misleading, and that the TLC expected GTECH to exercise reasonable care in doing so. And she contends that Thurston and Whyte, both of GTECH, were the decision-makers "that GTECH would not change the wording of the instructions to make them less misleading or deceptive."

Nettles also alleges in her operative petition that GTECH and the TLC began to receive complaints about the Fun 5's tickets from retailers and players almost immediately after sales began on September 2, 2014.³ The complaints arose from confusion about the presence of the money bag symbol on non-winning tickets and the accompanying instructions. Sales of the tickets were discontinued by the TLC on October 21, 2014.

³ GTECH's brief also recites that more than 1,200 other Fun 5's ticket purchasers sued GTECH in Travis County seeking damages in excess of \$500 million, plus exemplary damages. *James Steele, et al. v. GTECH Corp.*, No. D-1-GN-14-005114 (201st Judicial District Court of Travis County, Texas). In that case, the trial court denied GTECH's plea to the jurisdiction. *Id.* (Amended Order Overruling Defendant GTECH Corporation's First Amended Plea to the Jurisdiction, Mar. 28, 2016). GTECH's appeal of that ruling is pending. *GTECH Corp. v. James Steele, et al.*, No. 03-16-00172-CV (Tex. App.-Austin) (submitted Oct. 26, 2016).

D. Trial court disposition

Nettles added the TLC as a defendant in her second amended petition. The TLC and GTECH filed pleas to the jurisdiction. The trial court granted both pleas and dismissed the case. Nettles filed this appeal complaining of both rulings, but later moved to dismiss her appeal as to the TLC. This Court granted Nettles's motion on May 23, 2016, and this appeal has proceeded as to GTECH only.

ISSUES

In one issue with two subparts, Nettles contends the trial court erred by granting GTECH's plea to the jurisdiction. In subpart 1(a), Nettles contends that sovereign immunity should not be extended to GTECH because a finding of liability against GTECH will not expose the government to unforeseen expenditures. In subpart 1(b), Nettles contends that sovereign immunity should not be extended to GTECH because GTECH exercised independent discretion with respect to the design of the Fun 5's game.

STANDARD OF REVIEW

*4 A plea to the jurisdiction is a dilatory plea that seeks dismissal of a case for lack of subject matter jurisdiction. *Harris Cty. v. Sykes*, 136 S.W.3d 635, 638 (Tex. 2004). Whether the trial court has subject matter jurisdiction is a question of law that we review de novo. *Klumb v. Houston Mun. Emps. Pension Sys.*, 458 S.W.3d 1, 8 (Tex. 2015). When the plea to the jurisdiction challenges the existence of jurisdictional facts, we consider the relevant evidence submitted by the parties when it is necessary to resolve the jurisdictional issue. *Tex. Dep't of Parks & Wildlife v. Miranda*, 133 S.W.3d 217, 227 (Tex. 2004). This procedure generally mirrors that of a summary judgment under [rule of civil procedure 166a\(c\)](#). *Id.* at 228. The plaintiff has the burden to plead facts affirmatively showing the trial court has subject matter jurisdiction. *Id.* at 226–27. The defendant then has the burden to assert and support its contention, with evidence, that the trial court lacks subject matter jurisdiction. *Id.* at 228. If it does so, the plaintiff must raise a material fact issue regarding jurisdiction to survive the plea to the jurisdiction. *Id.*

In our review, we construe the pleadings liberally in favor of the plaintiff and look to the plaintiff's intent. *Id.* at 226–27. We consider the pleadings and the evidence pertinent to the jurisdictional inquiry. *Id.* If the evidence creates a fact issue concerning jurisdiction, the plea to the jurisdiction must be denied. *Id.* at 227–28. If the evidence is undisputed or fails to raise a fact issue concerning jurisdiction, the trial court rules on the plea to the jurisdiction as a matter of law. *Id.* at 228.

ANALYSIS

Both Nettles and GTECH rely on *Brown & Gay Engineering, Inc. v. Olivares*, 461 S.W.3d 117 (Tex. 2015), in support of their arguments regarding derivative immunity. In that case, a private engineering firm (Brown & Gay) contracted with a governmental unit (the Fort Bend County Toll Road Authority) to design and construct a roadway. *Id.* at 119. Under their written agreement, the Authority delegated the responsibility of designing road signs and traffic layouts to Brown & Gay, subject to approval by the Authority's board of directors. *Id.* An intoxicated driver entered an exit ramp of the roadway (referred to by the court as “the Tollway”) and collided with a car driven by Pedro Olivares, Jr., who was killed. *Id.* Olivares's parents sued the Authority and Brown & Gay, alleging that the failure to design and install proper signs, warning flashers, and other traffic-control devices around the exit ramp where the intoxicated driver entered the Tollway proximately caused Olivares's death. *Id.* at 120. Brown & Gay filed a plea to the jurisdiction alleging it was entitled to governmental immunity. *Id.* The trial court granted the plea, but the court of appeals reversed, concluding that Brown & Gay was not entitled to governmental immunity.⁴ *Id.* at 119. The supreme court affirmed the court of appeals's judgment. *Id.* at 129.

⁴ The court discussed the distinction between “sovereign immunity” and “governmental immunity,” but then used the term “sovereign immunity” to refer to the doctrine in the remainder of its opinion, as do we. See *Brown & Gay*, 461 S.W.3d at 121 & n.4.

In its opinion, the supreme court considered whether “a private company that performed allegedly negligent acts in carrying out a contract with a governmental unit” could “invoke the same immunity that the government itself enjoys.” *Id.* at 122. The court answered this question in the negative, holding that the private company was not immune from suit for the consequences of its own actions taken in the exercise of its own independent discretion. See *id.* at 124–27. The court relied on its reasoning in *K.D.F. v. Rex*, 878 S.W.2d 589, 597 (Tex. 1994), in which it explained that a private entity “is not entitled to sovereign immunity protection unless it can demonstrate its actions were actions of” the government, “executed subject to the control of” the governmental entity. *K.D.F.*, 878 S.W.2d at 597. According to the court in *Brown &*

Gay, *K.D.F.*'s “control requirement” is “consistent with the reasoning federal courts have utilized in extending derivative immunity to federal contractors only in limited circumstances.” *Brown & Gay*, 461 S.W.3d at 124. The court explained:

*5 In each of these cases, the complained-of conduct for which the contractor was immune was effectively attributed to the government. That is, the alleged cause of the injury was not the independent action of the contractor, but the action taken by the government *through* the contractor.

Id. at 125. Similarly, in Texas appellate court decisions relied on by Brown & Gay, “the government's right to control” led the courts to extend immunity to a private government contractor. *Id.* at 126.

As Chief Justice Hecht explained in his concurring opinion, governmental immunity does not protect an independent contractor unless the contractor acts “as the government,” implementing the government's decisions. *Id.* at 129–30 (Hecht, C.J., concurring). On this point, the Chief Justice agreed with the court, which had explained that the plaintiffs did “not complain of harm caused by Brown & Gay's implementing the Authority's specifications or following any specific government directions or orders.” *Id.* The court continued:

Under the contract at issue, Brown & Gay was responsible for preparing “drawings, specifications and details for all signs.” Further, the [plaintiffs] do not complain about the decision to build the Tollway or the mere fact of its existence, but that Brown & Gay was independently negligent in designing the signs and traffic layouts for the Tollway. **Brown & Gay's decisions in designing the Tollway's safeguards are its own.**

Id. at 126 (emphasis added).

The court in *Brown & Gay* also held that extending the government's immunity to a private contractor for actions taken in the contractor's own discretion did not further the immunity doctrine's rationale and purpose. *Id.* at 123. The court described sovereign immunity as a “harsh doctrine” because it “foreclos[es] ... the litigation and

judicial remedies that would be available to the injured person had the complained-of acts been committed by a private person.” *Id.* at 122. The court explained that the doctrine of immunity is not “strictly a cost-saving measure”; instead, the purpose of immunity is to protect the government from “unforeseen expenditures” that could “‘hamper government functions’ by diverting funds from their allocated purposes.” *Id.* at 123 (quoting *Tex. Dep’t of Transp. v. Sefzik*, 355 S.W.3d 618, 621 (Tex. 2011) (per curiam)). The higher costs of engaging private contractors who are liable for their own improvident actions are not “unforeseen” because they can be reflected in the negotiated contract price, and because private contractors “can and do manage their risk exposure by obtaining insurance.” *Id.*

The court summarized its discussion of “sovereign immunity and private contractors” as follows:

In sum, we cannot adopt *Brown & Gay*'s contention that it is entitled to share in the Authority's sovereign immunity solely because the Authority was statutorily authorized to engage *Brown & Gay*'s services and would have been immune had it performed those services itself. That is, we decline to extend to private entities the same immunity the government enjoys for reasons unrelated to the rationale that justifies such immunity in the first place. The Olivareses' suit does not threaten allocated government funds **and does not seek to hold *Brown & Gay* liable merely for following the government's directions.** *Brown & Gay* is responsible for its own negligence as a cost of doing business and may (and did) insure against that risk, just as it would had it contracted with a private owner.

*6 *Id.* at 127 (emphasis added).

Nettles contends that under the court's reasoning in *Brown & Gay*, the first question we must answer is whether her lawsuit would cause “unforeseen expenditures” that could “hamper government functions by diverting funds

from their allocated purposes.” *See id.* at 123. She contends that because GTECH has agreed to defend and indemnify the TLC, her suit would not cause any unforeseen expenditures. As a result, she argues, the TLC's immunity does not extend to GTECH. In her reply brief, Nettles contends that if we conclude her lawsuit would not cause unforeseen expenditures to the TLC, we need not undertake any further analysis.⁵

5 Again relying on *Brown & Gay*, Nettles also argues that derivative immunity does not apply because GTECH was an independent contractor, not an employee or agent of the TLC. The court's reference to whether *Brown & Gay* was “an independent contractor rather than a government employee,” however, was in its discussion of *Brown & Gay*'s argument in the courts below that it was an “employee” of the Authority for purposes of the Texas Tort Claims Act. *Brown & Gay*, 461 S.W.3d at 120. Here, however, GTECH does not claim statutory immunity under the Texas Tort Claims Act. Instead, it relies on common law sovereign immunity. As the court in *Brown & Gay* explained, because sovereign immunity “is a common-law creation,” the “absence of a statutory grant of immunity is irrelevant” in determining its boundaries. *Id.* at 122–23.

GTECH in turn relies on *Brown & Gay* to argue that the controlling question is whether GTECH exercised independent discretion or whether its actions were executed subject to the control of the TLC. *See id.* at 124. GTECH contends that the decision of which Nettles complains—to include the money bag symbol on tickets in which players did not win the tic-tac-toe game—was the TLC's.

Neither the court in *Brown & Gay* nor our sister courts applying *Brown & Gay* limited their analysis to whether the extension of immunity would protect the public fisc from unforeseen expenditures. The court's opinion in *Brown & Gay* included an extensive discussion of whether sovereign immunity extends to private parties exercising independent discretion. *See id.* at 124–27. Similarly, courts relying on *Brown & Gay* have considered both the purposes of sovereign immunity and the independent discretion of the defendant contractor.

In *Lenoir v. U.T. Physicians*, 491 S.W.3d 68, 87–88 (Tex. App.–Houston [1st Dist.] 2016, pet. pending) (op. on reh'g), a physicians' clinic (“UTP”) contracted with the University of Texas Health Science Center at Houston

(“UTHSCH”), “which has immunity from suit.” *Id.* at 77. The contract “extended discretion to UTP,” including management of the nursing staff and “the nurse alleged to have acted negligently in this case.” *Id.* at 86. The court held that UTHSCH's immunity did not extend to UTP for the plaintiffs' claims arising from the death of a patient and her unborn twins after receiving prenatal care at UTP. *Id.* at 72–73. The court reasoned:

*7 The contract evinces UTP's right to direct the nursing staff, control its compensation, and insure against professional liability for its acts. In doing so, UTP was granted discretion. It acted *for* the government—assisting in its provision of medical services and education—not *as* the government without discretion or diversion. *Cf. K.D.F.*, 878 S.W.2d at 597 (“While sovereign immunity protects the activities of government entities, no sovereign is entitled to extend that protection *ad infinitum* through nothing more than private contracts.”). As such, immunity does not extend. *Brown & Gay*, 461 S.W.3d at 124–25 & n. 9, 126.

Id. at 86.

In *City of Rio Grande City v. BFI Waste Services of Texas, LP*, No. 04–15–00729–CV, 2016 WL 5112224, at *3–4 (Tex. App.–San Antonio Sept. 21, 2016, pet. filed) (mem. op.), the court affirmed the trial court's denial of pleas to the jurisdiction filed by Grande Garbage Collection Co., L.L.C. (“Grande”) and Patricio Hernandez, Grande's owner (referred to collectively in the court's opinion as “the Grande Defendants”). Grande contracted with the City of Rio Grande City for solid waste disposal services. *Id.* at *1. The plaintiff (referred to in the court's opinion as “Allied”) filed suit alleging breach of and interference with an existing contract under which Allied was the exclusive provider of solid waste disposal services within the City's limits. *Id.* Allied alleged that the Grande Defendants willfully and intentionally interfered with its contract with the City, among other claims. *Id.* at *3. Citing *Brown & Gay*, the court explained, “[t]he events that form the basis of Allied's allegations against the Grande Defendants were not actions the Grande Defendants took within the scope of their contract with the City for solid waste disposal services.” *Id.* The court concluded:

Extending immunity to the Grande Defendants for the commission of acts not within the scope of contracted services with the

City and for which the Grande Defendants exercised independent discretion does not further the rationale supporting governmental immunity. See *Brown and Gay*, 461 S.W.3d at 123. Consequently, the Grande Defendants are not entitled to derivative immunity, and the trial court retains jurisdiction over the claims against the Grande Defendants.

Id. at *3–4.

In *Freeman v. American K–9 Detection Services, L.L.C.*, 494 S.W.3d 393, 396 (Tex. App.–Corpus Christi 2015, pet. pending), a military contractor (“AMK9”) claimed derivative immunity in a suit involving a trained military dog that allegedly attacked the plaintiff. *Id.* at 397. The trial court granted AMK9's plea to the jurisdiction, and the plaintiff appealed. *Id.* The court of appeals reversed, concluding that AMK9 was not entitled to derivative sovereign immunity. *Id.* at 408. The court discussed *Brown & Gay*, explaining:

*8 In *Brown & Gay*, ... the plaintiffs did not complain of harm caused by Brown & Gay's “implementing the Authority's specifications or following any specific government directions or orders,” nor did they complain about the decision to build the roadway at issue or ‘the mere fact of its existence.’ [*Brown & Gay*, 461 S.W.3d at 125]. Instead, the plaintiffs argued that Brown & Gay was “independently negligent in designing the signs and traffic layouts” for the roadway. *Id.* Thus, the supreme court rejected Brown & Gay's “contention that it is entitled to share in the Authority's sovereign immunity solely because the Authority was statutorily authorized to engage Brown & Gay's services and would have been immune had it performed those services itself.” *Id.* at 127.

Id. at 405. The court concluded that AMK9 was not derivatively immune because the plaintiff's allegations arose from AMK9's “independent acts of negligence,” in violation of its contract with the military and military policy. *Id.* at 408–09.

Like the courts in *Brown & Gay*, *Lenoir*, *Rio Grande City*, and *Freeman*, we consider whether the defendant contractor met its burden to establish that it was acting

as the government, not *for* the government, in addition to considering “protection of the public fisc.” See *Brown & Gay*, 461 S.W.3d at 121, 125. The record is undisputed that Nettles's claims arise from decisions made by the TLC, not GTECH. Nettles testified:

Q. And you know from sitting through those depositions that each of the complaints that you are making in this lawsuit about the Fun 5's game were changes that were requested by the Texas Lottery Commission, correct?

A. Yes. I know that now. I did not know that when I bought the tickets.

Nettles contends that GTECH had an independent duty, arising under its contract with the TLC, to conduct a “comprehensive review” of the TLC's decisions to ensure that “the language [in the game's instructions] was not defective or problematic.” But the contract between GTECH and the TLC does not permit GTECH to evaluate and reject the TLC's decisions. Instead, it requires that “tickets, games, goods, and services shall in all respects conform to, and function in accordance with, Texas Lottery-approved specifications and designs.” Although Nettles points to testimony that GTECH's work must be “free from errors,” she does not cite any evidence that GTECH's working papers erred in incorporating the TLC's decisions. In the trial court, Nettles's counsel conceded that GTECH did not “do anything contrary to what the TLC signed off on.”

The record also shows that the TLC's review of GTECH's working papers was extensive and detailed. Over the course of a year, the TLC reviewed the Fun 5's games and requested the changes that are the basis for Nettles's claims. In *Brown & Gay*, in contrast, the Authority had no full-time employees; the approval of *Brown & Gay*'s plans was made by the Authority's board of directors. *Brown & Gay*, 461 S.W.3d at 199 & n.1. There is no indication that the decisions that were the basis for the plaintiffs' claims in *Brown & Gay*—regarding the failure to design and install proper signs, warning flashers, and other traffic-control devices around the exit ramp where the intoxicated driver entered the Tollway—were made by the Authority. As the court explained, “the Olivarises do not assert that *Brown & Gay* is liable for the Authority's actions; they assert that *Brown & Gay* is liable for its own actions.” *Id.* at 126. Here, after detailed review and required modifications, the TLC approved GTECH's final

working papers. We conclude that GTECH met its burden to establish that it was acting as the TLC, not exercising independent discretion, in making the changes to the Fun 5's tickets that are the basis for Nettles's claims.

*9 Regarding the “rationale and purpose” of the sovereign immunity doctrine to guard against unforeseen expenditures that disrupt or hamper government services, GTECH relies on the *Brown & Gay* court's discussion of “the origin and purpose of sovereign immunity.” The court explained that sovereign immunity is “inherently connected to the protection of the public fisc” as well as preserving separation-of-powers principles “by preventing the judiciary from interfering with the Legislature's prerogative to allocate tax dollars.” *Id.* at 121. GTECH argues that the Legislature has expressly tied the operation of the Texas lottery to the public fisc by requiring that money in the state lottery account (after payment of prizes and other specific costs) be transferred to the fund for veterans' assistance and the foundation school fund. See TEX. GOV'T CODE ANN. § 466.355 (West Supp. 2016).

GTECH also relies on the Legislature's requirement that the TLC “exercise strict control and close supervision over all lottery games conducted in this state to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery.” See *id.* § 466.014(a). Nettles's suit challenges the integrity, honesty, and fairness of a decision made by the TLC. Although the TLC will not incur further defense costs in this case, the suit will challenge the TLC's performance of the duties assigned to it by the Legislature. Sovereign immunity shields the government from such an inquiry, however. See *Brown & Gay*, 461 S.W.3d at 122 (citing *Bacon v. Tex. Historical Comm'n*, 411 S.W.3d 161, 172 (Tex. App.—Austin 2013, no pet.) for the proposition that “sovereign immunity generally shields our state government's improvident acts”). Sovereign immunity places the burden of shouldering the costs and consequences of the government's improvident actions on injured individuals. *Id.* Here, however, the “costs and consequences” to Nettles are the cost of her \$5 tickets. See 16 TEX. ADMIN. CODE 401.302(i)⁶ (claimant's exclusive remedy for disputed ticket is reimbursement for cost of ticket).

⁶ West, Westlaw through 42 TEX. REG. No. 3381, dated June 23, 2017 (Texas Lottery Commission,

Administration of State Lottery Act, Instant Game Rules).

We conclude that GTECH met its burden to establish that Nettles's claims are barred by sovereign immunity. We overrule Nettles's issues 1(a) and 1(b).

We affirm the trial court's order granting GTECH Corporation's plea to the jurisdiction.

All Citations

Not Reported in S.W.3d, 2017 WL 3097627

CONCLUSION

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Tab B

2018 WL 454922

Only the Westlaw citation is currently available.

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Court of Appeals of Texas,
Austin.

GTECH CORPORATION, Appellant
v.
James STEELE, et al., Appellees

NO. 03-16-00172-CV

|
Filed: January 11, 2018

Synopsis

Background: Lottery participants brought action against business that participated in the development, printing, and distribution of lottery game under contract with Texas Lottery Commission, alleging a discrepancy between the game's instructions and its actual parameters, and asserting claims for aiding and abetting fraud, conspiracy, tortious interference with contract, and fraud by misrepresentation and nondisclosure. Business filed a plea to the jurisdiction. The District Court, Travis County, 201st Judicial District, Amy Clark Meachum, J., denied the plea. Business appealed.

Holdings: The Court of Appeals, [Bob Pemberton, J.](#), held that:

- [\[1\]](#) business only had to prove lack of discretion to implicate Commission's sovereign immunity;
- [\[2\]](#) business lacked discretion with respect to conduct underlying claims for aiding and abetting, conspiracy, and tortious interference;
- [\[3\]](#) business had discretion to alert Commission to discrepancy, as relevant to the fraud claims; and
- [\[4\]](#) fiscal justifications for sovereign immunity did not warrant extension of immunity as to the fraud claims.

