

Self-Evaluation Report



Texas Lottery Commission

August 2011

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I. Agency Contact Information

A. Please fill in the following chart.

Texas Lottery Commission Exhibit 1: Agency Contacts				
	Name	Address	Telephone & Fax Numbers	E-mail Address
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Charitable Bingo Operations Division Director	Phil Sanderson, Division Director	611 E. 6 th St. Austin, TX 78701	(P) (512) 344-5120 (F) (512) 344-5142	phil.sanderson@lottery.state.tx.us
Agency's Sunset Liaison	Nelda Trevino, Governmental Affairs Director	611 E. 6 th St. Austin, TX 78701	(P) (512) 344-5190 (F) (512) 344-5107	nelda.trevino@lottery.state.tx.us

II. Key Functions and Performance

Provide the following information about the overall operations of your agency. More detailed information about individual programs will be requested in a later section.

A. Provide an overview of your agency's mission, objectives, and key functions.

Agency Mission and Objectives

Texas Lottery: The Texas Lottery is committed to generating revenue for the state of Texas through the responsible management and sale of entertaining lottery products. The Texas Lottery will incorporate the highest standards of security and integrity, set and achieve challenging goals, provide quality customer service and utilize a TEAM approach.

Charitable Bingo: Provide authorized organizations the opportunity to raise funds for their charitable purposes by conducting bingo. Determine that all charitable bingo funds are used for a lawful purpose. Promote and maintain the integrity of the charitable bingo industry throughout Texas.

The Texas Lottery Commission is charged with generating lottery revenue for the state of Texas while regulating those locations licensed to sell lottery games. Regarding charitable bingo, the Commission is charged with licensing and regulating an industry that generates revenue for the state of Texas, local municipalities and nonprofit organizations in Texas.

Key Functions

The Texas Lottery Commission has two main functions:

- Under the State Lottery Act, the Commission is charged with operating, administering and closely supervising all lottery games conducted in Texas to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery.
- Under the Bingo Enabling Act, the Commission is charged with administering and closely supervising all bingo conducted in Texas to ensure that bingo is fairly conducted and the proceeds derived from bingo are used for an authorized purpose.

B. Do each of your key functions continue to serve a clear and ongoing objective? Explain why each of these functions is still needed. What harm would come from no longer performing these functions?

Yes, these key functions continue to serve a clear and ongoing objective.

On August 26, 1991, House Bill (HB) 54, creating a lottery in Texas, was passed during a special session of the 72nd Legislature. On November 5 of that same year, House Joint Resolution (HJR) 8, containing the constitutional amendment to authorize a state lottery, was approved by Texas voters.

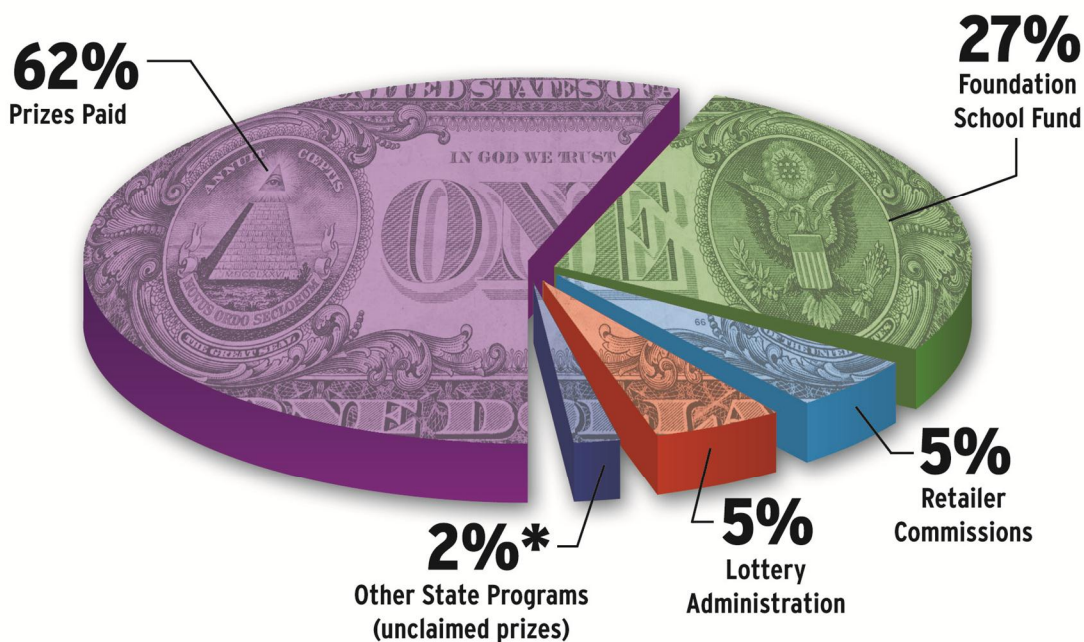
In 1979, the 66th Legislature, Regular Session, passed (Senate Joint Resolution) SJR 18, proposing a constitutional amendment to authorize bingo games for charitable purposes on a local option election basis. At the time of the constitutional amendment, bingo was prohibited by Article III, Section 47, of the Texas Constitution. However, in many communities, the law was selectively enforced. The purpose of the constitutional amendment and the ensuing enabling legislation was to provide for uniform regulation so that charitable bingo is conducted fairly.