Affirmed in part and reversed and rendered in part.

West Headnotes (15)

[1] Appeal and Error **Jurisdiction**

Because subject-matter jurisdiction is a question of law, the Court of Appeals reviews de novo a trial court's ultimate ruling on a plea to the jurisdiction.

[Cases that cite this headnote](#)**[2] Pleading** **Construction in General**

Courts construe pleadings liberally in favor of jurisdiction, taking their factual allegations as true except to the extent negated by evidence.

[Cases that cite this headnote](#)**[3] Evidence** **Sufficiency to support verdict or finding**

Evidence is conclusive only if reasonable people could not differ in their conclusions, a matter that depends on the facts of each case.

[Cases that cite this headnote](#)**[4] Pleading** **Plea to the Jurisdiction****States** **Necessity of Consent**

Sovereign immunity, which provides that no state can be sued in her own courts without her consent, and then only in the manner indicated by that consent, encompasses an immunity from suit that implicates a trial court's jurisdiction to decide pending claims, and to this extent can properly be asserted through a plea to the jurisdiction.

[Cases that cite this headnote](#)

[5] States**🔑 Liability and Consent of State to Be Sued in General**

Sovereign immunity encompasses an immunity from liability that is an affirmative defense to the enforcement of a judgment.

[Cases that cite this headnote](#)

[6] Pleading**🔑 Plea to the Jurisdiction****States****🔑 What are suits against state or state officers**

On plea to the jurisdiction, business that participated in the development, printing, and distribution of lottery game under contract with Texas Lottery Commission was not required to make any showing regarding the underlying fiscal rationales of sovereign immunity to implicate the Commission's immunity, but was required to demonstrate only that its actions or decisions were attributable to Commission and not to business's own independent exercise of discretion, in lottery participants' action against business based on a discrepancy between game's instructions and its actual parameters; claims against a private entity that attacked underlying governmental decisions within delegated powers implicated sovereign immunity and its underlying fiscal justifications.

[Cases that cite this headnote](#)

[7] States**🔑 Power to Waive Immunity or Consent to Suit****States****🔑 Necessity of Consent**

State and its government's departments and agencies inherently possess sovereign immunity in the first instance, subject to waiver by the sovereign people through the constitution or acts of the legislature.

[Cases that cite this headnote](#)

[8] States**🔑 What are suits against state or state officers**

A proper ultra vires claim, i.e., a suit to require state government to comply with its underlying delegation of power from the sovereign, does not implicate the sovereign's immunity because it attacks governmental actions lacking a nexus to the sovereign's will.

[Cases that cite this headnote](#)

[9] States**🔑 What are suits against state or state officers**

An ultra vires claim must formally be asserted against an appropriate governmental official, as opposed to the governmental principal, even though it lies against the official in his or her official capacity, because the objective is to restrain the governmental principal; such claim must allege, and ultimately prove, that the officer acted without legal authority or failed to perform a purely ministerial act.

[Cases that cite this headnote](#)

[10] States**🔑 What are suits against state or state officers**

Although the form of the pleadings may be relevant in determining whether a particular suit implicates the sovereign's immunity, such as whether a suit is alleged explicitly against a government official in his official capacity, it is the substance of the claims and relief sought that ultimately determine whether the sovereign is a real party in interest and its immunity thereby implicated.

[Cases that cite this headnote](#)

[11] States**🔑 What are suits against state or state officers**


A sovereign may be the real party in interest, and its immunity correspondingly implicated, even in a suit that purports to name no defendant, governmental or otherwise, yet seeks relief that would control state action.

[Cases that cite this headnote](#)

[12] Pleading

 [Plea to the Jurisdiction](#)

States

 [What are suits against state or state officers](#)

Business that participated in the development, printing, and distribution of lottery game under contract with Texas Lottery Commission lacked discretion with respect to its actions or decisions underlying lottery participants' claims for aiding and abetting fraud, conspiracy, and tortious interference with contract, and thus Commission's sovereign immunity applied with respect to those claims, in participants' action against business based on an asserted discrepancy between game's instructions and actual parameters in which business filed plea to the jurisdiction; business's conduct underlying the claims was its printing and distribution of the game and its programming of a computer system in accordance with the game parameters, which were tasks the business was contractually obligated to perform.

[Cases that cite this headnote](#)

[13] Pleading

 [Plea to the Jurisdiction](#)

States

 [What are suits against state or state officers](#)

Business that participated in the development, printing, and distribution of lottery game under contract with Texas Lottery Commission had discretion to alert Commission to potential discrepancy between game's instructions and actual parameters that resulted from a change to the game requested by the Commission, and thus

Commission's sovereign immunity did not apply for purposes of plea to the jurisdiction with respect to fraud claims arising from the discrepancy in lottery participants' action against business; contract granted business wide discretion in determining the details of the game it submitted to Commission for ultimate approval, and evidence demonstrated that business and Commission expected that concerns would be communicated to Commission.

[Cases that cite this headnote](#)

[14] Pleading

 [Plea to the Jurisdiction](#)

Pleading

 [Merits](#)

The purpose of a plea to the jurisdiction is not to force a plaintiff to preview its case on the merits but to establish a reason why the merits of the plaintiff's claims should never be reached.

[Cases that cite this headnote](#)

[15] Pleading

 [Plea to the Jurisdiction](#)

States

 [What are suits against state or state officers](#)

Fiscal justifications for sovereign immunity did not warrant extension of Texas Lottery Commission's immunity, on plea to the jurisdiction, to business that participated in the development, printing, and distribution of lottery game with respect to lottery participants' fraud claims against business arising from business's alleged failure to independently exercise its discretion to alert Commission to potential discrepancy between game's instructions and actual parameters that resulted from a change to the game requested by the Commission; government contractors or employees could be held liable for consequences of their independent exercise of discretion, despite the possibility

of secondary or tertiary fiscal effects on a government agency.

Cases that cite this headnote

FROM THE DISTRICT COURT OF TRAVIS COUNTY, 201ST JUDICIAL DISTRICT, NO. D-1-GN-14-005114, HONORABLE AMY CLARK MEACHUM, JUDGE PRESIDING

Attorneys and Law Firms

Mr. [Kevin P. Parker](#), The Lanier Law Firm, P. O. Box 691448, Houston, TX 77269-1448, for Appellees.

Ms. [Nina Cortell](#), Haynes and Boone, LLP, 2323 Victory Avenue, Suite 700, Dallas, TX 75219, for Appellant.

Before Justices [Puryear](#), [Pemberton](#), and [Field](#)

OPINION

[Bob Pemberton](#), Justice

*1 This appeal requires us to ascertain the nature and parameters of “derivative” sovereign immunity for government contractors as recognized under current Texas law—a matter going to the trial court’s jurisdiction to adjudicate a lawsuit and not necessarily the merits of the lawsuit itself. Our conclusions and their application to the record in this case require us to affirm in part and reverse in part.

BACKGROUND

In September 2014, the Texas Lottery launched retail sales of a “scratch-off” or “instant” ticket product known as “Fun 5’s.” As the name alludes, Fun 5’s combined five different instant games onto a single ticket and was sold for a retail price of \$5 each. A reduced-size image of the Fun 5’s ticket sold at retail is provided below ¹:



¹ The ticket’s actual dimensions were 8 inches by 4 inches.

Our focus is the game situated in the lower right-hand corner of the Fun 5’s ticket and featured in the inset, labeled as “Game 5.” In Game 5, a contestant won a prize if three “5” symbols appeared in any one row of the tic-tac-toe grid when the latex coating was removed. The amount of that prize was revealed in the “PRIZE” box below the grid, and ranged between \$5 to \$100,000. However, if a “moneybag” icon appeared in the “5x BOX” below the grid, the prize amount would be increased fivefold, elevating the range to between \$25 and \$500,000.

Although the moneybag icon was a prize multiplier having effect only on tickets that won in tic-tac-toe, Game 5 was configured so that the moneybag multiplier would appear not only on a subset of the winning tickets, but also on roughly 25 percent of non-winning tickets, a security measure deemed advisable by the Texas Lottery Commission (TLC) to prevent advance discovery of winning tickets merely by “microscratching” the 5x BOX to find moneybag icons. But after Fun 5’s sales began, a number of purchasers who had uncovered moneybag icons on non-winning tickets in Game 5 asserted that the game instructions printed on the ticket—

Reveal three “5” symbols in any one row, column, or diagonal, win PRIZE in PRIZE box. Reveal a Money Bag “[icon]” symbol in the 5X BOX, win 5 times that PRIZE.

—meant or appeared to mean that the moneybag icon alone entitled them to a prize equaling five times the

amount shown in the PRIZE box. In other words, these purchasers claimed to understand that the second sentence of the instructions, referencing the moneybag icon, promised an independent, alternative means of winning in Game 5 in addition to the tic-tac-toe game referenced in the first sentence, as opposed to describing what was actually a multiplier contingent upon a single method of winning a prize through tic-tac-toe. In some instances, including some that were reported in the media, this asserted discrepancy between Game 5's instructions versus actual parameters purportedly misled some Fun 5's purchasers to perceive themselves winners of large prizes when uncovering moneybag icons on their tickets, only to have their elation crushed when they attempted to collect. The TLC ultimately ended sales of Fun 5's earlier than it had planned, citing "feedback from some players expressing confusion regarding certain aspects of this popular game," and adding that "a few opportunistic individuals appear to be exploiting the situation."

*2 Ensuing lawsuits grew to include over 1,200 original or intervening plaintiffs who had allegedly purchased Fun 5's tickets and incurred injury from the asserted discrepancy between Game 5's instructions and actual parameters. While a single plaintiff (Nettles) filed suit in Dallas County, the others (the Steele Plaintiffs) joined in the cause giving rise to this appeal, filed in Travis County district court. Both suits targeted GTECH Corporation (GTECH), which participated, under contract with the TLC, in the development, printing, and distribution of the Fun 5's product and programming of the computer system used to verify winners.² The merits of these claims or of their underlying reading of the Game 5 instructions are not yet before us. Our present concern, rather, relates to the sovereign immunity that would unquestionably be implicated were the claims asserted instead against TLC, a state agency,³ and whether GTECH can "derivatively" benefit from that immunity here.⁴

² To be precise, both GTECH and a former affiliate, GTECH Printing Corporation, were involved in the underlying events, but GTECH later succeeded to the interests of the affiliate. Furthermore, following the merger of its corporate parent with the International Game Technology company, GTECH has become known as "IGT Global Solutions Corporation." Because the parties have continued to identify the relevant entity simply as "GTECH," so have we.

³ See, e.g., *State v. Lueck*, 290 S.W.3d 876, 880 (Tex. 2009) ("The State and other state agencies ... are immune from suit and liability in Texas unless the Legislature expressly waives sovereign immunity." (citing *Texas Dep't of Transp. v. City of Sunset Valley*, 146 S.W.3d 637, 641 (Tex. 2004))).

⁴ The parties have referred to this concept in terms of "derivative governmental immunity," but such a derivation from TLC's immunity would more precisely be a form of the sovereign immunity that clothes the State of Texas and its agencies. See, e.g., *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427, 429-30 (Tex. 2016) (explaining that "governmental immunity" is the derivative form of sovereign immunity that may extend to "[p]olitical subdivisions of the state[,] such as counties, municipalities, and school districts"). Although most of our observations would apply to both forms, we describe the parties' contentions in terms of sovereign immunity rather than governmental immunity, consistent with their substance, because the distinction ultimately has some conceptual significance in our analysis.

GTECH filed a plea to the jurisdiction asserting that the Steele Plaintiffs' claims were barred by sovereign immunity derived from TLC's immunity, thereby depriving the Travis County district court of subject-matter jurisdiction to adjudicate the claims. GTECH had also asserted a similar plea in the *Nettles* suit. The Dallas district court granted that plea, and this ruling was recently upheld in a memorandum opinion of the Fifth Court of Appeals.⁵ But the Travis County district court denied GTECH's plea as to the Steele Plaintiffs' claims. In this cause, GTECH has appealed that order to this Court, urging that the district court erred in failing to grant the plea based on derivative sovereign immunity.⁶

⁵ See generally *Nettles v. GTECH Corp.*, No. 05-15-01559-CV, 2017 WL 3097627 (Tex. App.—Dallas July 21, 2017, no pet. h.) (mem. op.).

⁶ GTECH first filed a notice of appeal under color of *Civil Practice and Remedies Code Section 51.014, Subsection (a)(8)*, the provision authorizing "[a] person [to] appeal from an interlocutory order of a district court ... that ... grants or denies a plea to the jurisdiction by a governmental unit as that term is defined in Section 101.001." *Tex. Civ. Prac. & Rem. Code* § 51.014(a)(8); see also *Texas A & M Univ. Sys. v. Koseoglu*, 233 S.W.3d 835, 844

(Tex. 2007) (holding that government official sued in official capacity can appeal, via [Section 51.014\(a\) \(8\)](#), denial of official's plea to the jurisdiction, as “the official is invoking the sovereign immunity from suit held by the government itself”). Subsequently, the district court amended its order to add the predicates for a permissive appeal from its denial of GTECH's plea, with the requisite “controlling question of law” being “GTECH Corporation's entitlement to derivative [sovereign] immunity.” See [Tex. Civ. Prac. & Rem. Code § 51.014\(d\)](#) (“On a party's motion or on its own initiative, a trial court in a civil action may, by written order, permit an appeal from an order that is not otherwise appealable if: (1) the order to be appealed involves a controlling question of law as to which there is a substantial ground for difference of opinion; and (2) an immediate appeal from the order may materially advance the ultimate termination of the litigation.”), (f) (authorizing court of appeals to “accept an appeal permitted by Subsection (d)” upon timely application). Upon GTECH's application, which the Steele Plaintiffs did not oppose, we accepted its appeal of the amended order. See [GTECH Corp. v. Steele](#), No. 03-16-00172-CV, 2016 WL 1566886 (Tex. App.—Austin Apr. 15, 2016) (order). Because we possess jurisdiction through Subsection (f) to review the district court's order on the dispositive question of derivative sovereign immunity, we need not decide whether we also do so under Subsection (a)(8).

STANDARD OF REVIEW

*3 [1] [2] [3] Because subject-matter jurisdiction is a question of law, we review de novo a trial court's ultimate ruling on a plea to the jurisdiction.⁷ The Steele Plaintiffs had the burden in the first instance to plead or present evidence of facts that would affirmatively demonstrate the district court's jurisdiction to decide their claims.⁸ We construe their pleadings liberally in favor of jurisdiction, taking their factual allegations as true except to the extent negated by evidence.⁹ Both the Steele Plaintiffs and GTECH presented evidence each deemed material to the jurisdictional issue. In practical terms, this proof could negate jurisdictional facts alleged by the Steele Plaintiffs only to the extent it is conclusively in GTECH's favor.¹⁰ We view the evidence in the light favorable to the Steele Plaintiffs.¹¹

7 See, e.g., [Houston Belt & Term. Rwy. Co. v. City of Hous.](#), 487 S.W.3d 154, 160 (Tex. 2016).

8 See, e.g., [Texas Parks & Wildlife Dep't v. Miranda](#), 133 S.W.3d 217, 226 (Tex. 2004); *Ex parte Springsteen*, 506 S.W.3d 789, 798 n.50 (Tex. App.—Austin 2016, pet. denied) (citing [City of Elsa v. Gonzalez](#), 325 S.W.3d 622, 625 (Tex. 2010) (per curiam)); see also [Creedmoor—Maha Water Supply Corp. v. Texas Comm'n on Envtl. Quality](#), 307 S.W.3d 505, 515-16 & nn.7 & 8 (Tex. App.—Austin 2010, no pet.) (emphasizing that facts, not merely legal conclusions, are required).

9 See, e.g., [Miranda](#), 133 S.W.3d at 226-27.

10 See *id.* at 227-28 (describing the jurisdictional analysis where jurisdictional facts overlap the merits, and noting that it “generally mirrors that of a summary judgment under [Texas Rule of Civil Procedure 166a\(c\)](#)”). To the extent the evidence pertains to any material jurisdictional facts that are not intertwined with the merits, we would infer that the district court found those in the Steele Plaintiffs' favor. See [Vernco Constr., Inc. v. Nelson](#), 460 S.W.3d 145, 149 (Tex. 2015) (per curiam) (“When a jurisdictional issue is not intertwined with the merits of the claims, which is the case here, [which involved a standing issue,] disputed fact issues are resolved by the court, not the jury.”); [Worford v. Stamper](#), 801 S.W.2d 108, 109 (Tex. 1990) (per curiam) (in absence of written findings of fact and conclusions of law, “[i]t is ... implied that the trial court made all the findings necessary to support its judgment”). In that event, GTECH could overcome those implied findings and obtain an appellate judgment of dismissal only by establishing or negating the existence of contrary material jurisdictional facts as a matter of law through conclusive evidence. See [City of Keller v. Wilson](#), 168 S.W.3d 802, 815-17 (Tex. 2005) (explaining that conclusive evidence is the converse of no evidence and affirmatively establishes a fact as a matter of law); [Dow Chem. Co. v. Francis](#), 46 S.W.3d 237, 241 (Tex. 2001) (“When a party attacks the legal sufficiency of an adverse finding on an issue on which she has the burden of proof, she must demonstrate on appeal that the evidence establishes, as a matter of law, all vital facts in support of the issue.”). “Evidence is conclusive only if reasonable people could not differ in their conclusions, a matter that depends on the facts of each case.” [City of Keller](#), 168 S.W.3d at 816 (footnote omitted).

¹¹ See *Keller*, 168 S.W.3d at 807; *Miranda*, 133 S.W.3d at 228.

[4] [5] Sovereign immunity—the age-old common-law doctrine holding that “ ‘no state can be sued in her own courts without her consent, and then only in the manner indicated by that consent’ ”¹²—encompasses an immunity from suit that implicates a trial court's jurisdiction to decide pending claims,¹³ and to this extent can properly be asserted through a plea to the jurisdiction.¹⁴ But sovereign immunity would come into play here only if GTECH has met an initial burden of establishing that the Steele Plaintiffs' claims against it actually implicate that immunity.¹⁵ While the parties agree that it is theoretically possible for claims against a private government contractor like GTECH to implicate the government's sovereign immunity, they differ regarding the conditions under which this is so and, in turn, the showing that GTECH must make.

¹² *Wasson*, 489 S.W.3d at 431 (quoting *Hosner v. De Young*, 1 Tex. 764, 769 (1847)).

¹³ See, e.g., *Brown & Gay Eng'g, Inc. v. Olivares*, 461 S.W.3d 117, 121 (Tex. 2015); see also *Engelman Irrigation Dist. v. Shields Bros. Inc.*, 514 S.W.3d 746, 750-53, 754-55 (Tex. 2017) (explaining nature of this jurisdictional impediment and that it operates prior to a judgment becoming final for appellate purposes). Sovereign immunity also encompasses an immunity from liability that is an affirmative defense to the enforcement of a judgment. See, e.g., *Brown & Gay*, 461 S.W.3d at 121. Consistent with the posture of this appeal, our subsequent references to “sovereign immunity” are intended to denote the immunity-from-suit aspect.

¹⁴ See, e.g., *Miranda*, 133 S.W.3d at 225-26 (citing *Texas Dep't of Transp. v. Jones*, 8 S.W.3d 636, 637 (Tex. 1999)).

¹⁵ See *Brown & Gay*, 461 S.W.3d at 120-29 (addressing whether private engineering firm had shown itself entitled to claim immunity derived from that of toll road authority, a governmental body); *Lenoir v. U.T. Physicians*, 491 S.W.3d 68, 77-90 (Tex. App.—Houston [1st Dist.] 2016, pet. denied) (op. on reh'g) (addressing whether clinic had shown itself entitled to claim sovereign immunity either as a governmental unit in itself or by virtue of immunity derived from a governmental entity); cf. *Lubbock Cty. Water Contr. & Imp. Dist. v. Church & Akin*, 442 S.W.3d 297, 305

(Tex. 2014) (“The Water District had the burden, in its plea to the jurisdiction, to establish that it is a governmental entity entitled to governmental immunity. Once it satisfied that burden, the burden shifted to [the claimant] to establish, or at least raise a fact issue on, a waiver of immunity.”).

THE IMPORT OF *BROWN & GAY*

*4 GTECH argues that it is derivatively shielded by the TLC's sovereign immunity if it can show that it is being sued merely for complying with the TLC's decisions or directives—i.e., for what were ultimately actions of or attributable to TLC that GTECH merely carried out—on which GTECH exercised no “independent discretion.” While agreeing with GTECH to the extent that the contractor must have “exercised no discretion in activities giving rise to [their] claims,” the Steele Plaintiffs urge that GTECH was also required to make an additional, independent showing that “extending” TLC's immunity to GTECH under the particular circumstances of this case would actually advance the fiscal and policy rationales that underlie sovereign-immunity doctrine. The respective arguments are grounded in competing views of *Brown & Gay Engineering, Incorporated v. Olivares*,¹⁶ the first case in which the Texas Supreme Court professed to “directly address[] the extension of immunity to private government contractors.”¹⁷

¹⁶ 461 S.W.3d 117.

¹⁷ *Id.* at 124.

Brown & Gay arose from a fatal automobile accident that occurred on a tollway under the purview of the Fort Bend County Toll Road Authority, a local-government corporation possessing delegated power to design, build, and operate the tollway.¹⁸ Through a statutorily authorized contract, the Authority had delegated to Brown & Gay Engineering, an independent contractor, the responsibility of designing road signs and traffic layouts on the tollway, subject to the approval of the Authority's governing board.¹⁹ The fatality occurred when, following construction, an intoxicated motorist drove onto the tollway through an exit ramp and continued for several miles in the wrong direction before colliding with a car driven by Pedro Olivares, killing both drivers.²⁰ Olivares' estate and his parents sued defendants that included Brown & Gay, alleging that the

firm's negligent failure to design and install proper signs, warning flashers, and other traffic-control devices had proximately caused Olivares' death.²¹

18 *See id.* at 119.

19 *See id.* (citing Tex. Transp. Code § 431.066(b) (authorizing local government corporations to retain “engineering services required to develop a transportation facility or system”)).

20 *See id.*

21 *See id.* at 120.

Brown & Gay interposed a plea to the jurisdiction predicated on the same governmental immunity enjoyed by the Authority (whose immunity was ultimately uncontested).²² Brown & Gay prevailed in the trial court, lost in the court of appeals, and sought review in the Texas Supreme Court.²³ As Brown & Gay's jurisdictional theories had evolved by that juncture, its material arguments were that its status as an independent contractor of the Authority (as opposed to an Authority employee acting in official capacity) did not singularly foreclose its reliance on the Authority's immunity; that courts in Texas and elsewhere had previously recognized that independent government contractors could be shielded by the immunity of the governmental party to the contract; and that the underlying purposes of sovereign immunity are served by extending it to private entities performing authorized governmental functions for which the government itself would be immune, in a manner similar to the governmental immunity enjoyed by Texas's political subdivisions.²⁴

22 *See id.*

23 *See id.*

24 *See id.* at 120, 123-24, 126-27.

In the context of the Olivareses' claims and Brown & Gay's arguments, the Texas Supreme Court identified the question presented as whether “a private company that performed allegedly negligent acts in carrying out a contract with a governmental unit [can] invoke the same immunity that the government itself enjoys,”²⁵ and more specifically, “whether, as a matter of common law, the boundaries of sovereign immunity encompass private government contractors exercising their independent

discretion in performing government functions.”²⁶ This framing of the issue, as further highlighted and confirmed by numerous similar subsequent references to Brown & Gay's “independent discretion,” “independent negligence,” “own negligence,” and the like throughout the remainder of the opinion,²⁷ served to emphasize that the Olivareses were suing Brown & Gay for alleged conduct that neither party had attempted to attribute to the actions or directives of the Authority. That posture proves significant in understanding the analysis that followed.

25 *See id.* at 122.

26 *Id.* at 122-23.

27 *See infra* note 68.

*5 To resolve the question it had identified, the *Brown & Gay* court looked to two sets of considerations that are material to the present case. First, in a section of the opinion titled, “Extending Sovereign Immunity to Brown & Gay Does Not Further the Doctrine's Rationale and Purpose,” the supreme court considered whether “extend[ing] sovereign immunity to private contractors like Brown & Gay ... comports with and furthers the legitimate purposes that justify this otherwise harsh doctrine.”²⁸ This analysis responded to arguments advanced by Brown & Gay and an amicus, who, in an attempt to evoke the fiscal justifications underlying contemporary sovereign-immunity doctrine, had urged that immunizing contractors in the circumstances presented would ultimately reduce costs to government, at least over the long term, because contractors would otherwise pass on the costs associated with litigation exposure through higher contract prices.²⁹ The supreme court disagreed that this asserted concern justified extending sovereign immunity to Brown & Gay.

28 *Id.* at 123.

29 *See id.*

The supreme court first questioned the premise that the contractors' litigation costs would necessarily be passed on to the government, noting the “highly competitive world of government contract-bidding” and “the fact that private companies can and do manage their risk exposure by obtaining insurance.”³⁰ “But even assuming that holding private entities liable for

their own negligence in fact makes contracting with those entities more expensive for the government,” the court maintained, sovereign immunity was not “strictly a cost-saving measure” and “has never been defended as a mechanism to avoid any and all increases in public expenditures.”³¹ Rather, the court explained, sovereign immunity was more precisely “designed to guard against the ‘unforeseen expenditures’ associated with the government’s defending lawsuits and paying judgments ‘that could hamper government functions’ by diverting funds from their allocated purposes.”³² “Even if holding a private party liable for its own improvident actions in performing a government contract indirectly leads to higher overall costs to government entities in engaging private contractors,” the court reasoned, “those costs will be reflected in the negotiated contract price,” thus enabling “the government to plan spending on the project with reasonable accuracy.”³³ “Accordingly,” the supreme court concluded, “the rationale underlying the doctrine of sovereign immunity does not support extending that immunity to Brown & Gay.”³⁴

³⁰ See *id.* In fact, as the court emphasized, Brown & Gay’s contract had required it maintain insurance for the project, including workers’ compensation, commercial general liability, automobile liability, umbrella excess liability, and professional liability. See *id.* at 119-20.

³¹ *Id.* at 123.

³² *Id.* (citing *Texas Dep’t of Transp. v. Sefzik*, 355 S.W.3d 618, 621 (Tex. 2011) (per curiam); *Texas Nat. Res. Conserv. Comm’n v. IT-Davy*, 74 S.W.3d 849, 853 (Tex. 2002)).

³³ *Id.*

³⁴ *Id.* at 124.

In the *Brown & Gay* court’s second set of considerations, preceded by the heading “Sovereign Immunity Does Not Extend to Private Contractors Exercising Independent Discretion,” it sought to identify material features of the claims addressed in prior cases from other courts in which independent government contractors had been held immune.³⁵ In part, the court emphasized the line of federal cases that had emanated from the United States Supreme Court’s decision in *Yearsley v. W.A. Ross Construction Company*.³⁶ In *Yearsley*, a private

contractor had constructed dikes under a contract with the federal government and was later sued by a landowner who alleged that the dikes had caused erosion and loss of land.³⁷ It was undisputed that the contractor’s work “was all authorized and directed by the Government of the United States,” and that the government’s actions were authorized by congressional act.³⁸ The *Yearsley* court held that where the government’s “authority to carry out the project was validly conferred, that is, if what was done was within the constitutional power of Congress,” there is “no liability on the part of the contractor” merely for performing as the government had directed.³⁹ That court contrasted this situation with cases in which liability had been imposed on government contractors, which it characterized as having turned on acts exceeding the contractor’s authority or authority that had not been validly conferred.⁴⁰

³⁵ See *id.* at 124-27.

³⁶ 309 U.S. 18, 60 S.Ct. 413, 84 L.Ed. 554 (1940).

³⁷ See *id.* at 20, 60 S.Ct. 413.

³⁸ *Id.*

³⁹ *Id.* at 20-21, 60 S.Ct. 413.

⁴⁰ See *id.* at 21, 60 S.Ct. 413.

*6 Although the United States Supreme Court did not explicitly couch *Yearsley*’s analysis in terms of sovereign immunity, and that court would later indicate in the *Campbell–Ewald* case that the protection would instead be a type of common-law “immunity” that is not “the Government’s embracive immunity,”⁴¹ a number of lower federal courts had deduced in the meantime that *Yearsley* recognized a form of immunity for government contractors, deriving from the government’s sovereign immunity, arising when a contractor is sued for alleged acts or decisions that are substantively the government’s alone. But *Brown & Gay* predated *Campbell–Ewald*, and the Texas Supreme Court cited the earlier federal lower-court cases as material to the parameters of derivative sovereign immunity under Texas common law.⁴² The *Brown & Gay* court further quoted the following excerpt as “aptly summarizing the framework governing the extension of derivative immunity to federal contractors” in those cases:

Where the government hires a contractor to perform a given task, and specifies the manner in which the task is to be performed, and the contractor is later haled into court to answer for a harm that was caused by the contractor's compliance with the government's specifications, the contractor is entitled to the same immunity the government would enjoy, because the contractor is, under those circumstances, effectively acting as an organ of government, without independent discretion. Where, however, the contractor is hired to perform the same task, but is allowed to exercise discretion in determining how the task should be accomplished, if the manner of performing the task ultimately causes actionable harm to a third party the contractor is not entitled to derivative sovereign immunity, because the harm can be traced, not to the government's actions or decisions, but to the contractor's independent decision to perform the task in an unsafe manner. Similarly, where the contractor is hired to perform the task according to precise specifications but fails to comply with those specifications, and the contractor's deviation from the government specifications actionably harms a third party, the contractor is not entitled to immunity because, again, the harm was not caused by the government's insistence on a specified manner of performance but rather by the contractor's failure to act in accordance with the government's directives.⁴³

⁴¹ See *Campbell-Ewald Co. v. Gomez*, — U.S. —, 136 S.Ct. 663, 672-73, 193 L.Ed.2d 571 (2016).

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See *Brown & Gay*, 461 S.W.3d at 124-25 & n.9 (discussing *Butters v. Vance Int'l, Inc.*, 225 F.3d 462, 464-66 (4th Cir. 2000); *Bixby v. KBR, Inc.*, 748 F.Supp.2d 1224, 1242 (D. Or. 2010)); see also *id.* at 125 & n.8 (discussing *Ackerson v. Bean Dredging Corp.*, 589 F.3d 196, 206-07 (5th Cir. 2009), while acknowledging that the Fifth Circuit had concluded that “the contractors' entitlement to dismissal was not jurisdictional”).

In *Butters*, as the *Brown & Gay* court explained, a female employee of a private security firm hired by the Saudi Arabian government had sued the firm for discrimination after being declined a favorable assignment on orders of the Saudi government. See *id.* at 124 (citing *Butters*, 225 F.3d at 464-65). The Saudi government was held immune from suit under the Foreign Sovereign Immunities Act, and this immunity was held also to attach to the security firm, as the firm “was following Saudi Arabia's orders not to promote [the employee].” See *id.* at 124-25 (citing *Butters*, 225 F.3d at 465-66). The Fourth Circuit had also acknowledged the converse proposition, as the *Brown & Gay* court pointed out—the firm would not have been entitled to this “derivative immunity” had the firm rather than the sovereign made the decision to decline the promotion. See *id.* at 125 (citing *Butters*, 225 F.3d at 466).

In *Ackerson*, as the *Brown & Gay* court explained, federal contractors were sued for damages caused by dredging in connection with a federal public works project. See *id.* (citing *Ackerson*, 589 F.3d at 206-10). Relying on *Yearsley*, the Fifth Circuit “held that the contractors were entitled to immunity,” as the supreme court described it, where the plaintiffs' allegations had merely “ ‘attack[ed] Congress's policy of creating and maintaining the [project], not any separate act of negligence by the Contractor Defendants.’ ” *Id.* (quoting *Ackerson*, 589 F.3d at 207 (emphasis added)).

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Id. at 125 n.9 (quoting *Bixby*, 748 F.Supp.2d at 1242). The *Brown & Gay* court also distinguished these concepts from the federal qualified-immunity doctrine and the Texas official-immunity doctrine, maintaining that these embodied underlying policies that “are simply irrelevant” to Texas sovereign-immunity doctrine. See *id.* at 127-29.

*7 While acknowledging that it had not previously “directly addressed” whether these principles would apply to Texas government and its private contractors,⁴⁴ the *Brown & Gay* court observed that it had cited *Yearsley* favorably in an earlier case addressing the liability

exposure of a government contractor for harm it inflicted due to a mistake by the government.⁴⁵ In that case, *Glade v. Dietert*, a city had contracted with Glade to construct a sewer line according to city-prepared plans and specifications.⁴⁶ The city was to furnish the right of way, and staked the area where Glade was to construct the line.⁴⁷ Part of the planned route traversed Dietert's property, but the city, apparently by inadvertence, had acquired only a portion of the easement needed there.⁴⁸ This resulted in Glade bulldozing an area of Dietert's property that the city had staked but that lay beyond the easement the city had secured.⁴⁹ Once the error was discovered, the city promptly commenced eminent domain proceedings and acquired the omitted right of way, but Dieter sued Glade seeking damages for the trespass that had occurred in the meantime.⁵⁰

⁴⁴ *Id.* at 124.

⁴⁵ *See id.* at 125 (discussing *Glade v. Dietert*, 156 Tex. 382, 295 S.W.2d 642 (1956)).

⁴⁶ *Glade*, 295 S.W.2d at 643.

⁴⁷ *See id.*

⁴⁸ *See id.*

⁴⁹ *See id.*

⁵⁰ *See id.*

Dieter prevailed in the lower courts, and Glade urged the supreme court that a contractor like him could not, “in the absence of any negligence or wanton or wilful conduct ... be held liable for damages to the real property or the owner” for “perform[ing] his contract under the directions of the municipality and in strict compliance with plans and specifications furnished to him.”⁵¹ Dietert countered by emphasizing the “general rule” that a servant could not avoid personal liability for torts he committed while obeying his master's command by attributing the act to his master.⁵² The supreme court agreed with Glade. It distinguished Dietert's cases as “involv[ing] suits against private corporations and their agents” and held that the controlling rule was instead that a public-works contractor “is liable to third parties only for negligence in the performance of the work and not for the result of the work performed according to the contract.”⁵³ The *Glade* court cited *Yearsley* in support of that conclusion.⁵⁴

⁵¹ *Id.*

⁵² *See id.*

⁵³ *Id.* at 644.

⁵⁴ *See id.*

Glade did not, strictly speaking, address immunity or jurisdiction—as the *Brown & Gay* court later observed, the city's actions had effected a taking, giving rise to a claim for compensation for which the Texas Constitution would have waived immunity.⁵⁵ Yet the *Brown & Gay* court noted the following common thread running through *Glade* and the federal contractor-immunity cases:

In each of these cases, the complained-of conduct for which the contractor was immune was effectively attributed to the government. That is, the alleged cause of the injury was not the independent action of the contractor, but the action taken by the government *through* the contractor.⁵⁶

The *Brown & Gay* court also deemed “instructive” its more recent decision in *K.D.F. v. Rex*.⁵⁷ The issue in *K.D.F.* was whether two private entities that had contracted with the Kansas Public Employees' Retirement System, a Kansas governmental entity, could benefit from the System's sovereign immunity and take advantage of a Kansas statute requiring all “actions ‘directly or indirectly’ against [the System]” to be brought in a particular Kansas county.⁵⁸ In answering that question, the supreme court had looked to features of the tort claims acts in both Texas and Kansas and determined that the controlling consideration was ultimately whether each company was performing ministerial functions under the control and direction of the System.⁵⁹ The court held that one of the entities, K.D.F., which held securities on the System's behalf, met this standard because it “operates solely upon the direction of [the System] and exercises no discretion in its activities,” such that K.D.F. and the System were “not distinguishable from one another; a lawsuit against one is a lawsuit against the other.”⁶⁰ But the court held that the other company, Pacholder, an independent investment advisor to the

System, did not meet that standard because “[i]ts activities necessarily involve considerable discretion ... its role is more in the nature of advising [the System] how to proceed, rather than being subject to the direction and control of [the System].”⁶¹ “This reasoning,” the *Brown & Gay* court maintained, “implies that private parties exercising independent discretion are not entitled to sovereign immunity,” adding that the proposition was “consistent with the reasoning federal courts have utilized in extending derivative immunity to federal contractors only in limited circumstances.”⁶²

⁵⁵ See *Brown & Gay*, 461 S.W.3d at 125; see also *Steele v. City of Hous.*, 603 S.W.2d 786, 791 (Tex. 1980) (“The [Texas] Constitution itself is the authorization for compensation for the destruction of property and is a waiver of governmental immunity for the taking, damaging or destruction of property for public use.”).

⁵⁶ *Brown & Gay*, 461 S.W.3d at 125.

⁵⁷ 878 S.W.2d 589 (Tex. 1994).

⁵⁸ See *id.* at 596.

⁵⁹ See *id.* at 596-97.

⁶⁰ *Id.* at 597; see *id.* at 591.

⁶¹ *Id.* at 597; see *id.* at 591.

⁶² *Brown & Gay*, 461 S.W.3d at 124.

*8 The *Brown & Gay* court contrasted the Olivareses' claims, observing that:

the Olivareses do not complain of harm caused by Brown & Gay's implementing the Authority's specifications or following any specific government directions or orders. Under the contract at issue, Brown & Gay was responsible for preparing all “drawings, specifications, and details for all signs.” Further, the Olivareses do not complain about the decision to build the Tollway or the mere fact of its existence, but that Brown & Gay was independently negligent in designing the signs and traffic layouts for the Tollway. Brown & Gay's decisions in designing the Tollway's safeguards are its own.⁶³

The court similarly distinguished various Texas lower court cases on which Brown & Gay had relied to support application of the government's immunity to private

contractors.⁶⁴ The gravamen of these decisions, the supreme court suggested, was that the claimants were deemed in the circumstances of those cases to have sought relief against the government rather than the contractor individually.⁶⁵

⁶³ *Id.*

⁶⁴ See *id.* at 126-27 (discussing *Ross v. Linebarger, Goggan, Blair & Sampson, L.L.P.*, 333 S.W.3d 736 (Tex. App.—Houston [1st Dist.] 2010, no pet.); *Foster v. Teacher Ret. Sys.*, 273 S.W.3d 883 (Tex. App.—Austin 2008, no pet.); *City of Hous. v. First City*, 827 S.W.2d 462 (Tex. App.—Houston [1st Dist.] 1992, writ denied)).

⁶⁵ *Ross* and *First City* had involved suits against law firms arising from their tax-collection work on behalf of governmental entities. The firms were held entitled to the government's immunity under the premise that they had been sued in their official capacities as agents for the government. See *Ross*, 333 S.W.3d at 742-43; *First City*, 827 S.W.2d at 479-80. “Regardless of whether these cases were correctly decided,” the *Brown & Gay* court reasoned,

the government's right to control that led these courts to extend immunity to a private government contractor is utterly absent here. The evidence shows that Brown & Gay was an independent contractor with discretion to design the Tollway's signage and road layouts. We need not establish today whether some degree of control by the government would extend its immunity protection to a private party; we hold only that no control is determinative.

Brown & Gay, 461 S.W.3d at 126. As for *Foster*, that case had involved a suit by a retired teacher against the Teacher Retirement System of Texas and Aetna, the administrator of TRS's health-insurance plan for retired teachers, complaining of a denial of coverage for a claim. The *Brown & Gay* court observed that Aetna's sole role had been to act “as an agent of and in a fiduciary capacity for” TRS in the administration of a state-funded health insurance plan and, further, had been indemnified by TRS for any actions arising from its good-faith performance. See *id.* at 127 (citing *Foster*, 273 S.W.3d at 889-90). By contrast, the supreme court observed, “no fiduciary relationship exists between Brown & Gay and the Authority,” and “the Olivareses do not effectively seek to recover money from the government.” *Id.*

* * *

*9 [6] The parties' disagreement regarding GTECH's required showing distills ultimately to whether *Brown & Gay's* analyses regarding sovereign immunity's "Rationale and Purpose" and "Private Contractors Exercising Independent Discretion" imply a two-element test, both of which must be proven in order for a government contractor to enjoy the government's immunity (the Steele Plaintiffs' position), or reflect two alternative analyses, either of which could support derivation or extension of the government's immunity to the contractor (GTECH's position). We ultimately conclude that GTECH is closer to the mark—to the extent GTECH can demonstrate that the Steele Plaintiffs complain substantively of actions, decisions, or directives attributable to TLC and not of GTECH's own independent exercise of discretion, (i.e., that would satisfy the considerations in *Brown & Gay's* "Sovereign Immunity Does Not Extend to Private Companies Exercising Independent Discretion" discussion), the claims would implicate TLC's sovereign immunity, and GTECH would not be required to make any separate or further showing to satisfy the fiscal considerations addressed in the opinion's "Rationale and Purposes" discussion.⁶⁶

⁶⁶ And because we agree with GTECH's view of the governing standard, we need not decide whether, as GTECH insists, appellees waived reliance on their competing version of the standard by failing to argue it before the district court. *But cf. Rusk State Hosp. v. Black*, 392 S.W.3d 88, 94-95 (Tex. 2012) (clarifying that jurisdictional aspects of sovereign immunity include susceptibility to being addressed for the first time on appeal).