C. What evidence can your agency provide to show your overall effectiveness and efficiency in meeting your objectives?

Lottery Sales and Revenue to the State

The Texas Lottery's mission is to generate revenue for the state of Texas through the responsible management and sale of entertaining lottery products. Total Texas Lottery sales for FY 2010 were \$3.74 billion, representing the fourth best year since ticket sales began in 1992. From those sales, the Commission transferred a total of \$1.095 billion to the state of Texas, the largest lottery transfer to the state since 1998. Of that amount, slightly more than \$1 billion went directly to the Foundation School Fund and an additional \$7.3 million went to the Texas Veterans Commission from the sales of a new scratch-off game dedicated to the Fund for Veterans Assistance. Other state programs, as directed by the Legislature, also benefited from almost \$87 billion in unclaimed lottery prizes. The figure below illustrates the distribution of Texas Lottery sales for FY 2010.

Where the Money Goes:



* Percentage totals are rounded. Approximately \$7.3 million was transferred to the Texas Veterans Commission.

Information reflects FY '10 figures

The Texas Lottery operates 16 claim centers statewide that act as payment locations for lottery prizes. As Internal Revenue Service (IRS) rules require the collection of tax information for lottery prizes of \$600 or more, claim centers act as the payment locations for prizes that cannot be paid at licensed sales agent locations. Claim centers also act as a resource in assisting players

with payment of claims when they experience difficulty in receiving payment at sales agent locations. Texas Lottery claim centers processed 58,127 claims in FY 2010.

Collection of Liabilities Owed to the State

Claim centers also perform collection of monies from individuals with claims that owe monies to entities of the state via the agency's debt set-off collection program. In FY 2010, \$1,437,443 was collected from prize claimants through this program.

New Lottery Operator Contract

On December 14, 2010, the Texas Lottery signed a new nine-year contract with GTECH Corporation for lottery operations and services. Under the terms of the new Lottery Operator contract, the state of Texas will realize potential savings of more than \$18 million annually beginning September 1, 2011, or more than \$160 million through the life of the contract, based on current ticket sales levels.

The contract was the culmination of an extensive competitive procurement process. Significant resources and capital investments are required to provide and operate lottery services, and the agency obtained those goods and services at an extremely competitive price. The new contract has an estimated value of approximately \$83 million annually and \$750 million over the initial nine-year contract term. In addition to the initial nine-year term, the contract includes options for three two-year extensions.

The procurement process started in September 2008, and included an in-depth assessment of the business needs and an evaluation of the marketplace. A detailed Request for Proposals (RFP) was issued in January 2010. All three of the major companies in the world that provide lottery related goods and services, GTECH Corporation, INTRALOT, Inc. and Scientific Games International, Inc., submitted comprehensive bids in response to the RFP. An evaluation team consisting of senior agency managers and a representative from the Comptroller of Public Accounts, conducted a thorough evaluation of the bids, and worked diligently to ensure that the resulting contract would meet the agency's needs and those of its retailers and players, while employing state-of-the-art technology.

Consistent with the Texas Lottery's commitment to a fair and transparent procurement process, all procurement documents subject to open records requirements in Texas, with the exception of those involving proprietary information and lottery security, have been posted on the Texas Lottery website.