It is true that, as the Steele Plaintiffs emphasize, the *Brown & Gay* court repeatedly alluded to both analyses, seemingly conjunctively, in support of its holding that immunity did not extend to the contractor there.⁶⁷ But these references must read alongside the supreme court's repeated emphases that the Olivareses' claims implicated only *Brown & Gay's* independent discretion rather than underlying governmental acts and decisions.⁶⁸ That is to say, the *Brown & Gay* court's analysis of "whether to extend sovereign immunity to private contractors like *Brown & Gay*" in light of "whether doing so comports with and furthers the [doctrine's] legitimate purposes" was speaking only to claims that also would not implicate the government's immunity under the rationale of the

Yearsley line and other cases it cited in the "Private Contractors Exercising Independent Discretion" portion of the opinion. And claims within that category—those that substantively attack underlying governmental decisions and directives effected through a contractor rather than a contractor's own independent discretionary actions—would inherently implicate the underlying fiscal policies of sovereign immunity that are addressed in the "Rationale and Purpose" section. Although this relationship is admittedly not stated explicitly in *Brown & Gay*, it is evident from the broader body of Texas sovereign-immunity jurisprudence.

⁶⁷ The Steele Plaintiffs point out that at the conclusion of the *Brown & Gay* court's discussion of "Private Contractors Exercising Independent Discretion," it returned to an explicit emphasis on sovereign immunity's "Rationale and Purpose":

In sum, we cannot adopt *Brown & Gay's* contention that it is entitled to share in the Authority's sovereign immunity solely because the Authority was statutorily authorized to engage *Brown & Gay's* services and would have been immune had it performed those services itself. That is, we decline to extend to private entities the same immunity the government enjoys for reasons unrelated to the rationale that justifies such immunity in the first place. The Olivareses' suit does not threaten allocated government funds and does not seek to hold *Brown & Gay* merely for following the government's directions. *Brown & Gay* is responsible for its own negligence as a cost of doing business and may (and did) insure against that risk, just as it would had it contracted with a private owner.

Brown & Gay, 461 S.W.3d at 127. Similarly, the Steele Plaintiffs observe, the court went on to close its opinion by "declin[ing] to extend sovereign immunity to private contractors based solely on the nature of the contractor's work when the very rationale for the doctrine provides no support for doing so." *Id.* at 129.

⁶⁸ See *id.* at 119 ("In this case, a private engineering firm lawfully contracted with a governmental unit to design and construct a roadway, and a third party sued the firm for negligence in carrying out its responsibilities."), 122 ("In this case ... a private company that performed allegedly negligent acts in carrying out a contract with a governmental unit seeks to invoke the same immunity that the government itself enjoys."), 122-23 (summarizing the issue presented as "whether,

as a matter of common law, the boundaries of sovereign immunity encompass private governmental contractors exercising their independent discretion in performing governmental functions”), 123 (referring to issue presented in terms of “holding a private party liable for its own improvident actions in performing a government contract”), 125-26 (“In this case, the Olivareses do not complain of harm caused by Brown & Gay’s implementing the Authority’s specifications or following any specific government directions or orders.... Further, the Olivareses do not complain about the decision to build the Tollway or the mere fact of its existence, but that Brown & Gay was independently negligent in designing the signs and traffic layouts for the Tollway. Brown & Gay’s decisions in designing the Tollway’s safeguards are its own.”), 126 (“[T]he Olivareses do not assert that Brown & Gay is liable for the Authority’s actions; they assert that Brown & Gay is liable for its own actions.”), 126 (“The evidence shows that Brown & Gay was an independent contractor with discretion to design the Tollway’s signage and road layouts.”).

*10 [7] As reflected in the doctrine’s name, sovereign immunity is considered to be “inherent in the nature of sovereignty,”⁶⁹ which in the State of Texas is vested in its People.⁷⁰ The state government is said to embody the People’s sovereignty because it exists and functions legitimately by virtue of powers delegated through and under their Constitution and laws.⁷¹ Accordingly, the State of Texas and its government’s departments and agencies, such as the TLC, inherently possess sovereign immunity in the first instance,⁷² subject to waiver by the sovereign People through their Constitution or acts of their Legislature.⁷³

⁶⁹ *Wasson*, 489 S.W.3d at 431.

⁷⁰ *See id.* at 432.

⁷¹ *See id.* at 432-33.

⁷² *See, e.g., Lueck*, 290 S.W.3d at 880 (“The State and other state agencies like TxDOT are immune from suit and liability in Texas unless the Legislature expressly waives sovereign immunity.” (citing *City of Sunset Valley*, 146 S.W.3d at 641)); *Herring v. Houston Nat’l Exch. Bank*, 114 Tex. 394, 269 S.W. 1031, 1033-34 (1925) (observing that if Texas’s Board of Prison Commissioners “can be sued without legislative consent, it being purely a governmental

agency or department, then the government, the sovereignty, can be so sued”).

⁷³ *See Wasson*, 489 S.W.3d at 432 (“ ‘In Texas, the people’s will is expressed in the Constitution and laws of the State,’ and thus ‘to waive immunity, consent to suit must ordinarily be found in a constitutional provision or legislative enactment.’ ” (quoting *Wichita Falls State Hosp. v. Taylor*, 106 S.W.3d 692, 695 (Tex. 2003))). But while the Legislature can thereby decide when or how to waive sovereign immunity once it is held to apply, the Judiciary is the arbiter of whether that immunity exists or applies in the first instance, as the doctrine has remained a creature of the common law. *See id.* (observing that sovereign immunity “has developed through the common law—and has remained there,” and that “as the arbiter of the common law, the judiciary has historically been, and is now, entrusted with ‘defin[ing] the boundaries of the common-law doctrine and ... determin[ing] under what circumstances sovereign immunity exists in the first instance’ ”) (citing *Reata Constr. Corp. v. City of Dallas*, 197 S.W.3d 371, 375 (Tex. 2006)).

Although rooted historically in a perceived conceptual incompatibility of allowing the sovereign—originally embodied in the English monarch—to be sued in its own courts without its consent,⁷⁴ the modern justifications for the sovereign-immunity doctrine in Texas have centered, as the *Brown & Gay* court recognized, on shielding our state government (and, ultimately, the sovereign People who delegate it power and fund it through taxes) from the fiscal and policy disruptions that lawsuits and court judgments would otherwise cause to governmental functions.⁷⁵ Relatedly, sovereign immunity is said today to “preserve[] separation-of-powers principles by preventing the judiciary from interfering with the Legislature’s prerogative to allocate tax dollars” and “leav[ing] to the Legislature the determination of when to allow tax resources to be shifted away from their intended purposes toward defending lawsuits and paying judgments.”⁷⁶

⁷⁴ *See id.* at 431-32 & n.5.

⁷⁵ *See id.* at 432; *Brown & Gay*, 461 S.W.3d at 121-22.

⁷⁶ *Brown & Gay*, 461 S.W.3d at 121 (internal quotations omitted).

These concerns with protecting the state governmental functions deriving from the sovereign’s will have informed

the Texas Supreme Court's longstanding recognition that the sovereign's immunity may be implicated by lawsuits that do not explicitly name the State or the State government as a defendant. Although Texas's political subdivisions (e.g., counties, municipalities, or school districts) possess no inherent sovereignty of their own, they are said to “derive governmental immunity from the state's sovereign immunity” when performing “governmental” functions as a “branch” of the State.⁷⁷ But more critically here, the supreme court has long recognized that sovereign immunity can be implicated even by claims against defendants that are not themselves governmental entities. A suit against a governmental official, employee, or other agent in his or her official capacity (i.e., seeking relief that would lie against the governmental principal rather than the agent personally, such as compelling payment of funds from the public treasury⁷⁸) is said to be “merely ‘another way of pleading an action against the entity of which [the official] is an agent,’ ” as the governmental principal is the real party in interest.⁷⁹ It follows that official-capacity suits generally implicate the same sovereign immunity that would shield the governmental principal,⁸⁰ and to this extent the agent is said to enjoy the sovereign's immunity “derivatively.”⁸¹

⁷⁷ See *Wasson*, 489 S.W.3d at 429-30, 433-34. These “governmental” functions stand in contrast to the “proprietary” functions that municipalities can perform, described generally as discretionary functions “not done as a branch of the state, but instead ‘for the private advantage and benefit of the locality and its inhabitants.’ ” See *id.* at 433-34 (quoting *City of Galveston v. Posnainsky*, 62 Tex. 118, 127 (1884)). Proprietary functions, the Texas Supreme Court has reasoned, are “[l]ike *ultra vires* acts” for sovereign-immunity purposes, in that “acts performed as part of a city's proprietary function ... are not performed under the authority, or for the benefit, of the sovereign.” *Id.* at 434.

⁷⁸ See *City of El Paso v. Heinrich*, 284 S.W.3d 366, 377 (Tex. 2009).

⁷⁹ See *id.* at 373 (quoting *Koseoglu*, 233 S.W.3d at 844 (quoting *Kentucky v. Graham*, 473 U.S. 159, 165, 105 S.Ct. 3099, 87 L.Ed.2d 114 (1985))).

⁸⁰ See *Franka v. Velasquez*, 332 S.W.3d 367, 382-83 (Tex. 2011).

⁸¹ *Id.*

*11 [8] [9] The exception to this general rule that an official-capacity claim implicates the governmental principal's immunity, the *ultra vires* claim, is itself shaped by the underlying relationship to sovereign will in a manner that is instructive here. In concept, a proper *ultra vires* claim—i.e., a suit to require state government to comply with its underlying delegation of power from the sovereign⁸²—does not implicate the sovereign's immunity because it attacks governmental actions lacking a nexus to the sovereign's will.⁸³ But consistent with this notion that *ultra vires* acts are not acts “of the State,” an *ultra vires* claim must formally be asserted against an appropriate governmental official, as opposed to the governmental principal, even though it lies against the official in his or her official capacity, because the objective is to restrain the governmental principal.⁸⁴ However, a proper *ultra vires* claim “must allege, and ultimately prove, that the officer acted without legal authority or failed to perform a purely ministerial act.”⁸⁵ And if an ostensible *ultra vires* claim turns out not to meet this standard, it follows that the claim is actually seeking to judicially override the sovereign will embodied in the governmental acts and decisions made within delegated authority—to “control state action”—and thereby implicates the sovereign's immunity.⁸⁶ Further, an otherwise-proper *ultra vires* claim also independently implicates the sovereign's immunity to the extent it seeks relief that either overtly or in effect goes beyond prospective injunctive or declaratory relief restraining the government's *ultra vires* conduct, such as through claims that would establish a right to retrospective monetary relief from the governmental principal, impose liability upon or interfere with the government's rights under a contract, or otherwise control state action.⁸⁷

⁸² See *Heinrich*, 284 S.W.3d at 372-73.

⁸³ See *Wasson*, 489 S.W.3d at 433 (observing that governmental acts “done ‘without legal authority’ are not done as a branch of the state. By definition, they fail to derive that authority from the root of our state's immunity—the sovereign will.”).

⁸⁴ See *Heinrich*, 284 S.W.3d at 372-73.

⁸⁵ *Id.* at 372.

86 See *id.*; *Director of Dep't of Agric. & Env't v. Printing Indus. Ass'n of Tex.*, 600 S.W.2d 264, 265-66 (Tex. 1980); see also *Bacon v. Texas Historical Comm'n*, 411 S.W.3d 161, 173 (Tex. App.—Austin 2013, no pet.) (observing that suit that complains of governmental actions within legal authority “implicates sovereign immunity because it seeks to ‘control state action,’ to dictate the manner in which officers exercise their delegated authority” (citing *Heinrich*, 284 S.W.3d at 372; *Creedmoor–Maha*, 307 S.W.3d at 515-16)).

87 See *Heinrich*, 284 S.W.3d at 373-76 (otherwise-proper *ultra vires* claims implicate immunity to extent remedy has effect of retrospective monetary relief); *IT–Davy*, 74 S.W.3d at 855-56 (contrasting permissible *ultra vires* claims with “suits against state officials seeking to establish a contract's validity, to enforce performance under a contract, or to impose contractual liabilities,” which “are suits against the State ... because [they] attempt to control state action by imposing liability on the State”); *W.D. Haden Co. v. Dodgen*, 158 Tex. 74, 308 S.W.2d 838, 840 (1958) (“There is a clear distinction between [permissible *ultra vires* claims] and suits brought against an officer to prevent exercise by the state through some officer of some act of sovereignty, or suits against an officer or agent of the state to enforce specific performance of a contract made for the state, or to enjoin the breach of such contract, or to recover damages for such breach, or to cancel or nullify a contract made for the benefit of the state.”) (quoting *Imperial Sugar Co. v. Cabell*, 179 S.W. 83, 89 (Tex. Civ. App.—Galveston 1915, no writ)); see also *Texas Dep't of Transp. v. Sawyer Trust*, 354 S.W.3d 384, 388 (Tex. 2011) (observing that “sovereign immunity will bar an otherwise proper [*ultra vires*] claim that has the effect of establishing a right to relief against the State for which the Legislature has not waived sovereign immunity”) (citing *City of Hous. v. Williams*, 216 S.W.3d 827, 828-29 (Tex. 2007) (per curiam)).

[10] [11] Importantly, although the form of the pleadings may be relevant in determining whether a particular suit implicates the sovereign's immunity, such as whether a suit is alleged explicitly against a government official in his “official capacity,” it is the substance of the claims and relief sought that ultimately determine whether the sovereign is a real party in interest and its immunity thereby implicated.⁸⁸ In fact, as recognized in a recent decision from this Court, the sovereign may be the real party in interest, and its immunity correspondingly implicated, even in a suit that purports to name no

defendant, governmental or otherwise, yet seeks relief that would control state action.⁸⁹

88 See, e.g., *Sawyer Trust*, 354 S.W.3d at 389 (regarding *ultra vires* claims, observing that “[t]he central test for determining jurisdiction” looks to whether ‘the real substance’ of the plaintiff's claims” is within the trial court's jurisdiction (citing *Dallas Cty. Mental Health & Retardation v. Bossley*, 968 S.W.2d 339, 343-44 (Tex. 1998))); *Heinrich*, 284 S.W.3d at 377 (concluding that claims asserted against individual members of governing body, without specifying capacity in which they were sued, implicated their official capacities because the requested relief would compel payments from the public treasury and, as such, “would necessarily come from the Board, rather than the individual members”; further observing that capacity in which governmental agent is sued sometimes must be determined from “the nature of the liability sought to be imposed” as indicated in the “course of proceedings” (quoting *Graham*, 473 U.S. at 167 n.14, 105 S.Ct. 3099)); *Williams*, 216 S.W.3d at 828-29 (attempted *ultra vires* suit that would have effect of compelling payment of retrospective monetary relief from public treasury held barred by immunity); *City of Austin v. Utility Assocs., Inc.*, 517 S.W.3d 300, 311-13 (Tex. App.—Austin 2017, pet. denied) (otherwise-proper *ultra vires* claim would implicate governmental immunity to extent remedy would “undo” previously executed government contract); *Texas Logos, L.P. v. Texas Dep't of Transp.*, 241 S.W.3d 105, 118-23 (Tex. App.—Austin 2007, no pet.) (same).

89 See *Ex parte Springsteen*, 506 S.W.3d at 797, 802 (declaratory-judgment suit by former death-row inmate seeking determination of “actual innocence,” though styled as an “ex parte” proceeding, did not avoid implicating sovereign immunity because “the substantive effect of any claim seeking to determine his status under the criminal law would operate against the State of Texas, in whose name and by whose authority the criminal law is enforced”).

*12 It follows from the same basic principles that the sovereign, as embodied in state governmental organs, may be the real party in interest, and its immunity implicated, by claims asserted against a private government contractor where those claims substantively attack underlying governmental decisions and directives made within delegated powers rather than the contractor's own independent discretionary acts—i.e., the sorts of claims that would implicate immunity under the “Private

Contractors Exercising Independent Discretion” portion of *Brown & Gay*. This is so because the claims and any relief obtained would, through their effects on the contractor, impinge upon the *government's* exercise of its contract rights and underlying delegated authority. In these respects, such claims would be analogous to the ostensible *ultra vires* claims that would actually control state action by overriding government contracts⁹⁰ and sovereign will.⁹¹ And while the immunity belongs to the government rather than the contractor, per se, that is no barrier to the contractor raising the issue. Because such immunity would implicate the trial court's subject-matter jurisdiction, the trial court would be required to address that issue regardless of how or by whom it is raised.⁹²

⁹⁰ See, e.g., *Dodgen*, 308 S.W.2d at 840; *Utility Assocs., Inc.*, 517 S.W.3d at 311-13; *Texas Logos, L.P.*, 241 S.W.3d at 118-23.

⁹¹ See, e.g., *Heinrich*, 284 S.W.3d at 372; *Printing Indus. Ass'n of Tex.*, 600 S.W.2d at 265-66.

⁹² See *Utility Assocs., Inc.*, 517 S.W.3d at 307 (“This inquiry [regarding sovereign or governmental immunity as it bears on subject-matter jurisdiction] is not necessarily confined to the precise jurisdictional challenges presented by the parties, because jurisdictional requirements may not be waived and ‘can be—and if in doubt, must be—raised by a court on its own at any time,’ including on appeal.”) (quoting *Finance Comm'n of Tex. v. Norwood*, 418 S.W.3d 566, 580 (Tex. 2013) (citing *Texas Ass'n of Bus. v. Texas Air Control Bd.*, 852 S.W.2d 440, 445-46 (Tex. 1993))).

In turn, claims against contractors that would substantively override underlying governmental decisions and directives in this way would inherently cause the unanticipated diversion of appropriated funds from their intended purposes—which brings us to the basic policy concern addressed in *Brown and Gay's* “Rationale and Purpose” discussion. This is so because the underlying governmental decisions and directives made within delegated authority are fueled by appropriations made (and, ultimately, taxes collected) for that purpose.⁹³ And such disruptions of governmental functions and finances are not merely the indirect or long-term economic effects on government from lawsuits against private government contractors for their own independent discretionary acts.⁹⁴ When government contractors are sued for their

own independent discretionary acts, their position is analogous to that of government employees or agents who breach personal tort duties owed to third parties independently from duties owed by their governmental principals.⁹⁵ In such instances, the employees or agents “have always been individually liable for their own torts, even when committed in the course of employment,” and are not shielded by sovereign immunity against suit in their individual capacities.⁹⁶ Suits whose substance would control the government's actions within delegated powers, in contrast, implicate the government's immunity and that immunity's underlying fiscal justifications.⁹⁷

⁹³ See *Heinrich*, 284 S.W.3d at 372 (recognizing that distinction between governmental action that is within delegated authority versus *ultra vires* reflects uses of appropriated funds that are for intended versus unintended purposes, respectively); *Bacon*, 411 S.W.3d at 173 (observing that “principle of judicial deference embodied in sovereign immunity extends not only to the Legislature's choices as to whether state funds should be spent on litigation and court judgments versus other priorities, but equally to the policy judgments embodied in the constitutional or statutory delegations that define the parameters of an officer's discretionary authority and the decisions the officer makes within the scope of that authority” (citing *Sefzik*, 355 S.W.3d at 621 (citing *Dodgen*, 308 S.W.2d at 839)); *Heinrich*, 284 S.W.3d at 372; *Printing Indus. Ass'n of Tex.*, 600 S.W.2d at 265).

⁹⁴ See *Brown & Gay*, 461 S.W.3d at 123-24.

⁹⁵ See *Leitch v. Hornsby*, 935 S.W.2d 114, 117 (Tex. 1996) (noting example of an agent who negligently causes an automobile accident while acting within the course and scope of employment—both the principal and agent may be held liable, the former through *respondeat superior*, the latter by virtue of “the duty of reasonable care to the general public” owed by the agent “regardless of whether the auto accident occurs while driving for the employer” (citing *Restatement (Second) of Agency* §§ 343, 350 (1958))).

⁹⁶ *Franka*, 332 S.W.3d at 383 (“[P]ublic employees (like agents generally) have always been individually liable for their own torts, even when committed in the course of employment.” (footnotes omitted)); see *Heinrich*, 284 S.W.3d at 373 n.7 (“State officials may, of course, be sued in both their official and individual capacities.”); *House v. Houston Waterworks, Co.*, 88 Tex. 233, 31 S.W. 179, 181 (1895) (“It is well settled

that a public officer or other person who takes upon himself a public employment is liable to third persons in an action on the case for any injury occasioned by his own personal negligence or default in the discharge of his duties.” (internal quotation marks and citation omitted)).

97 This relationship also obviates any perceived potential tension between the *Brown & Gay* court's discussion of sovereign immunity's fiscal justification and the controlling-state-action line of cases. See *Brown & Gay*, 461 S.W.3d at 131 (Hecht, C.J., concurring) (citing *Sefzik* and urging that “[t]he Court's restricted view of the purpose of immunity is not supported by authority”). In any event, the *Brown & Gay* court did not profess to overrule that age-old line of cases. See, e.g., *Sefzik*, 355 S.W.3d at 621; *Printing Indus. of Tex.*, 600 S.W.2d at 265; *Dodgen*, 308 S.W.2d at 839; *Short v. W.T. Carter & Bro.*, 133 Tex. 202, 126 S.W.2d 953, 962 (1939). Under the logic of the controlling-state-action line of cases, immunity would be implicated by the sorts of claims against contractors that the *Brown & Gay* court emphasized in the “Private Contractors Exercising Independent Discretion” portion of its opinion.

*13 Accordingly, to the extent GTECH can show that the Steele Plaintiffs are substantively attacking actions and underlying decisions or directives of TLC and not GTECH's independent discretionary actions, the claims would implicate TLC's immunity, and no additional showing regarding immunity's underlying fiscal rationales is required. We note that the *Nettles* court reached the same ultimate conclusion, albeit while relying on somewhat different reasoning.⁹⁸ Other sister courts, while not directly addressing the issue, also appear to have read *Brown & Gay* the same way.⁹⁹

98 See *Nettles*, 2017 WL 3097627, at *8-9.

99 See *Freeman v. American K-9 Detection Servs.*, 494 S.W.3d 393, 404 (Tex. App.—Corpus Christi 2015, pet. granted) (“[T]he Texas Supreme Court has held that a government contractor ‘is not entitled to sovereign immunity protection unless it can demonstrate its actions were actions of the [governmental entity], executed subject to the control of the [governmental entity]’ ... [i]n other words, ‘private parties exercising independent discretion are not entitled to sovereign immunity.’” (quoting *Brown & Gay*, 461 S.W.3d at 124; *K.D.F.*, 878 S.W.2d at 597)); *Lenoir*, 491 S.W.3d at 82 (“The [*Brown & Gay*] Court held that a private entity contracting with the

government may benefit from sovereign immunity if ‘it can demonstrate that its actions were actions of the ... government’ and that ‘it exercise[d] no discretion in its activities.’” (quoting *Brown & Gay*, 461 S.W.3d at 124-25 (quoting *K.D.F.*, 878 S.W.2d at 597))).

As a final observation, determining whether claims against government contractors implicate the government's immunity necessarily entails examination of the specific contracts that delineate the contractors' authority *vis a vis* the government. Such questions of contractual authority, relevant to immunity, may also have implications for, and thereby overlap or parallel, the merits-related analysis of whether the contractor owes tort duties to third parties with respect to alleged injuries arising during its performance of the contract. Consequently, precedents that analyze such questions of contractual authority as they bear upon duty may also be instructive regarding derivative immunity. Examples include, in addition to *Glade*, two pre-*Brown & Gay* decisions from the Texas Supreme Court that addressed the tort exposure of government contractors while performing their contracts.

The first of these cases, issued a few years after *Glade*, was *Strakos v. Gehring*.¹⁰⁰ Gehring had contracted with Harris County to relocate fences incident to a road-improvement project. After the county accepted this work as complete, Strakos fell into an uncovered and unmarked post hole that Gehring had left behind, causing injury.¹⁰¹ Strakos sued Gehring in negligence, and a jury awarded Strakos damages.¹⁰² The Court of Civil Appeals had reversed the trial-level judgment for Strakos, relying on the “accepted-work” doctrine, a privity-rooted concept that had relieved an independent contractor of any duty of care to the public with respect to dangerous conditions it creates on the sole basis that the work had been completed and accepted by the party hiring it.¹⁰³ On writ of error, the Texas Supreme Court rejected the accepted-work doctrine, which had the effect, as the court observed, of bringing contractors “within the general rules of tort litigation.”¹⁰⁴ “Our rejection of the ‘accepted work’ doctrine is not an imposition of absolute liability on contractors,” the *Gehring* court elaborated, but “simply reject[s] the notion that although a contractor is found to have performed negligent work or left premises in an unsafe condition and such action or negligence is found to be a proximate cause of injury, he must nevertheless

be held immune from liability solely because his work has been completed and accepted in an unsafe condition.”¹⁰⁵

100 360 S.W.2d 787 (Tex. 1962).

101 See *id.* at 788-89.

102 See *id.* at 788-89, 793-94.

103 See *id.* at 789-90.

104 See *id.* at 790-91.

105 *Id.* at 790.

*14 But an additional feature of *Gehring* is more critical here. The supreme court rejected an attempt by Gehring to claim as a defense that his contract with Harris County had imposed no affirmative requirement that he fill the holes in question.¹⁰⁶ While agreeing that Gehring's contract was “silent as to this matter,” the court reasoned that the mere absence of any contractual requirement that he fill the holes did not obviate any duty he owed in tort.¹⁰⁷ However, the *Gehring* court contrasted this contractual structure, which left Gehring discretion to comply (or not) with a tort duty to remedy the condition, with a contract that afforded no such discretion:

[T]he contractual provisions ... are not couched in directory wording of that certainty which would require a conclusion that the act of leaving the hole was at the time of its origin and thereafter the act of Harris County and not that of the contractor, as is sometimes the case where a builder merely follows plans and specifications which have been handed to him by the other contracting party with instructions that the same be literally followed.¹⁰⁸

106 See *id.* at 794, 803 (supp. op. on reh'g).

107 *Id.* at 794, 803 (supp. op. on reh'g).

108 *Id.* at 803 (supp. op. on reh'g).

More recently, the Texas Supreme Court had occasion to distinguish both *Glade* and *Gehring* in *Allen Keller Company v. Foreman*.¹⁰⁹ Keller, a road-construction

contractor, was hired by Gillespie County to work on projects that included excavating a drainage channel through an embankment near a bridge over the Pedernales River.¹¹⁰ The project served to widen a preexisting gap between the end of a bridge guardrail and the embankment, creating a physical effect that one local resident compared to a boat ramp.¹¹¹ Several months after the work was completed by Keller and accepted by the county, an out-of-control automobile went off the roadway through the gap and into the river below, where a passenger drowned.¹¹² Keller was subsequently named as a defendant in a wrongful-death action, with the plaintiffs relying on a premises-defect theory predicated on the gap being an unreasonably dangerous condition.¹¹³ Keller moved for summary judgment on grounds that included the asserted absence of any duty owing to the victim even if one assumed that its work had created an unreasonably dangerous condition.¹¹⁴

109 343 S.W.3d 420 (Tex. 2011).

110 See *id.* at 422-23.

111 See *id.* at 423.

112 See *id.*

113 See *id.*

114 See *id.* at 423-24 & n.5.

Keller urged that it owed no such duty because its contract with Gillespie County had required it to construct the project precisely as it had.¹¹⁵ Keller's contract with the county, as the supreme court later noted, required Keller to adhere to specifications provided by O'Malley Engineers, which had designed and engineered the project, and imposed an “absolute” obligation on Keller to perform and complete the work in accordance with the contract documents.¹¹⁶ These specifications provided for excavation of the channel in the manner described, widening the gap between the guardrail and the embankment, and did not include extending the guardrail to cover the gap.¹¹⁷ The contract further provided that any changes to the contract would be made by the county or O'Malley, not Keller; that the county (either directly or through O'Malley as its agent) would visit the work site to verify progress and adherence to the design; and that upon completion O'Malley would inspect the site and

certify that Keller had completed the work according to specifications.¹¹⁸

115 See *id.* at 423-26.

116 *Id.* at 422.

117 See *id.* at 422-23 & n.2.

118 See *id.* at 422.

*15 Although the trial court granted Keller's motion, the court of appeals reversed, holding that the summary-judgment evidence raised a fact issue as to whether Keller's work had created a dangerous condition, thereby implicitly assuming that Keller would owe a duty in that event.¹¹⁹ The court of appeals had derived this premise from its reading of *Gehring*.¹²⁰ The Texas Supreme Court held that this was error, explaining that the point of *Gehring* was merely to “reject[] the owners' acceptance of completed work as an affirmative defense,” leaving contractors subject to “general negligence principles.”¹²¹ *Gehring*, the *Keller* court stressed, did not hold that a contractor would owe a duty of care “in all circumstances.”¹²²

119 See *id.* at 424.

120 See *id.*

121 *Id.*

122 *Id.*

On the other hand, the supreme court also rejected the view of Keller that *Glade* was controlling and compelled a holding that Keller owed no duty because its work had merely complied with its contract.¹²³ “While *Glade* is not inconsistent with our decision today,” the court reasoned, “its facts differ significantly and it is not determinative.”¹²⁴ Instead, the supreme court maintained, it was necessary to address whether Keller owed such a duty in light of its particular circumstances. As pertinent to the present case, the court considered whether Keller owed a duty to rectify what was assumed to be the unreasonably dangerous condition of the open gap between the bridge guardrail and the embankment by physically altering that feature, such as by extending the guardrail.¹²⁵

123 See *id.* at 424-25.

124 *Id.* at 424. The *Keller* court summarized *Glade's* holding as “the contractor could not be held liable because it was the City's responsibility to obtain the necessary right-of-way, not the contractor's.” *Id.* at 425. “Our holding in *Glade*,” it added, “stands for the limited proposition that, to the extent it operates within the parameters of the governing contract, a contractor is justified in assuming that the government entity has procured the necessary right-of-way.” *Id.*

125 See *id.* at 425 & n.6.

The Texas Supreme Court held that Keller owed no such duty because Keller's contract afforded it no discretion to rectify the condition.¹²⁶ The court observed that “Keller's contract with the County required absolute compliance with the contract specifications,” such that “any decision that Keller would have made to rectify the dangerous condition would have had the effect of altering the terms of the contract.”¹²⁷ These features of Keller's contract, the court added, distinguished it from the contract addressed in *Gehring*, which by “neither requir[ing] nor forb[id]ding the contractor from filling in or marking holes that comprised the dangerous condition, ... [had] left the choice to the contractor's discretion,” leaving room for the application of the tort duty.¹²⁸ Keller's contract, the court further suggested, was instead like the contrasting example cited by the *Gehring* court, having “directory wording of that certainty which would require a conclusion that the [dangerous condition] was ... the act of [the government] and not that of the contractor.”¹²⁹

126 See *id.* at 425-26. In terms of the duty analysis, the court emphasized “the consequences of placing the duty on the defendant,” Keller, in light of the contract terms. See *id.* at 425; see also *id.* (“Any ... determination [of duty] involves the balancing of a variety of factors, ‘including the risk, foreseeability, and likelihood of injury, and the consequences of placing the burden on the defendant.’” (quoting *Del Lago Partners, Inc. v. Smith*, 307 S.W.3d 762, 767 (Tex. 2010))).

127 *Id.* at 425-26.

128 *Id.* at 425 (citing *Gehring*, 360 S.W.2d at 794).

129 *Id.* (quoting *Gehring*, 360 S.W.2d at 803 (supp. op. on reh'g)).

*16 *Keller* and *Gehring* were each addressed to the government contractor's duty of care rather than the government's immunity, per se, and the same is true of *Glade*. Yet the underlying distinctions between cases like *Keller* and *Glade* versus *Gehring* also inform the immunity inquiry, as the *Brown & Gay* concurrence, authored by Chief Justice Hecht, observed:

We recognized in [*Keller*] that a government contractor owes no duty of care to design a highway project safely where the contractor acts in strict compliance with the governmental entity's specifications. We distinguished between “the duties that may be imposed upon a contractor that has some discretion in performing the contract and a contractor that is left none.” [Citing portion of *Keller* that distinguished *Gehring*]. That such a contractor acts as the government and may therefore be entitled to its immunity follows from the same principle.¹³⁰

By the same logic, a contractor in the posture of *Gehring* would not be “acting as the government,” nor entitled to the government's immunity. And the distinction is the same as that identified by the *Brown & Gay* majority in the “Private Contractors Exercising Independent Discretion” portion of its opinion.

¹³⁰ *Brown & Gay*, 461 S.W.3d at 130 n.6 (Hecht, C.J., concurring).

With the foregoing understanding of *Brown & Gay* and other relevant Texas Supreme Court precedents in mind, we now turn to the record in this case.

IS GTECH BEING SUED FOR ACTING “AS TLC”?

In their live petition, the Steele Plaintiffs seek to recover from GTECH, as “benefit-of-the-bargain” damages, the prize amounts corresponding to their reading of the Game 5 instructions as promising each, based on his or her discovery of a moneybag icon in the 5X BOX, but without need also to win in tic-tac-toe, five times the amount shown in the PRIZE box of the tickets—sums exceeding \$500 million in the aggregate—plus exemplary damages. The Steele Plaintiffs expressly “do not contend that their tickets are ‘winning tickets,’” and on the contrary concede “that their tickets are ‘non-winning’ tickets.” Instead, they rely on the following causes of action:

- ***Fraud by misrepresentation and nondisclosure.*** These causes of action rest upon the contention that GTECH is factually responsible, at least in part, for the wording of the Game 5 instructions. These actions by GTECH, in turn, are alleged to amount to fraud upon the Steele Plaintiffs, either affirmatively or through its silence.
- ***Aiding and abetting TLC's fraud.*** This cause of action assumes that TLC is responsible for the Game 5 instructions and committed the asserted fraud through those instructions. The wrong alleged of GTECH is intentionally “assisting” TLC by printing and distributing the Fun 5's tickets, activating the tickets to make them available for sale, and operating the Texas Lottery computer system in a manner that declined to validate the Steele Plaintiffs' tickets as winners.
- ***Tortious interference with existing contracts.*** The premise of this cause of action is that a contract was formed between TLC and each of the Steele Plaintiffs when the latter “exchanged \$5 of their hard-earned cash for each of their Fun 5's tickets in return for the promise that they would be entitled to receive five times the amount in the Prize Box if their ticket revealed a Money Bag.” GTECH “willfully and intentionally interfered” with these contracts, the Steele Plaintiffs maintain, “by using and continuing to use a non-conforming computer program” that omitted their tickets from the list of winning tickets.
- *17 • ***Conspiracy.*** This cause of action asserts that GTECH and TLC had a “meeting of the minds” to “print misleading and deceptive instructions on Fun 5's tickets, to distribute the misleading and deceptive tickets for sale to lottery players in Texas, and to use GTECH's computer system to validate tickets as non-winners when the clear language of the tickets represented that they should be validated as winning tickets.”

The latter three causes of action are founded on alleged acts by GTECH that would merely comply with TLC requirements and directives, and regarding which the relevant contracts left GTECH no discretion to do otherwise.

TLC possesses delegated power to design and sell Texas Lottery tickets and decide winners

As sovereign immunity must ultimately be rooted in the sovereign will, we first note that the design, sale, and distribution of the Fun 5's ticket was within the TLC's delegated powers, as was the determination of winning versus losing tickets. Through a 1991 constitutional amendment, the People of Texas empowered the "Legislature by general law [to] authorize the State to operate lotteries,"¹³¹ and to that end their Legislature enacted the State Lottery Act, currently codified as Chapter 466 of the Government Code.¹³² The Lottery Act vests in the TLC and its executive director "broad authority" and the duty to "exercise strict control and close supervision over all lottery games conducted in this state to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery."¹³³ The TLC is further required to "adopt all rules necessary to administer [the Lottery Act]" and it "may adopt rules governing the establishment and operation of the lottery," including the type of games to be conducted, the price of each ticket, the number of winning tickets, and "any other matter necessary or desirable as determined by the commission, to promote and ensure ... the integrity, security, honesty, and fairness or the operation and administration of the lottery."¹³⁴ The Act also specifically charges the executive director with "prescrib[ing] the form of tickets."¹³⁵

¹³¹ Tex. Const. art. III, § 47(e); cf. *id.* § 47(a) ("The Legislature shall pass laws prohibiting lotteries and gift enterprises in this State other than those authorized by Subsections (b), (d), (d-1), and (e) of this section.").

¹³² See generally Tex. Gov't Code ch. 466.

¹³³ *Id.* § 466.014(a); see also *id.* § 467.101(a) (TLC "has broad authority and shall exercise strict control and close supervision over all activities authorized and conducted in this state under ... Chapter 466 of this code."). The Lottery Act defines "lottery" as "the procedures operated by the state under this chapter through which prizes are awarded or distributed by chance among persons who have paid, or unconditionally agreed to pay, for a chance or other opportunity to receive a prize." *Id.* § 466.002(5). The TLC and the office of executive director are established under Chapter 467 of the Government Code. See generally *id.* ch. 467.

¹³⁴ See *id.* § 466.015; see also *id.* § 467.102 ("The commission may adopt rules for the enforcement and administration of this chapter and the laws under the commission's jurisdiction.").

¹³⁵ *Id.* § 466.251(a).

The TLC has promulgated rules creating and governing each of several different categories of "Texas Lottery" games. Among these are "instant" or "scratch-off" games, like Fun 5's, which are distinguished by play entailing removal of a thin latex coating that conceals data used to determine eligibility for a prize.¹³⁶ The detailed procedures for each Texas Lottery instant game are published in the Texas Register and made available by request to the public.¹³⁷ However, the TLC's rules provide globally that a player's eligibility to win a prize in a given game is subject to ticket-validation requirements that include having a "validation number" on the ticket corresponding to the TLC's "official list of validation numbers of winning tickets" for that game.¹³⁸

¹³⁶ See 16 Tex. Admin. Code § 401.302 (2007) (Tex. Lottery Comm'n, Instant Game Rules); see also *id.* § 401.301(20) (2007) (Tex. Lottery Comm'n, Definitions) (defining "Instant game" as "[a]n instant ticket lottery game, developed and offered for sale to the public in accordance with commission rules, that is played by removing the latex covered play area on an instant ticket to reveal the ticket play symbols"), (35) (defining "Play symbol" as "[t]he printed data under the latex on the front of an instant ticket that is used to determine eligibility for a prize"). The "instant" moniker apparently references that a ticket's status as a winner can be ascertained immediately upon validation, in contrast to lottery games (such as the familiar Lotto Texas game) in which such status is determined through subsequent drawings.

¹³⁷ See *id.* §§ 401.301(35) (play symbols "for individual games will be specified in individual instant game procedures"), .302(b) (describing contents of game procedures for instant games, which "shall be published in the Texas Register and shall be made available upon request to the public").

¹³⁸ See *id.* § 401.302(c)(2), (d).

*18 TLC's delegated power to determine winning versus losing tickets is further enhanced by Lottery Act provisions that deem a player's purchase of a

ticket in a particular lottery game to be the player's agreement "to abide by and be bound by the commission's rules, including the rules applicable to the particular lottery game involved."¹³⁹ The ticket purchase is similarly deemed to be the player's agreement "that the determination of whether the player is a valid winner is subject to: (1) the [TLC's] rules and claims procedures, including those developed for the particular lottery game involved; and (2) any validation tests established by the [TLC] for the particular lottery game involved."¹⁴⁰ Similarly, the TLC's instant-game rules specify that by ticket purchase, "the lottery player agrees to comply with and abide by Texas law, all rules, procedures, and final decisions of the [TLC], and all procedures and instructions established by the executive director for the conduct of the instant game."¹⁴¹ Ultimately, an aggrieved instant-game player's recourse against the TLC is confined to the following rule: "If a dispute arises between the [TLC] and a ticket claimant concerning whether the ticket is a winning ticket and if the ticket prize has not been paid, the executive director may, exclusively at his/her determination, reimburse the claimant for the cost of the disputed ticket."¹⁴² "This shall be the claimant's exclusive remedy," the rule emphasizes.¹⁴³

¹³⁹ Tex. Gov't Code § 466.252(a).

¹⁴⁰ *Id.*

¹⁴¹ 16 Tex. Admin. Code § 401.302(k).

¹⁴² *Id.* § 401.302(i).

¹⁴³ *Id.*

TLC was authorized to contract, and has contracted, with GTECH to assist with these delegated functions

The same constitutional amendment that allowed for State of Texas-run lottery games also empowered the Legislature to "authorize the State to enter into a contract with one or more legal entities that will operate lotteries on behalf of the State."¹⁴⁴ Through the Lottery Act, the Legislature has authorized the TLC's executive director, subject to certain limitations not material here, to "contract with or employ a person to perform a function, activity, or service in connection with the operation of the lottery as prescribed by the executive director."¹⁴⁵ Two such contracts have governed TLC's relationship with GTECH at relevant times: (1) a "Contract for Lottery

Operations and Services," dated December 2010, under which GTECH is made the exclusive vendor of what can be summarized as infrastructure and services for the overall operations of Texas Lottery games, including warehousing and distributing games and providing the computer system used to verify winners (the Operations Contract); and (2) a "Contract for Instant Ticket Manufacturing," dated August 7, 2012, under which GTECH, alongside two other vendors that executed similar contracts, is to provide certain goods and services related to development and production of instant games (the Instant-Ticket Contract).¹⁴⁶ The Instant-Ticket contract is ultimately of greater significance to this case.

¹⁴⁴ Tex. Const. art. III, § 47(e).

¹⁴⁵ Tex. Gov't Code § 466.014(b); see also *id.* §§ 466.014(c) (awardee must be eligible for sales agent license), .1005-.101 (procurement procedures).

¹⁴⁶ Each of the two contracts consists of an executed "contract" document with incorporated (and much lengthier) exhibits that include a preceding request for proposal (RFP). Although copies of the two "contract" documents are included in the appellate record, copies of the RFPs were not. However, appellees' live pleadings cross-referenced the RFPs by citing to the TLC's website, where the RFPs and other contract-related documents have been made available to the public. As there has been no objection to the district court's consideration of the RFPs as components of the two contracts, we have taken account of their material terms in our discussion and analysis.