The new Lottery Operator contract with GTECH provides the agency with the tools needed to fulfill its mission of generating revenue for the Foundation School Fund, while providing

significant cost savings to the state. In addition to the more than \$160 million in potential savings under the new contract, other highlights include:

- GTECH's latest generation of technology and retailer/player equipment with faster, easier to use terminals and a more reliable telecommunications network, including new player communication displays;
- Higher levels of security and redundancy, and expanded capacity to handle the extremely high transaction volumes generated daily by the Texas Lottery;
- A new more efficient lottery game management system featuring enhanced levels of service to support lottery players and retailers;
- New system tools that will allow the Texas Lottery to bring exciting new lottery games and promotions to market more quickly in response to consumer demand.

Lottery Retailer Survey Results

The Texas Lottery conducts Retailer Research Surveys monthly to examine retailer views of the products and services provided by the agency and the lottery operator, and to collect observational data regarding lottery equipment and marketing pieces. Texas Lottery claim center representatives conduct surveys using a systematic sampling of Texas Lottery retailers throughout the state. All active retailers are surveyed in a four-year period. Claim center representatives conduct an initial telephone survey with each retailer and then conduct in-person visits to examine facilities visually and record observations. The results of all surveys are tabulated and semi-annual reports (September through February; March through August) are written.

The survey questions are reviewed annually and changes are made to gather retailer data of specific interest to the agency. Certain questions and observations remain constant. The Retailer Research Survey for FY 2010 was designed to:

- 1) measure retailers' overall satisfaction with Texas Lottery support services and functions, as well as GTECH support services and functions;
- 2) gauge the adequacy of retailers' inventories of instant ticket dispensers;
- 3) measure the extent to which the players' ability to check their own tickets has made selling lottery products easier or more difficult;
- 4) determine the condition and placement of certain pieces of lottery equipment located at retailers;
- 5) gauge the use of certain lottery stickers among retailers;
- 6) determine whether playstations located at retailers match lottery established specifications; and,
- 7) collect data on the number of empty instant ticket dispenser bins at retailers.

In addition to the survey responses, claim center staff address retailer comments and concerns identified while conducting the telephone interview and on-site visit. Claim center staff attempt

to respond to and inform retailers about specific issue(s) raised. *Summary of Concerns* forms are completed when the issue(s) raised by a retailer requires further follow-up by GTECH or Texas Lottery staff.

Texas Lottery staff use the Retailer Research Survey findings in a number of ways. For example, retailers' overall rating of the lottery's services is used to calculate the "Percent of Retailers Satisfied with the Texas Lottery Commission," which is a key performance measure reported annually to the Legislative Budget Board. Texas Lottery and GTECH personnel use responses to questions about GTECH services to track the vendor's customer service and technical assistance. Individual responses to the questions regarding instant ticket dispenser inventory, the condition and placement of lottery equipment, the display of Texas Lottery stickers, and the number of empty ticket dispenser bins are forwarded to GTECH for follow-up at the retailer level. In addition, agency staff investigate retailer issues that are documented on *Summary of Concerns* forms. Finally, the Retailer Research Survey findings provide agency staff with ideas for articles to be included in the agency's retailer publication *RoundUp*.

For the second half of FY 2010 (March 2010 through August 2010), 2,200 surveys were issued, with a completion rate of 85 percent. Approximately 94 percent of the retailers surveyed rated the services provided by the Texas Lottery as "Good" or "Excellent," and 4 percent rated Texas Lottery services as "Fair." 95 percent of retailers gave the services provided by GTECH an overall rating of "Good" or "Excellent," and approximately 3 percent rated GTECH services as "Fair."

Development, Launch and Advertising of Successful New Lottery Products

While the success of the Texas Lottery is predicated on offering entertaining products, the agency also must effectively promote and advertise those products to the public to achieve strong sales results. The Texas Lottery Commission is mindful of its responsibility to not unduly influence anyone to participate in its games. Agency staff work closely with the advertising agencies to engage and communicate effectively with consumers about the diverse lottery product offerings. In FY 2010, the Texas Lottery joined in the sale of the multi-state lottery game *Powerball*[®]. The game was introduced for sale in Texas on January 31, 2010. Prior to the launch of the game, 14 percent of the public was aware of or had heard of the *Powerball* game brand. Following the Texas Lottery's *Powerball is Here!* messaging campaign, public awareness for the game increased by 10 percentage points to 24 percent over the three-month period following the campaign's first airing.