Under the Instant-Ticket Contract, GTECH is required to provide the TLC "game planning services support" that entails "work[ing] closely with the [TLC] to identify instant ticket games" for potential inclusion in the TLC's "plan" or "plans" of new instant games to be developed and sold. To that end, GTECH "shall provide suggested game designs for inclusion in the plan," including, "at a minimum," (1) "[r]ecommendations for each price point and theme, including the game design and play style, together with an album of representative tickets," and (2) "Game Development Services to include but not be limited to graphic design, game design, artwork, prize structures, and play style." But the TLC "shall make all final decisions regarding the selection and inclusion of instant ticket games in the plan."

*19 Assuming the TLC opts to include a GTECH-proposed game design in the plan, GTECH is to prepare “draft artwork and prize structures” for TLC approval in advance of the game’s scheduled launch date, and “shall” provide such materials within five working days upon the TLC’s request. If the draft artwork and prize structure are approved by the TLC, GTECH then has five business days in which it “must provide draft working papers to the [TLC]”—essentially a detailed version of the game’s parameters and specifications—as well as color proofs of the ticket image, for TLC approval. “Upon review of the draft working papers, the [TLC] will provide requested changes to [GTECH],” following which GTECH “must provide final working papers to the [TLC] within two (2) business days of receipt of the requested changes.” “Production of any instant game will not proceed until the [TLC] Executive Director or designee gives written authorization.” The “[e]xecuted working papers must be complete and free of any errors.” “Any changes made after the execution of working papers must be approved through the execution of a post executed change and signed by the [TLC] Executive Director or designee.”

The Instant-Ticket Contract, as well as the Operations Contract, specify that GTECH is providing its services “as an independent contractor and not as an employee or agent of the [TLC]” and further disclaim the creation or implication of any “joint venture, partnership, employer/employee relationship, principal/agent relationship, or any other relationship between the parties.” Each contract also requires that GTECH indemnify and hold the TLC harmless against claims or losses arising for or on account of the “works,” goods, or services provided as a result of the contract, the former term being defined to include, *inter alia*, “lottery games, game names, game designs, ticket format and layout, manuals, instructions [and] printed material.” Yet both contracts also emphasize that the TLC wields supervisory power over GTECH’s work and ultimate control over lottery games and operations. In addition to the TLC’s previously-described authority in the development of instant games, both contracts contain a provision stating that:

The Texas Lottery Commission is a part of the Executive Branch of Texas State Government. The [TLC] will not relinquish control over lottery operations. [GTECH] shall function under the supervision of the [TLC]. Its operations will be

subject to the same scrutiny and oversight that would apply if all operations were performed by [TLC] employees.

The Instant-Game Contract further provides that “[f]inal decisions regarding the direction or control of the Lottery are always the prerogative of the [TLC] in its sole discretion as an agency of the State of Texas”; that “[a]lthough GTECH comes from the private sector, its operations will be subject to the same scrutiny and oversight that would exist if all operations were performed by [TLC] employees”; and that:

The [TLC] may rely upon the guidance of [GTECH] in all matters related to instant game development and manufacturing services, but reserves the sole right to reject that guidance for any reason. [GTECH], conversely, must accept and support the decision of the [TLC].

GTECH further “warrants and agrees” under the Instant-Ticket Contract “that its tickets, games, goods and services shall in all respects conform to, and function in accordance with, [TLC]-approved specifications and designs.”

Most of the causes of actions complain substantively of underlying TLC decisions and directives and not GTECH’s exercise of independent discretion

[12] As previously noted, the Steele Plaintiffs’ causes of action for aiding and abetting fraud and conspiracy presume that TLC deliberately chose the allegedly misleading Game 5 instructions so as to mislead and harm them. If so, GTECH had no power under the Instant-Game Contract to countermand TLC’s decision—rather, the contract expressly reserved to TLC “the sole right to reject [GTECH’s] guidance for any reason” and obligated GTECH to “accept and support” TLC’s decision. More critically, the gravamen of the alleged “aiding and abetting fraud” and participation in “conspiracy” by GTECH is that GTECH performed its contractual obligations to print and distribute Fun 5’s and program game parameters into the Texas Lottery computer system once TLC had determined or approved the game design. GTECH had no discretion to do otherwise—instead, it was obligated to conform “its tickets, games, goods, and services” in

accordance with TLC's specifications and designs. The same is true of the GTECH conduct made the basis of the Steele Plaintiffs' tortious-interference cause of action—GTECH's programming of the computer system in accordance with the game parameters, as GTECH was required to do under its contracts with TLC.

***20** As such, the Steele Plaintiffs' causes of action for aiding and abetting fraud, tortious interference, and conspiracy each complain substantively of underlying decisions or directives of TLC, not any actions by GTECH within its independent discretion, thereby implicating sovereign immunity. But the analysis is more complicated with respect to the Steele Plaintiffs' remaining causes of action for fraud by misrepresentation or silence.

But the “fraud” causes of action complain, in part, of alleged GTECH acts within its independent discretion

The Steele Plaintiffs' fraud causes of action hinge on the assertion that GTECH rather than TLC is to blame, at least in part, for the complained-of features of the Game 5 instructions. The parties largely agree, at least factually, regarding the sequence of events that yielded the Fun 5's game in the form sold at retail. The concept of the Fun 5's game originated with GTECH, which had previously sold similar games to several other state lotteries, with much financial success and apparently no consumer complaints. In March 2013, GTECH presented TLC staff with a prototype closely resembling a game that GTECH had sold to the Nebraska state lottery. The Commission had opted to include this game design in its plan for new instant games, initially anticipating sale during the 2014 fiscal year.

Subsequently, in April 2014, GTECH personnel emailed artwork and draft working papers for the Fun 5's game to TLC staff. At this stage, the physical appearance of the game ticket, including Game 5, already had many similarities to that of the finished product, with the differences consisting of an omitted apostrophe in the name (the working title was “Fun 5s” rather than the eventual “Fun 5's”), different icons used in Game 5,¹⁴⁷ and similar matters of form or style. Aside from references to the different icons being used at the time, the Game 5 instructions printed on the ticket—the eventual center of controversy—were substantively identical to those eventually appearing in the finished product. Within the month of April, TLC staff sent GTECH two rounds of

comments, in the form of handwritten edits made to the artwork and working papers, making the changes that would yield the final version of the ticket image. The sole change made to the Game 5 instructions, aside from modifying the icons being referenced, was to delete a single word, “line,” that did not impact meaning. GTECH incorporated these changes into a revised version of the artwork and working papers and sent them to TLC.

¹⁴⁷ The initial version had used dollar-bill icons rather than “5s” in the tic-tac-toe grid, while “5s” rather than moneybag icons were used in the PRIZE box.

A subsequent round of comments from TLC staff was addressed specifically to the game parameters GTECH had set forth in the working papers. From their inception, GTECH's working papers had specified parameters for Game 5 that included—consistent with the product ultimately sold at retail—limiting prize eligibility solely to tickets having three play symbols in a row in tic-tac-toe, with the multiplier icon serving only to increase the size of a tic-tac-toe winner's prize. However, GTECH had included additional parameters specifying that the prize-multiplier icon in Game 5 would appear only on the tickets having winning tic-tac-toe combinations. Had these parameters survived, they would have ensured that no Fun 5's contestant could uncover a prize-multiplier icon on a non-winning ticket—or profess resultant confusion about his or her entitlement to a prize, as the Steele Plaintiffs now do.

***21** But TLC staff objected through comments transmitted on May 12, stating that “Money Bag play symbol needs to appear on non-winning tickets also.” In a cover email, staff explained that having the moneybag symbol appear only on winning tickets in Game 5 would render that game “an easy target for micro-scratching” because a wrongdoer would need only look for the moneybag icon in the 5X BOX “to know that it is a winner.” In response, during the morning of May 14, GTECH transmitted a revised version of the working papers that simply deleted its prior parameters specifying that the moneybag icon would appear only on winning tickets, but did not state affirmatively that the icon would appear on non-winning tickets or indicate how often this would occur. Later that morning, TLC staff (by now, Dale Bowersock, TLC's Instant Product Coordinator) replied, “In Game 5 we need the parameter to state that the Moneybag 5x multiplier symbol will be used on non-winning tickets as well as winning tickets. I don't see where

this concern was addressed.” Bowersock later elaborated, “What we are looking for is a parameter that is very clearly defined, such as ‘The ‘MONEY BAG’ Play Symbol will appear in the 5X Box in approximately [redacted] of the tickets with non-winning combinations in GAME 5.”

Within the day, GTECH revised the working papers again, adding a new parameter tracking Bowersock's language and specifying that the moneybag symbol “will appear in the 5X Box in approximately 25% of the tickets with non-winning combinations in GAME 5.” So revised, and with no further changes to any of the other features of the game, GTECH submitted the working papers to the TLC. Consequently, this revised version of the Fun 5's working papers incorporated (1) the new Game 5 parameters, originating with TLC, specifying that the moneybag-prize-multiplier icon would appear on both winning tickets and 25 percent of the non-winning tickets, in combination with (2) the preexisting Game 5 instructions, whose substance had originated with GTECH and had accompanied GTECH's previously proposed game parameters in which the moneybag icon could appear only on winning tickets. This version of the working papers was approved by the TLC's executive director, executed, and made the basis for the Fun 5's ticket sold at retail.

* * *

The essence of GTECH's immunity arguments, as they relate to the fraud causes of action, is that it is being sued merely for implementing TLC's decision or directive to change the Game 5 parameters to have moneybag icons appear on non-winning tickets. The Fifth Court of Appeals relied on this same basic rationale in affirming the dismissal in *Nettles*.¹⁴⁸ But as the Steele Plaintiffs urge, the posture of the case presented to this Court is not quite so straightforward.

¹⁴⁸ See *Nettles*, 2017 WL 3097627, at *9.

[13] It is true, as GTECH urges, that the Steele Plaintiffs' fraud causes of action (and indeed all of their causes of action) are predicated factually on the presence of moneybag icons on non-winning tickets and that this feature was an alteration of Game 5's original proposed parameters that GTECH made at TLC's behest. To the extent the Steele Plaintiffs maintain that GTECH had discretion simply to refuse to make this parameter

change, that view is contrary to the Instant-Game Contract, which required GTECH instead to conform to TLC's specifications and to support TLC's instant-game decisions. As if recognizing as much, the Steele Plaintiffs pleaded in their live petition that they “do not complain of the change in parameters requested by the TLC”—their focus, rather, is “the misleading and deceptive wording chosen for the Fun 5's tickets by GTECH in the exercise of its independent discretion.” But while GTECH dismisses the distinction as mere “artful pleading,” it remains that the Steele Plaintiffs are not complaining merely of the appearance of moneybag icons on non-winning tickets, but that this feature of Game 5 misled and injured the Steele Plaintiffs *when combined with* the accompanying instructions. Further, as the predicate for their fraud causes of action, the Steele Plaintiffs assert that the source of the instructions part of the mix was GTECH decisions made within its independent discretion, not decisions or directives from TLC. Consequently, the fraud causes of action cannot fairly be characterized as complaining solely of GTECH's implementation of TLC's chosen parameters. Although the parameter change by TLC could potentially become relevant to causation, proportionate responsibility, or other issues going to the merits of the Steele Plaintiffs' fraud causes of action, they would not singularly negate *jurisdiction* to adjudicate those causes of action. Instead, we must proceed to consider the scope of GTECH's contractual discretion in regard to the Game 5 instructions.

*22 GTECH asserts that the “undisputed” evidence demonstrates that it possessed no independent discretion regarding the wording of the Game 5 instructions. It emphasizes that the Instant-Ticket Contract reserved to the TLC ultimate control over the product's form and design and required GTECH to comply with TLC's specifications, “not the other way around.” GTECH similarly observes, correctly, that it lacked power or discretion under its contracts to implement game instructions or features unilaterally and instead operated under TLC's supervision and subject to the agency's approval. But the relevant contracts also disclaimed any employment, agency, or “any other relationship between” TLC and GTECH—instead, GTECH was explicitly an “independent contractor” with respect to the goods and services it provided, a term denoting TLC control only as to the end product or result of GTECH's work.¹⁴⁹ And TLC's right of ultimate control or approval of GTECH's work cannot alone be the controlling determinant of

immunity—Brown & Gay's work was also subject to the approval of its governmental principal,¹⁵⁰ yet the Texas Supreme Court held it to have independent discretion, and thus no immunity, regarding the traffic designs and layouts it had fashioned prior to that approval.¹⁵¹ A contrary view would effectively resurrect the pre-*Gehring* “accepted work” doctrine in the guise of an immunity principle.¹⁵²

¹⁴⁹ See, e.g., *City of Bellaire v. Johnson*, 400 S.W.3d 922, 923 (Tex. 2013) (explaining that employer does not possess “right to control the progress, details, and methods of operations of the work” of an independent contractor); *Industrial Indemnity Exch. v. Southard*, 138 Tex. 531, 160 S.W.2d 905, 907 (1942) (“A[n] [independent] contractor is any person who ... undertakes to do a specific piece of work for other persons, using his own means and methods, without submitting himself to their control in respect to all its details.” (citing *Shannon v. West Indem. Co.*, 257 S.W. 522, 524 (Tex. Comm'n App. 1924, judgm't adopted))).

¹⁵⁰ See *Brown & Gay*, 461 S.W.3d at 119 (observing that under the relevant contract, “the Authority delegated the responsibility of designing road signs and traffic layouts to Brown & Gay, subject to approval by the Authority's Board of Directors” (emphasis added)).

¹⁵¹ And this feature of *Brown & Gay* belies GTECH's view that the Texas Supreme Court there endorsed the “line of federal cases involving the federal government contractor defense” that emanate from *Boyle v. United Tech. Corp.*, 487 U.S. 500, 513, 108 S.Ct. 2510, 101 L.Ed.2d 442 (1988), and hold that “immunity” extends to contractors who contribute an allegedly defective design “so long as the specification was reviewed by the government and included in the final specifications approved by the government.” The “federal case law” cited favorably by the *Brown & Gay* court instead emanates from *Yearsley*. See *Brown & Gay*, 461 S.W.3d at 124-26. While the concepts are sometimes confused or conflated by lower courts, *Boyle* actually recognized a federal common-law “government-contractor defense” or “military contractor defense,” distinct from the *Yearsley* concept, that is rooted in preemption concepts. See *Campbell*, 136 S.Ct. at 583-84 (more recently applying *Yearsley* concept with no mention of *Boyle* or its contractor-immunity standard); see also Jason Malone, *Derivative Immunity: The Impact of Campbell-Ewald Co. v. Gomez*, 50 Creighton L.

Rev. 87, 103-15 (2016) (distinguishing the *Yearsley* and *Boyle* lines of precedents and noting how courts have sometimes confused them). The Texas Supreme Court has elsewhere recognized the character of the *Boyle* concept, see *Torrington v. Stutzman*, 46 S.W.3d 829, 846-47 (Tex. 2000) (explaining that *Boyle* “government-contractor defense, also called the military contractor defense, is a federal-common law defense ... based upon the premise that liability claims arising from government procurement contracts could create a significant conflict between state tort law and the federal interest in immunizing the federal government from liability for performing a ‘discretionary function,’ an act for which the government may not be sued under the Federal Tort Claims Act”), and this is not the concept it addressed in *Brown & Gay*. Cf. *Brown & Gay*, 461 S.W.3d at 124-26.

¹⁵² Cf. *Brown & Gay*, 461 S.W.3d at 129 (citing *Gehring* with approval as “holding, in the context of rejecting the ‘accepted work’ doctrine, that a county contractor hired to relocate fencing alongside widened roads was not insulated from tort liability for injuries that occurred after the county accepted the work but were caused by the condition in which the contractor left the premises”).

*23 Instead, we must proceed farther to examine the scope of GTECH's discretion in fashioning the Game 5 instructions prior to TLC's ultimate approval. In essence, we must inquire whether, on this record, viewed through our standard of review, GTECH's role in developing the Game 5 instructions was analogous to (1) the contractor in *Keller*, merely complying with TLC specifications without discretion to do otherwise, such that it effectively acted “as TLC”; or was (2) more like the contractors in *Brown & Gay* and *Gehring*, or the investment advisor in *K.D.F.*, possessing discretion in fashioning Game 5 instructions for TLC that it could have exercised so as to refrain from its acts now alleged to constitute fraud.

While reserving to TLC ultimate control and final approval over the design and form of instant games, the Instant-Game Contract inescapably granted wide discretion to GTECH in determining such details in the work it submitted for TLC's approval. The TLC-GTECH relationship, as the Steele Plaintiffs observe, was not one “where TLC set out specific parameters dictating the type of game it want[s] and the language, artwork, and design to be selected for the game.” Instead, the contract contemplated that GTECH would have

broad creative leeway in fashioning *for* TLC approval, as opposed to acting “*as* TLC” in effectuating agency decisions already made, the myriad details of “Game Development Services” (which “include but [are] not ... limited to graphic design, game design, artwork, prize structures, and play style”), “draft artwork and prize structures,” and “draft working papers.” And the Steele Plaintiffs presented evidence, presumed true in the posture of this appeal, confirming that this was how TLC and GTECH operated in practice in regard to the game instructions printed on tickets. This evidence included the deposition testimony of the TLC's executive director, Gary Grief, who explained that the agency “do[es] rely” on GTECH and other instant-game vendors, “at least as a starting point, when we're looking at language that goes on tickets,” as “[t]hey've got the experience in the industry.”

GTECH counters that any discretion it could have possessed in originating the Fun 5's game and Game 5 instructions has no bearing on its immunity in this case. GTECH again emphasizes TLC's intervening parameter change to add moneybag icons to non-winning tickets, urging that the Steele Plaintiffs are in essence suing it over a different Game 5 than the Game 5 it had originally proposed. GTECH makes a valid point—had TLC approved GTECH's original version of Game 5, moneybag icons would have appeared only on winning tickets, and that is not the Game 5 of which the Steele Plaintiffs now complain. Consequently, we agree with GTECH that its discretion in originating the Fun 5's game and Game 5 instructions is ultimately immaterial to its claim of derivative sovereign immunity against the fraud causes of action asserted by the Steele Plaintiffs. But GTECH's origination of the game and Game 5 instructions is not the Steele Plaintiffs' primary focus.

The Steele Plaintiffs' core focus, rather, is GTECH's acts or omissions once TLC directed the change in the Game 5 parameters to add moneybag icons to non-winning tickets. The primary root of GTECH's fraud liability, the Steele Plaintiffs reason, is GTECH's failure or refusal to alert TLC that the parameter change, *in combination with the preexisting wording of the Game 5 instructions*, would cause the instructions to be misleading to Fun 5's purchasers who uncovered moneybag icons on non-winning tickets. And GTECH had independent discretion to alert TLC to the potential problem, the Steele Plaintiffs continue, if not an affirmative duty to do

so. Accordingly, the Steele Plaintiffs conclude, GTECH enjoys no sovereign immunity against their fraud causes of action.

***24** GTECH insists that its contracts left it no discretion to alert TLC to any such perceived problem with the instructions, further portraying the Steele Plaintiffs' argument as confirming that their suit complains only of GTECH's compliance with TLC's directives. From the same premise, GTECH urges that the Steele Plaintiffs “would effectively bring[] contractor immunity in Texas to an end” by permitting suits founded on contractor “discretion” to disregard or “second-guess” the government's directives. But contractor immunity in a given case turns on the particular contracts and facts involved, and GTECH's premise is valid only if, upon receiving TLC's directive to add moneybag icons to non-winning Game 5 tickets, GTECH had no discretion but to implement the change *without attempting to revisit with TLC* the potential need for conforming changes to the preexisting proposed Game 5 instructions.

In insisting this discretion was lacking, GTECH suggests that TLC had already finalized and approved the Game 5 instructions by the time TLC prescribed the change in game parameters. GTECH emphasizes that TLC staff had previously made edits to the Game 5 instructions and artwork that GTECH had already incorporated into the Fun 5's working papers. But GTECH overreaches in assuming that the Game 5 instructions, in that preexisting form, were already fixed and immutable when TLC directed the change in Game 5 parameters, amounting to TLC specifications and directives with which GTECH had no discretion but to comply without reservation or further comment. On the contrary, the controlling act of finalization under the Instant-Game Contract was approval and execution of the final working papers by TLC's executive director—and this event had not yet occurred when TLC directed the parameter change. Further, the Contract contemplated that GTECH could propose further changes to working papers not only at that pre-approval juncture, but even for a period afterward, explicitly permitting “changes made after the execution of working papers ... through the execution of a post executed change and signed by the [TLC] Executive Director or designee.”

And the Steele Plaintiffs presented evidence that GTECH and TLC actually operated in this manner

under the Instant-Game Contract. Joseph Lapinski, GTECH's account-development manager regarding the Texas Lottery, acknowledged that if GTECH personnel "saw a change come through from [TLC] [that they] anticipated or believed ... would harm the game or [TLC]," GTECH would expect them to "either say something to [TLC]" or "let someone know so ... we can discuss or address it with [TLC]." Lapinski termed this expectation of GTECH employees "professionalism" and "good customer service." Likewise, Bowersock, the TLC instant-game coordinator, echoed the expectation that "[i]f [GTECH] saw concerns with the game they would report it to us."

Furthermore, the GTECH personnel having primary responsibility over the Fun 5's working papers and their various revisions confirmed not only that GTECH had the opportunity to alert TLC to potential problems with the Game 5 instructions after the parameter change, but also *made a conscious decision to forego raising any such concerns* with TLC. Laura Thurston, a GTECH customer-service representative who prepared the final rounds of revised working papers, including those implementing the parameter change, testified that a parameter change from TLC triggered a "comprehensive[]" internal review by the GTECH "teams" who were impacted by the change to determine if further changes to the game—including the instructions—were warranted. Thurston recounted that following the parameter change, she "did the examination" of the Game 5 instructions and also "had this examined by software [personnel]." Thurston "felt that [the instruction language] was clear" and accordingly "did not consider changing the language." The second GTECH customer-service representative, Penelope Whyte, had drafted the original version of the Fun 5's working papers but had been away from the office when Thurston made the final changes. Whyte echoed Thurston's understanding of GTECH's prerogative to suggest further changes in light of an intervening parameter change, acknowledging that these were "part of my job" as a customer-service representative and "also part of [GTECH's] internal review." She also recounted that upon her return to work, she had "looked at the instructions" and, like Thurston, "saw that they didn't need to be changed."

***25** By deciding not to revisit the Game 5 instructions with TLC after the agency prescribed the parameter change, GTECH, the Steele Plaintiffs insist, violated their

obligation under the Instant-Game Contract to provide TLC "[e]xecuted working papers" that are "complete and free of any errors."¹⁵³ But we need not decide whether GTECH contracts affirmatively *required* it (i.e., deprived it of discretion not to act) to alert TLC to a perceived discrepancy with the Game 5 instructions at that juncture. Rather, the consideration controlling GTECH's immunity is whether its contracts left it discretion to choose to so alert TLC. Consistent with the conduct and understanding of GTECH's Thurston and Whyte, the contracts plainly afforded GTECH that discretion. While it remained TLC's prerogative to reject GTECH's guidance, GTECH possessed discretion to provide the guidance nonetheless. In this limited respect, GTECH's position is that of the government contractors in *Brown & Gay* and *Gehring* rather than that of *Keller*, and perhaps most closely resembles the investment advisor in *K.D.F.*¹⁵⁴

¹⁵³ The Steele Plaintiffs also emphasize deposition testimony in which their counsel succeeded in extracting acknowledgments from various GTECH or TLC witnesses that GTECH owed TLC "reasonable care" in providing non-misleading game instructions. GTECH disputes the competence or materiality of this testimony, observing that the scope of its discretion or duties relevant to the immunity inquiry are controlled by the two contracts, whose meaning is initially a question of law. We agree with GTECH. Such testimony regarding the existence of extra-contractual duties, if material to any issue, could go only to the merits of the Steele Plaintiffs' causes of action. And as we emphasize below, the merits are not properly before us.

¹⁵⁴ See *K.D.F.*, 878 S.W.2d at 597 (advisor's "activities necessarily involve considerable discretion ... its role is more in the nature of advising [the government] how to proceed, rather than being subject to the direction and control of [the government]").

[14] Beyond this, GTECH disputes whether or how this exercise of discretion not to revisit the Game 5 instructions with TLC could actually amount to fraud or otherwise breach any cognizable tort duty. Similarly, GTECH appears to question the extent of any legal injury or damage to the Steele Plaintiffs, pointing out the Lottery Act provisions and rules deeming ticket purchases to be the buyer's agreement "to abide by and be bound by" the commission's rules and validation processes, including rules limiting their remedy—at least against TLC—merely to a refund of the \$5 purchase price

of each ticket.¹⁵⁵ Whatever the validity of GTECH's concerns (and we intend no comment), they go beyond the limited jurisdictional inquiry currently before us. It is true that if a government contractor's contract would leave it no discretion to comply with an asserted tort duty, that feature may both establish the existence of derivative immunity and negate the existence of the tort duty, as Chief Justice Hecht observed in the *Brown & Gay* concurrence.¹⁵⁶ To this extent, the jurisdictional inquiry may overlap the merits, and this would neither prevent nor excuse courts from addressing the scope of contractual discretion to the extent necessary to resolve the jurisdictional issue.¹⁵⁷ But if, as here, the court determines that the relevant contracts would leave the government contractor discretion to comply with the asserted tort duty and avoid the conduct alleged to be wrongful, there is no derivative immunity and the jurisdictional inquiry is at end. Our own jurisdiction here extends no farther, as the purpose of the plea to the jurisdiction GTECH has asserted, and that is the sole focus of this appeal, “is not to force the plaintiffs to preview their case on the merits but to establish a reason why the merits of the plaintiffs' claims should never be reached.”¹⁵⁸

¹⁵⁵ See Tex. Gov't Code § 466.252(a); 16 Tex. Admin. Code § 401.302(k), (i).

¹⁵⁶ *Brown & Gay*, 461 S.W.3d at 130 n.6 (Hecht, C.J., concurring).

¹⁵⁷ See, e.g., *Miranda*, 133 S.W.3d at 227-28 (recognizing that jurisdictional challenges based on sovereign immunity may overlap the merits).

¹⁵⁸ *Wheelabrator Air Pollution Ctr., Inc. v. City of San Antonio*, 489 S.W.3d 448, 453 (Tex. 2016) (quoting *Bland Indep. Sch. Dist. v. Blue*, 34 S.W.3d 547, 554 (Tex. 2000)).

DOES *BROWN & GAY*'S “RATIONALE AND PURPOSE” ANALYSIS OTHERWISE AID GTECH?

*26 [15] One additional contention by GTECH remains to be addressed, however. Although GTECH's primary position is that it is being sued solely for complying with underlying TLC directives—i.e., acting “as TLC” and not within its own independent discretion—and need not make any further showing in order to enjoy TLC's

sovereign immunity, it argues in the alternative that the fiscal justifications addressed in the “Rationale and Purpose” portion of the *Brown & Gay* opinion¹⁵⁹ would independently justify the application or extension of that immunity to it here. We consider this argument with respect to the portion of the Steele Plaintiffs' fraud cause of action that we have held to survive the jurisdictional analysis under GTECH's primary rationale.

¹⁵⁹ See *Brown & Gay*, 461 S.W.3d at 123-24.

In support of this alternative argument, GTECH posits that “[i]n the unlikely event that Plaintiffs' fraud claims were ultimately upheld,” “adverse publicity” from the judgment would “tarnish the excellent reputation of the Texas Lottery, causing ticket sales to decline,” such that “the State will be forced to make unforeseen expenditures to cover the shortfall, largely in the area of education,” the chief beneficiary of Texas Lottery revenues. But a similar argument could have been made in *Brown & Gay*—a judgment against the contractor for negligently designing toll-road signs and traffic layouts, proximately causing a fatal wrong-way collision, would tend to fuel a perception of dangerousness dissuading toll-road use, potentially requiring unforeseen shifts in governmental expenditures to make up for the resultant drop in revenue. For that matter, such secondary or tertiary effects on government and its functions could often be expected to flow from a judgment against a government contractor, not to mention one against a government agent or employee, with the latter arguably tending to have the greater potential negative impact. Nevertheless, the Texas Supreme Court has never extended sovereign immunity to governmental employees or agents acting within their individual as opposed to official capacities—on the contrary, such persons “have always been individually liable for their own torts, even when committed in the course of employment.”¹⁶⁰ And *Brown & Gay*, as we have seen, stands for the parallel proposition that the “rationale and purpose” of sovereign immunity would support recognition of immunity for government contractors only to the extent the suit complains of what are substantively underlying acts, directives, or decisions of the government—i.e. in essence a species of suit seeking to control state action through the contractor—and not the contractor's exercise of independent discretion.

¹⁶⁰ *Franka*, 332 S.W.3d at 383; see *Leitch*, 935 S.W.2d at 117.

To the extent GTECH is advocating a novel expansion of sovereign immunity to its benefit, this intermediate appellate court must instead adhere to the existing parameters of Texas sovereign-immunity doctrine unless and until the Texas Supreme Court instructs us otherwise.¹⁶¹ And in the absence of such developments, GTECH has not shown that the Steele Plaintiffs' fraud causes of action, to the extent they complain of GTECH's actions following the Game 5 parameter change, implicate TLC's sovereign immunity.

¹⁶¹ See, e.g., *Petco Animal Supplies, Inc. v. Schuster*, 144 S.W.3d 554, 565(Tex. App.—Austin 2004, no pet.).

CONCLUSION

*27 The district court did not err in denying GTECH's plea to the jurisdiction with respect to the Steele Plaintiffs' fraud causes of action to the extent they are predicated on GTECH's failure or refusal, following TLC's change in

the Game 5 parameters to have moneybag icons appear on non-winning tickets, to raise with TLC the now-complained-of asserted discrepancy between the Game 5 instructions and actual parameters. We emphasize again that the merits of these causes of action are not before us in this appeal, which concerns only immunity and jurisdiction. However, in its other components, the Steele Plaintiffs' suit implicates sovereign immunity by substantively seeking to control the actions and decisions of TLC within its delegated authority. As the Steele Plaintiffs can point to no legislative waiver of this immunity, the district court lacks subject-matter jurisdiction to adjudicate these portions of their suit. To this extent, we reverse the district court's order and render judgment dismissing the causes of action for want of subject-matter jurisdiction.

All Citations

--- S.W.3d ----, 2018 WL 454922

Tab C

NO. 18-0159

In the Supreme Court of Texas

GTECH CORPORATION,

Petitioner,

V.

JAMES STEELE, et al.,

Respondents

PETITION FOR REVIEW

**On Petition for Review from the
Court of Appeals for the Third District of Texas**

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II. Respondents:

See Appendix [Tab C](#) listing 1,238 plaintiffs and intervenors.

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See Appendix [Tab C](#).

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ABBREVIATIONS

PARTIES:

“Commission” means the Texas Lottery Commission.

“GTECH” means Petitioner GTECH Corporation.

“Plaintiffs” means the 1,238 plaintiffs and intervenors in this case.

RECORD REFERENCES:

The Appendix is cited as “Tab [tab letter].”

The Clerk’s Record is cited as “CR: [pg.#].”

The Supplemental Clerk’s Record is cited as “Supp. CR: [pg#].”

The Second Supplemental Clerk’s Record is cited as “2d Supp. CR: [pg#].”

HYPERLINKS:

Text in [blue and underlined](#) is hyperlinked to the Appendix.

STATEMENT OF THE CASE

Nature of the Case: This appeal turns on whether GTECH, a contractor for the Texas Lottery Commission, has derivative sovereign immunity for following, rather than second-guessing, the Commission’s directions as to the form of a \$5 scratch-off lottery ticket. The Commission had statutory control over the ticket’s design and specifications, and GTECH was contractually required to accept and support the Commission’s directions. Even so, the court of appeals held that GTECH lacked immunity and permitted the plaintiffs (1,238 lottery ticket purchasers) to sue GTECH for fraud and seek \$500 million in damages, based on their claim that the design of their lottery tickets—which the Commission directed—misled them into believing they had won a prize. (CR3-20, 25-60, 72-120, 136-230, 696-704.)

Trial Court: The case was filed in the 201st Judicial District Court of Travis County, Texas; the Honorable Amy Clark Meachum, presiding.

Course of Proceedings: GTECH filed a plea to the jurisdiction asserting derivative sovereign immunity, which shields government contractors from suits arising from actions directed by a governmental entity. (CR231-374, 709-855.)

Trial Court’s Disposition: The trial court denied GTECH’s plea to the jurisdiction, but acknowledged that “there is a substantial ground for difference of opinion” and granted permission to appeal. (2d Supp. CR3-5; [Tab D.](#))

Court of Appeals' Disposition: The Third Court of Appeals at Austin agreed that there is a substantial ground for difference of opinion regarding immunity in this case and accepted GTECH's appeal. ([Tab E.](#)) In a lengthy published opinion authored by Justice Pemberton and joined by Justices Puryear and Field, the court of appeals reversed the order denying GTECH's plea to the jurisdiction as to the plaintiffs' claims for aiding and abetting the Commission's alleged fraud, tortious interference, and conspiracy. But the court held that GTECH lacked immunity from the plaintiffs' claim that GTECH itself committed fraud, and thus affirmed the trial court's order as to that claim. ([Tab A.](#))

STATEMENT OF JURISDICTION

This case presents important questions of law concerning derivative sovereign immunity. The court of appeals held that GTECH, a government contractor, lacks immunity from a fraud claim complaining that GTECH complied with the Texas Lottery Commission's directions instead of second-guessing them.

In reaching that conclusion, the court of appeals addressed at length a conflict among the courts of appeals about how to apply this Court's decision in *Brown & Gay Engineering, Inc. v. Olivares*, 461 S.W.3d 117 (Tex. 2015). By interpreting *Brown & Gay* differently than other courts, the court of appeals added to the uncertainty about how to apply that decision. And by denying derivative immunity solely because GTECH did not second-guess the Commission's directions, the court of appeals created an exemption from derivative immunity that threatens to swallow the doctrine, compromising state sovereignty and destabilizing government contracting. The court's holding, which exposes GTECH to potential liability for implementing a decision over which it had no control, also undermines Texas statutes that give the Commission total, nondelegable control over the form of Texas Lottery tickets. *See* TEX. GOV'T CODE §§ 466.001-467.111.

For these reasons, the Court has jurisdiction under Section 22.001 of the Texas Government Code.

ISSUES PRESENTED

Does a government contractor lose derivative sovereign immunity from a claim attacking a governmental decision over which the contractor had no control merely because it did not question the government's decision?

Relatedly:

- 1) Did the court of appeals correctly analyze and resolve the split of authority that has developed among courts of appeals about how to interpret *Brown & Gay Engineering, Inc. v. Olivares*, 461 S.W.3d 117 (Tex. 2015)?
- 2) Did the court of appeals, by denying derivative sovereign immunity solely because GTECH did not second-guess the government's decision, create an exception to derivative immunity that effectively eviscerates the doctrine?
- 3) Did the court of appeals, by exposing GTECH to potential liability for implementing a decision over which it had no control, undermine Texas statutes that give the Texas Lottery Commission total, nondelegable control over the form of Texas Lottery tickets?

REASONS TO GRANT REVIEW AND SUMMARY OF THE ARGUMENT

Derivative sovereign immunity plays an important role when the state contracts with private parties. The doctrine safeguards sovereign prerogatives by immunizing state-directed decisions and stabilizes government contracting by shielding contractors from suits that substantively attack the state's decisions. These and other considerations led this Court to recognize the doctrine of derivative immunity, most recently in *Brown & Gay Engineering, Inc. v. Olivares*, 461 S.W.3d 117 (Tex. 2015).

But since *Brown & Gay*, courts have disagreed on where to draw the boundaries of derivative immunity. Here, the court of appeals misjudged these boundaries by permitting purchasers of Texas Lottery tickets to sue GTECH, a government contractor, on the theory that the tickets' design fraudulently misled them into believing they had won when in fact they had not won. And it did so even though the ticket's instructions and specifications were directed by the Texas Lottery Commission under exclusive authority granted by the Texas Legislature.

Review should be granted for the following reasons:

To resolve a conflict in the courts of appeals. Review is necessary to resolve conflicting views regarding what is required to establish derivative immunity under *Brown & Gay*. In this case and a related case involving identical claims and identical facts, two courts of appeals reached opposite conclusions.

Here, the court held that GTECH *lacks* immunity from a fraud claim ([Tab A](#)), but in *Nettles v. GTECH Corp.*, 2017 WL 3097627 (Tex. App.—Dallas July 21, 2017, pet. filed), the court held that GTECH *has* immunity from an identical claim ([Tab G](#)). These conflicting rulings amplify a current disagreement among Texas courts about how to interpret *Brown & Gay*—in particular, whether that decision established a two-part test requiring a government contractor to show *both* that litigation would impact the public fisc *and* that it lacked independent discretion, or whether *either* of those considerations may support immunity. In *Brown v. Waco Transit System*, 2017 WL 4872801, at *3-4 (Tex. App.—Amarillo Oct. 27, 2017, no pet.), the court focused exclusively on discretion, but in *University of Incarnate Word v. Redus*, 2018 WL 1176652, at *4-6 (Tex. App.—San Antonio Mar. 7, 2018, no pet. h.), the court focused exclusively on public fisc. And here the court held that the two considerations are inherently intertwined. ([Tab A](#) at *12.)

To preserve the doctrine of derivative immunity. Review is also necessary because the court of appeals crafted a novel exception to derivative immunity that threatens to eliminate the doctrine. The court held that even though GTECH was contractually required to implement the Commission’s directions regarding the design of the lottery ticket, GTECH lacked immunity because it retained “discretion” to second-guess those directions. This holding threatens to swallow

the derivative-immunity doctrine, because this type of “discretion” is inherent in the government-contracting relationship.

To effectuate legislative intent. Finally, review is necessary to effectuate legislative intent. The legislature has chosen to vest in the Commission total, nondelegable control over (1) the form of lottery tickets and (2) the recovery available in disputes over the tickets’ form, which is limited to the tickets’ cost. *See* TEX. GOV’T CODE §§ 466.015, 466.251(a); 16 TEX. ADMIN. CODE § 401.302(i). The Commission’s contracts with GTECH reflected this statutory grant of control: GTECH was required to “accept and support” the Commission’s decisions. ([Tab A](#) at *19.) Plaintiffs’ fraud claim, which blames GTECH for following the Commission’s directions, necessarily attacks those directions and undermines the legislature’s choices.

The consequences of the court of appeals’ decision are staggering. It permits 1,238 lottery ticket purchasers to seek more than \$500 million in damages from GTECH merely because, as required by its contract and Texas lottery statutes, GTECH followed the Commission’s directions instead of second-guessing them. The Legislature surely never intended to permit such “mass tort” litigation, and the derivative-immunity doctrine should prevent it.

STATEMENT OF FACTS

A. The Legislature delegated exclusive authority to the Lottery Commission to develop and control lottery games.

This case concerns the Texas Lottery, which generates billions of dollars every year for education and veterans' services across Texas.¹ The Texas Lottery came into existence in 1991, when Texas voters adopted a constitutional amendment empowering the "Legislature by general law [to] authorize the State to operate lotteries." TEX. CONST. art. III, § 47(e). Acting on this authority, the Legislature enacted statutes providing that the Commission and its executive director must "exercise strict control and close supervision over all lottery games conducted in this state" and "ensure that games are conducted fairly and in compliance with the law." TEX. GOV'T CODE §§ 466.014(a), 467.101(b).

The Commission's executive director is charged with "prescrib[ing] the form of [lottery] tickets" and adopting (through publication in the Texas Register) rules governing all aspects of lottery games, including ticket prices, the number of winning tickets, and ticket-validation requirements. *Id.* §§ 466.015, 466.251(a), 467.102; *see* 16 TEX. ADMIN. CODE § 401.302. The Commission's rules provide that if a dispute arises about whether a ticket is a winner, the claimant's "exclusive

¹ *See* Tex. Lottery Comm'n, Summary Financial Information, *available at* <https://www.txlottery.org/export/sites/lottery/Documents/financial/Monthly-Transfer-Document.pdf>.

remedy” is reimbursement “for the cost of the disputed ticket.” 16 TEX. ADMIN. CODE § 401.302(i).

B. The Commission contracted with GTECH to help it develop lottery tickets.

The constitutional amendment permitting lottery games in Texas also permitted the Legislature to “authorize the State to enter into a contract with one or more legal entities that will operate lotteries on behalf of the State.” TEX. CONST. art. III, § 47(e). The Legislature, in turn, authorized the Commission to “contract with or employ a person to perform a function, activity, or service in connection with the operation of the lottery.” TEX. GOV’T CODE § 466.014(b).

Under this authority, the Commission contracted with GTECH. (CR265, 275.) GTECH’s contracts provide that it will “work closely with [the Commission] to identify instant ticket games,” but the Commission will “make all final decisions regarding the selection” of a scratch-off ticket. ([Tab A](#) at *18.) GTECH’s role under its contracts with the Commission is limited to submitting *proposed* specifications; it has no authority to determine *final* specifications. The contracts specify that:

- “[f]inal decisions regarding the direction or control of the Lottery are always the prerogative of the [Commission] in its sole discretion” ([Tab A](#) at *19);
- scratch-off tickets “shall in all respects conform to, and function in accordance with, Texas Lottery-approved specifications and designs” (CR527); and

- the Commission “reserves the sole right to reject [GTECH’s] guidance for any reason” while “[GTECH], conversely, must accept and support the decision of the [Commission]” ([Tab A](#) at *19).