While the advertising goal is often the creation of product awareness, the Commission recognizes that it must reach new audiences that may not have engaged with Texas Lottery products in the past to remain relevant. The challenge is to achieve this in the framework of its traditional lottery game offerings. The Texas Lottery recently identified a special, new instant

product initiative designed to reach new audiences. This new product would be supported with marketing and advertising initiatives that capitalized on the high-end, high-quality feel of the product. The *Texas Lottery*[®] *Black* instant product was unveiled to the public in January 2011. The product was designed to be visually unique with its black-on-black design and gold lettering. The look and feel of the ticket was drastically different from typical brightly colored lottery tickets and had the potential to stand out in the retail marketplace. Agency staff believed that the unique monochromatic game design would appeal to new players and could be marketed as a high-end, high-quality exclusive product to attract a more affluent segment of the market.

The game was launched with a uniquely crafted and integrated multi-media advertising campaign utilizing radio promotions, magazine and newspaper ads, as well as outdoor billboards, and point-of-sale materials, positioning the product in sleek, unexpected placements and executions, including *Texas Monthly* magazine and the *Wall Street Journal*. The introduction of *Texas Lottery*[®] *Black* was so successful that warehouse inventory was depleted within a matter of weeks and a new *Texas Lottery*[®] *Black, Series II, Limited Edition* game was immediately ordered to replace the initial game. The second game was introduced in March, followed by a third release of the game in July. Advertising and positioning efforts proved very successful and as of May 2011, the *Texas Lottery*[®] *Black* game was the best performing \$10 game, through 12 weeks, of any game in the history of the Texas Lottery, and the series remains a top-selling, core instant product offering.

Number of Drawings Held and Number of Instant Tickets

During FY 2010, the Texas Lottery developed and introduced 90 instant games and offered seven on-line (ball drawing) games for sale to the public through its Products Department. Annually, Texas introduces more instant games than any other North American lottery jurisdiction, requiring intensive planning and efficient daily execution to ensure delivery of instant product to meet planned schedules for maximization of product availability and sales.

The public expects the agency to be flawless and error-free in the conduct of its on-line game drawings. The Texas Lottery conducted 731 on-line game drawings at its drawing studio and performed remote monitoring and oversight and packaging for broadcast of 166 on-line game drawings for the multi-state *Mega Millions* and *Powerball/Power Play*[®] games in FY 2010 in the absence of any significant issues that would have affected the outcome of any of its game drawings.

Cost-Benefit Analysis/Needs-Risk Assessment on Major Expenditures

In response to a Sunset Commission recommendation, the agency developed a comprehensive cost-benefit analysis process to evaluate the effectiveness of proposed major program expenditures. The Office of the Controller developed a standard needs-and-risk assessment template as a decision-making tool to assist the agency in planning its contracts, evaluating new

and current goods and services, and making sound financial decisions. The needs-and-risk assessment tool ensures there are clear contracting objectives, assumptions and constraints. It is used to judge the ongoing effectiveness of the agency's expenditures and assist in determining actions that would be most beneficial for the Texas Lottery and/or provide the best value for the state of Texas. To assess the effectiveness of major expenditures, a formal analysis is required to compare original expectations and projections provided in the needs- and-risk assessment to actual expenditures. The review is conducted upon completion of the project or before the next needs-and-risk assessment is submitted.

The Commission has implemented policies and procedures that require the completion of a needs-and-risk assessment prior to the development of a new contract solicitation for a good or service, or the amendment, renewal or extension of existing contracts for goods or services. Incorporated within this procedure, is a needs-and-risk assessment review to compare projections outlined in the original assessment to actual expenditures.

Agency Contract Management and Oversight

The Purchasing and Contracts section in the Administration Division administers a broad range of Texas Lottery- and Charitable Bingo-related contracts for goods and services provided by state agencies and private vendors, and it is a repository for original documentation and information regarding the agency's contracts and compliance issues.

Following a recommendation by the Sunset Commission in August 2002, the agency implemented key processes to guide major financial decisions. These included the development and implementation of a reporting process to provide the Commission with detailed information about significant procurements, the completion of a needs-and-risk assessment for all major procurements, and a periodic review process to evaluate the effectiveness of program expenditures.