When the Commission selects a concept for a lottery ticket, GTECH submits draft working papers that include a proposed design, prize structure, and rules. (CR275, 283.) The Commission’s staff members—who have decades of combined experience—mark up the draft working papers and direct GTECH to make specific changes. (CR274-75.) GTECH revises the draft working papers as directed by the Commission and sends them back for further review. (CR275.) The Commission often makes several rounds of revisions before it approves final working papers, which set forth detailed specifications that GTECH must follow when manufacturing the tickets to be sold by the Commission through retail outlets. (CR277.)

C. The Commission selected the final design of the “Fun 5’s” lottery ticket.

This case involves a Texas Lottery ticket called “Fun 5’s.” The ticket included five games, one of which was a tic-tac-toe game. (CR275; *see* CR258.) The tic-tac-toe game consisted of a 3-by-3 grid of symbols, a “PRIZE” box, and a box labeled “5X BOX,” which is known as a “multiplier.” (CR275-76, 295-97.) If a player scratched off the grid and revealed “three [matching] symbols in any one row, column, or diagonal line,” the player would win the prize revealed by scratching off the “PRIZE” box. (CR275, 295-97.) And if the player scratched off

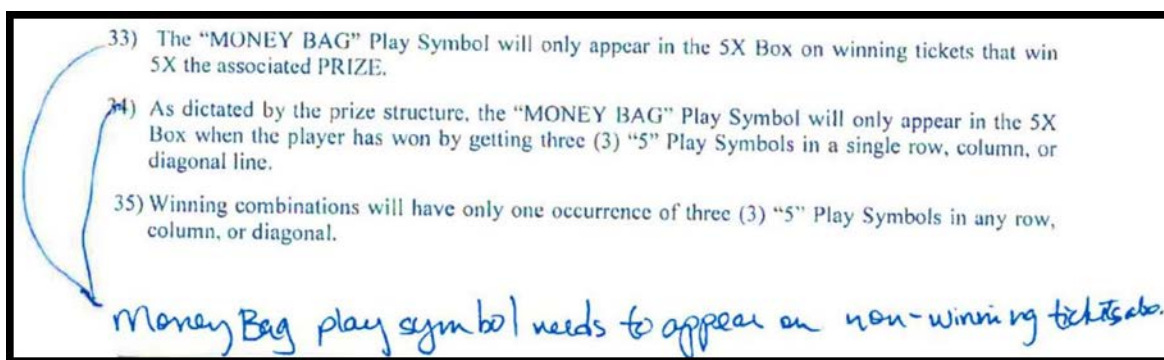
the multiplier “5X BOX” and revealed a symbol in that box, the player would win five times that prize. (CR275-76, 295-97.) The final, Commission-approved ticket looked like this:



(CR340.)

GTECH’s draft working papers specified that a symbol would appear in the multiplier “5X BOX” only on tickets with a winning tic-tac-toe game, but not on non-winning tickets. (CR265, 276, 310.) The Commission, however, was concerned that this could make the ticket an easy target for “microscratching,” a

technique by which an individual (often an employee of a retail ticket outlet) uses a pin to reveal a microscopic portion of a scratch-off ticket to determine whether it is a winner before it is sold. (CR242, 276.) Because only the “5X BOX” would need to be microscratched to determine whether the ticket was a winner, the Commission directed GTECH to revise the game to include a symbol in the “5X BOX” on both winning and non-winning tickets:



(CR276, 334 (Commission’s handwritten notations).) GTECH followed the Commission’s directions and prepared final working papers for the Commission’s approval. (CR340; *see* CR242, 260-63, 271, 276.)

After approving these papers, the Commission prepared official rules and specifications for the ticket and published them in the Texas Register. *See* Tex. Lottery Comm’n, Instant Game No. 1592 “Fun 5’s,” 39 Tex. Reg. 4799 (2014). GTECH had no authority to review or correct the official rules and specifications before they were published. (CR274.) Nor did GTECH sell the tickets or communicate with prospective purchasers. (*Id.*)

D. Hundreds of individuals sued GTECH, claiming to be defrauded by the tic-tac-toe game on the “Fun 5’s” lottery ticket.

About two weeks after the Commission began selling “Fun 5’s” tickets, the media reported that Geraldine Steele was claiming to be confused by the tic-tac-toe game and that buyers of “Fun 5’s” tickets might be able to sue.² Following these reports, a lawsuit was filed in Dallas by a lottery player named Dawn Nettles,³ and an essentially identical lawsuit—this case—was filed in Austin by Steele, who was ultimately joined by more than 1,200 others. The ticket purchasers claim the ticket design misled them into believing they had won the tic-tac-toe game and were entitled to five times the prize in the “PRIZE” box, merely because they found a symbol in the “5X BOX,” *even though they did not have tic-tac-toe.* (CR3-20, 25-60, 72-120, 136-230, 696-704.)

The plaintiffs could not sue the Commission, which has sovereign immunity. They instead sued the Commission’s contractor, GTECH, asserting fraud and other claims and seeking more than \$500 million in damages based on a “benefit of the bargain” theory, plus exemplary damages. (CR195-96.) The plaintiffs’ fraud claim rests on the theory that GTECH should have second-guessed the Commission’s directions regarding the form of the tic-tac-toe game. ([Tab A](#) at *16.) They pointed

² E.g., Brittney Martin, *A half-million win? Scratch that, lottery tells disappointed ticket buyers*, DALLAS MORNING NEWS (Sept. 16, 2014), <http://www.dallasnews.com/news/state/headlines/20140916-a-half-million-win-scratch-that-lottery-tells-disappointed-ticket-buyers.ece>.

³ *Nettles v. GTECH Corp.*, No. DC-14-14838, 160th District Court, Dallas County.

to testimony from GTECH employees who said they would have spoken up if they had seen any reason a player could become confused.

E. GTECH’s plea to the jurisdiction was denied as to the fraud claim against it.

In both this case and the related *Nettles* case, GTECH filed pleas to the jurisdiction. In *Nettles*, the trial court granted GTECH’s plea, and the Dallas Court of Appeals affirmed, holding that GTECH has immunity. ([Tab G](#) at *1.)⁴

Here, in contrast, the trial court denied GTECH’s plea to the jurisdiction. (CR695.) The Austin Court of Appeals reversed in part, holding that GTECH is immune from the plaintiffs’ claims for aiding-and-abetting fraud, tortious interference, and conspiracy because “each complain substantively of underlying decisions or directives of [the Commission], not any actions by GTECH within its independent discretion, thereby implicating sovereign immunity.” ([Tab A](#) at *20.) But unlike the court of appeals in *Nettles*, the court here found no immunity as to the plaintiffs’ fraud claim, stating that GTECH’s contracts “left it discretion to choose to . . . alert” the Commission that the specifications the Commission had directed GTECH to implement could be misleading. (*Id.* at *25.)

⁴ *Nettles* has filed a petition for review (No. 17-1010), and this Court has requested that GTECH respond.

ARGUMENT

I. The Court should grant review to resolve a conflict about how to interpret *Brown & Gay*.

Three years ago, in *Brown & Gay*, the Court considered when private parties may share in the government's immunity. There, a governmental entity had engaged Brown & Gay to design and construct a tollway. *Id.* at 119. "[T]he details of [that] project, or the 'discretionary functions' . . . , were delegated to Brown & Gay." *Id.* at 126 n.10. After a fatal wrong-way-driving accident on the completed tollway, a third party sued Brown & Gay for negligent design. *Id.* at 119-20.

This Court held that Brown & Gay did not share in the government's immunity from suit. Its analysis had two parts. The Court first determined that extending immunity to Brown & Gay did not further immunity's justification of protecting the public from "unforeseen expenditures." *Id.* at 123-24. It then determined that the suit did "not seek to hold Brown & Gay liable merely for following the government's directions," but instead complained of an exercise of Brown & Gay's independent discretion. *Id.* at 124-27. Because Brown & Gay had complete "discretion to design the Tollway's signage and road layouts," the Court's ultimate conclusion was narrow: it held "only that no [government] control [was] determinative." *Id.* at 126.

Chief Justice Hecht, joined by Justices Willett and Guzman, concurred. The concurring Justices wrote that the focus should be on whether a contractor's acts

were performed “as” the government (resulting in immunity) or merely “for” the government (resulting in no immunity). *Id.* at 130-31 (Hecht, C.J., concurring). They agreed with the majority that Brown & Gay lacked immunity, reasoning that “[t]he discretion [it] retained separated it from the [government] and thus from the Authority’s immunity.” *Id.* at 131.

Initially, courts of appeals applying *Brown & Gay* discussed both the public-fisc and discretion components of the majority’s analysis without specifying whether either or both components were required. These opinions implied that discretion is the key component; none treated fiscal considerations as an essential prerequisite to immunity. See ([Tab G](#) at *8-9); *Lenoir v. UT Physicians*, 491 S.W.3d 68, 82-86 (Tex. App.—Houston [1st Dist.] 2016, pet. denied); *Freeman v. Am. K-9 Detection Servs.*, 494 S.W.3d 393, 404-08 & n.3 (Tex. App.—Corpus Christi 2015, pet. granted).

More recently, a split has developed among the courts of appeals, with one court focusing solely on discretion and another focusing solely on the suit’s effect on the public fisc. The Amarillo Court of Appeals has viewed derivative immunity as turning on “whether the contractor or agent acted as the government without discretion”; it did not mention the public fisc. *Brown v. Waco Transit Sys.*, 2017 WL 4872801, at *4 (Tex. App.—Amarillo Oct. 27, 2017, no pet.). The San Antonio Court of Appeals has done the opposite, confining its analysis to public-

fisc considerations without mentioning *Brown & Gay*'s discretion component. *Univ. of Incarnate Word v. Redus*, 2018 WL 1176652, at *4-5 (Tex. App.—San Antonio Mar. 7, 2018, no pet. h.).

Here, the court of appeals concluded that the discretion component of *Brown & Gay* is determinative, and a government contractor need not “satisfy the fiscal considerations” discussed in *Brown & Gay* if it can demonstrate that the underlying claims “complain substantively of actions, decisions, or directives attributable to [the state] and not [the contractor’s] own independent exercise of discretion.” ([Tab A](#) at *9.) The court of appeals did not disregard *Brown & Gay*'s public-fisc analysis, but held that the public fisc is inherently implicated whenever the claims attack a governmental decision or directive. (*Id.* at *9.) *Cf. Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427, 437 (Tex. 2016) (holding that protecting acts “not done pursuant” to sovereign will is “not an efficient way to ensure efficient allocation of state resources” (emphasis omitted)). The court of appeals’ approach here generally aligns with the discretion-focused analysis that several other courts of appeals have employed, but it conflicts with *Redus*'s public-fisc-only approach. *See Redus*, 2018 WL 1176652, at *4-5.

This Court should grant review to end the confusion about how to apply *Brown & Gay* and, in doing so, should clarify that a contractor like GTECH is entitled to immunity for the reasons discussed below.

II. The Court should grant review to preserve the doctrine of derivative immunity.

The court of appeals properly dismissed most of the claims against GTECH because they “complain substantively of underlying decisions or directives of [the Commission], not any actions by GTECH within its independent discretion.” ([Tab A](#) at *20.) But the court carved out an exception for the plaintiffs’ fraud claim insofar as it alleges GTECH had “discretion” to question the Commission’s directions. That was error. The exception created by the court of appeals is doctrinally unsupportable, and it threatens to eliminate derivative immunity altogether because this type of “discretion” is inherent in the government-contracting relationship.

A. The court of appeals’ “discretion to alert” exception is doctrinally unsupportable.

This Court has explained that absent legislative waiver, sovereign immunity extends to all acts stemming from the sovereign will, including state-directed acts performed by private parties. *See K.D.F. v. Rex*, 878 S.W.2d 589, 597 (Tex. 1994); *cf. Wasson*, 489 S.W.3d at 433-34. The court of appeals’ “discretion to alert” loophole undermines this bedrock principle.

The court of appeals acknowledged the Commission had “ultimate control or approval of GTECH’s work,” but it concluded that this authority could not be “the controlling determinant of immunity,” because in *Brown & Gay* the contractor’s

work “was also subject to the approval of its governmental principal.” ([Tab A](#) at *22.) This reasoning ignores a key difference between the contractor’s role in *Brown & Gay* and GTECH’s role here.

In *Brown & Gay*, “the details of the Tollway project . . . were delegated to Brown & Gay,” so the contractor was “independently negligent in designing the signs and traffic layouts” at issue. 461 S.W.3d at 126 & n.10. The Court held that “no control” by the government over the tollway’s safeguards was determinative—“Brown & Gay’s decisions in designing [those] safeguard’s [were] *its own*.” *Id.* (emphasis added).

GTECH’s role is not comparable. The decisions in designing the “Fun 5’s” ticket were not—and could not have been—GTECH’s own. (See [Tab G](#) at *8.) No color, word, or specification of the ticket could result from any control on the part of GTECH because the Commission strictly supervised and controlled every step of the process. ([Tab A](#) at *22; CR527.) The opposite was true in *Brown & Gay*, where the plaintiffs “[did] not complain of harm caused by Brown & Gay’s implementing the [state’s] specifications or following any specific government directions or orders.” 461 S.W.3d at 126. Where, as here, the state directs or controls a private party’s act, the act stems from the sovereign will and shares in the benefits of sovereignty—including immunity. See *Wasson*, 489 S.W.3d at 433-

34; *Brown & Gay*, 461 S.W.3d at 124 (noting that both government “control” and “direction” support derivative immunity).

The court of appeals also relied on this Court’s *K.D.F.* decision, reasoning that GTECH’s role is similar to that of the financial advisor in that case. ([Tab A](#) at *25.) But the advisor’s role in *K.D.F.* “was in the nature of advising [the state] how to proceed, rather than being subject to [its] direction and control” 878 S.W.2d at 597. Here, regardless of any advice GTECH could offer, it was unquestionably subject to the Commission’s direction and control—a fact the court of appeals itself recognized. ([Tab A](#) at *22.) Thus, *K.D.F.* supports GTECH’s immunity. At least two other decisions referenced by the court of appeals support GTECH’s immunity as well. *See Allen Keller Co. v. Foreman*, 343 S.W.3d 420, 426 (Tex. 2011) (rejecting a duty to warn of contractor-created dangers where the contractor was merely following the government’s directions); *Strakos v. Gehring*, 360 S.W.2d 787, 803 (Tex. 1962) (concluding that a government contractor is not liable “where [it] merely follows plans and specifications which have been handed to [it] . . . with instructions that the same be literally followed”).

The court of appeals’ “discretion to alert” exception is thus contrary to this Court’s jurisprudence and the principles underlying immunity.

B. The “discretion to alert” exception threatens to eviscerate the doctrine of derivative immunity.

The court of appeals’ holding is problematic beyond this case, largely because it paves the way for artful pleading to eviscerate derivative immunity. In every derivative immunity case—even when the state retains control and ultimate approval authority—a government contractor will invariably have some “discretion” to alert the state regarding potential issues raised by the state’s directions. The court of appeals’ holding will allow plaintiffs to plead otherwise-barred claims as “failure to alert” claims, effectively eliminating derivative immunity altogether. Never before has this Court permitted parties’ “talismanic allegations” to determine the limits of immunity—and it should not start now. *See Mission Consol. ISD v. Garcia*, 372 S.W.3d 629, 637-38 (Tex. 2012).

This case contains such artful pleading. The plaintiffs assert a fraud claim, which requires a misrepresentation. The representations complained of were contained in the lottery ticket, and the Commission had complete control over the ticket’s contents. To permit the plaintiffs to pierce immunity based on GTECH’s claimed “failure to alert” is to reward the very artful pleading this Court does not condone.

Left unchecked, the court of appeals’ holding portends problems for future cases. It would be both expensive and impractical to require contractors to double-check every government-issued directive—especially when, as here, the

government has substantial experience and expertise. Such duplication ultimately increases the price (and decreases the availability) of quality private-sector assistance to the state. *See Keller*, 343 S.W.3d at 426 (citing cost concerns when rejecting duty to rectify); *see also Glade v. Dietert*, 295 S.W.2d 642, 644 (Tex. 1956) (approvingly citing case which reasoned that government “contractor ought to be relieved from checking every order given him by the public authorities” because, otherwise, “the cost of public improvements would be immeasurably increased”).

Finally, it is no answer to say that government contracts should affirmatively disclaim a contractor’s inherent “discretion to alert.” That would be terrible policy. Everyone benefits when contractors retain the authority to warn the government when its directions (unlike the directions here) might pose a danger to Texas citizens. Eliminating these beneficial communications should not be the price for derivative immunity.

III. The Court should grant review to give effect to the legislative choices embodied in the lottery statutes.

The court of appeals’ error is even more apparent—and problematic—given the broader statutory context in which the contracts between the Commission and GTECH were executed. These contracts ensure the Commission’s complete control over lottery tickets for a simple reason: Texas law demands it.

“Lotteries were constitutionally prohibited in Texas from 1845 until 1991.” *Verney v. Abbott*, 2006 WL 2082085, at *1 (Tex. App.—Austin July 28, 2006, no pet.) (citing multiple iterations of the Texas Constitution). In 1991, after fierce public debate, voters approved a constitutional amendment allowing a lottery operated by the state. TEX. CONST. art. III, § 47. Even then, the Legislature carved out only a narrow space in which a lottery could operate. In that space, the Commission is required to “exercise strict control and close supervision over all lottery games conducted in this state to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery.” TEX. GOV’T CODE § 466.014(a). This control and supervision is total, extending “over all activities authorized and conducted in this state under . . . Chapter 466,” including contractual relationships entered into under Section 466.014. *Id.* § 467.101(a).

The terms of the Commission’s contracts with GTECH necessarily reflect these statutory mandates. They leave GTECH no discretion over the form or content of lottery tickets; GTECH must “accept and support” whatever the Commission decides. ([Tab A](#) at *19.) By suing GTECH for following the Commission’s directions, Plaintiffs attack the very decisions the lottery statutes vest in the Commission alone, TEX. GOV’T CODE § 466.251, and seek far more

(over \$500 million) than the Commission’s governing regulations allow (the cost of the disputed tickets, or \$5 per person), 16 TEX. ADMIN. CODE § 401.302(i).

Review is required to protect and effectuate the legislative scheme embodied in these lottery statutes and regulations.

IV. This case uniquely allows the Court to resolve issues left open in *Brown & Gay*.

In *Brown & Gay*, the Court narrowly held that the contractor lacked immunity because the government had “no control” over the contractor’s work. 461 S.W.3d at 126. The Court did “not establish . . . whether some degree of control by the government would extend its immunity protection to a private party.” *Id.* It held “only that no control is determinative.” *Id.*

Here, the facts establishing governmental control are compelling, if not conclusive, and the statutory overlay leaves no room for doubt. The Commission was statutorily required to exercise “strict control” over GTECH’s work, TEX. GOV’T CODE § 466.014(a), and GTECH was contractually required to “accept and support” the Commission’s decisions. ([Tab A](#) at *19.) This case thus provides the perfect context for answering issues left open in *Brown & Gay*, which have contributed to the current conflict among courts of appeals.⁵

⁵ This Court recently discussed *Brown & Gay* in a very different context, but it did not address the issues presented here. *Fort Worth Transp. Auth. v. Rodriguez*, No. 16-0542, ___ S.W.3d ___ (Tex. Apr. 27, 2018).

This case is also in a better posture for review than *Nettles*. The court of appeals there correctly applied *Brown & Gay* to conclude that GTECH is immune because it followed the Commission’s instructions. ([Tab G](#) at *8-9.) That decision applies only to a single ticket purchaser, and the court’s memorandum opinion threatens neither derivative immunity nor principles of state sovereignty. In contrast, the opinion here permits a “mass action” by 1,238 individuals who seek more than \$500 million, and it creates a pathway for future litigants to evade immunity and attack sovereign decisions.

PRAYER

GTECH requests that the Court grant review, reverse the court of appeals’ judgment insofar as it denies GTECH’s plea to the jurisdiction, and render judgment dismissing this case. GTECH also requests all further relief to which it may be entitled.

Respectfully submitted,

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CERTIFICATE OF SERVICE

In accordance with the Texas Rules of Appellate Procedure, I certify that a true and correct copy of this Petition for Review was served via e-service and/or e-mail on the counsel of record listed in Tab C on April 27, 2018.

/s/ Kent Rutter

Kent Rutter

CERTIFICATE OF COMPLIANCE WITH RULE 9.4(e), (i)

1. This petition complies with the type-volume limitation of Texas Rule of Appellate Procedure 9.4(i)(2)(D) because, according to the Microsoft Word 2010 word count function, it contains **4,402** words excluding the parts of the brief exempted by Texas Rule of Appellate Procedure 9.4(e)(i)(1).
2. This petition complies with the typeface requirements of Texas Rule of Appellate Procedure 9.4(e) because it has been prepared in a proportionally spaced typeface using Microsoft Word 2010 software in Times New Roman 14 point font in text and Times New Roman 12 point font in footnotes.

/s/ Kent Rutter

Kent Rutter