The agency developed and recommended the criteria and frequency for reporting agency contract information to the Commission. All major contracts that support the agency's core functions were classified as either Prime or High Risk. Prime contracts were defined as contracts for goods or services that *directly* support the agency's core gaming business function (i.e., lottery operator, instant ticket manufacturing, draw studio, etc.), High Risk contracts were defined as contracts for goods or services that support the agency's core gaming business function and have a direct impact on the agency's overall mission of ensuring integrity, security, accountability, and generating revenue (i.e., cost exceeds \$1 million, vendor has access to agency's information systems, vendor provides audit, financial, legal or compliance services, etc.). Although the Executive Director has statutory authority to execute all agency contracts, the status of all Prime and High Risk contracts are reported to the Commission annually for informational purposes only. The report is presented during the February Commission meeting, which allows staff time

to implement any changes or recommendations made by the Commission prior to a renewal or procurement at the end of a fiscal year. All Prime contracts are presented to the Commission prior to any action being taken (i.e., amendment, renewal, procurement).

Finally, the agency contracts with an independent third-party vendor to provide risk analysis and compliance monitoring services for the agency's lottery operator contract. Using the Lottery Operations and Services Contract between the Texas Lottery and GTECH, all terms and conditions, performance standards and other elements requiring compliance are identified. All selected elements are categorized and risk-ranked so compliance can be measured based on a priority and cycle jointly developed by the Texas Lottery and GTECH. The independent third-party vendor works closely with the agency to appropriately identify and report on the lottery operator's performance and contract noncompliance. GTECH must submit a performance improvement plan (if applicable) for any noncompliant element and it is scheduled for retest.

Performance Measure Highlights

Lottery Operations Division—In support of its mission, the Texas Lottery administered the licenses of over 16,700 sales agents across the state in FY 2010. This included the issuance of 2,253 new retail sales agent licenses and 7,220 renewal license issuances. The agency also performed sales collection activities on a weekly basis for licensed sales agents. The Texas Lottery Commission has an outstanding record of debt collection from its licensed sales agents, as demonstrated by its .0083 percent of bad debt to lottery sales in FY 2010.

The Texas Lottery also maintains a very high level of licenses with no recent violations of administrative rules. This percentage was at 98.88 percent for FY 2010 and reflects the agency's commitment to clearly communicate licensee administrative expectations and the Texas Lottery Commission's ongoing educational efforts with its licensees.

Charitable Bingo Operations Division—Evidence of the CBOD's overall effectiveness and efficiency may be seen in the results of the division's key performance measures and the recommendations and reports issued from three audits of the division's performance: September 2010 State Auditor's Office audit on the CBOD, August 2006 Internal Audit on the Audit Services Department of the CBOD, October of 2008 Internal Audit of the CBOD.

Bingo Key Performance Measures	FY 08	FY 09	FY 10
Percent of Complaints Referred for Disciplinary Action	Not met	Not met	Not met
Net Bingo Games Revenue Received by Charitable Organizations (Millions)	Met	Met	Met

Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement	Met	Met	Met
Number of Licenses Issued to Individuals and Organizations	Met	Met	Met
Number of Bingo Complaints Completed	Met	Not met	Met
Number of Days to Allocate Payments to Local Jurisdictions	Met	Met	Met

Charitable Distributions Exceeding the Statutory Required Distributions

In calendar year 2010, reported total gross receipts were more than \$699 million—the highest since 1981 when charitable bingo was legalized in Texas. Pull-tab bingo sales have seen an increase in sales every year since 2002. Total prizes reported paid to players in 2010 exceeded \$526 million, the highest in the history of charitable bingo in Texas. Charitable distributions saw a slight decrease after six years of increases, with organizations reporting that they distributed \$34 million for their charitable purposes, which was more than three times their required charitable distribution, bringing charitable distributions since 1981 to more than \$971 million.

Implementation of Significant SAO and Internal Audit Recommendations Related to the CBOD

In September 2010, the State Auditor released an audit report on the CBOD. The scope of the audit covered January 1, 2007, to December 31, 2009. The objective of this audit was to determine whether the agency's CBOD had controls to verify that proceeds are distributed for charitable purposes in compliance with state laws and agency rules. The overall conclusion was that bingo halls distributed game proceeds for charitable purposes and remitted 5 percent of prize fees to the state as required. In addition, the agency has policies and procedures to help ensure that it licenses only qualified entities to conduct bingo games. However, the agency should increase its financial monitoring of bingo halls to help ensure that they comply with all applicable laws and regulations. Monitoring bingo halls' financial information and inventories would provide additional assurance that bingo halls report accurate information to the agency and comply with requirements. Specific recommendations and status of implementation:

SAO Recommendation:

Increase its financial monitoring visits at bingo halls to review financial information and documentation that supports the quarterly reports the bingo halls submit to the agency.

Consider using a risk-based methodology to select bingo halls for on-site monitoring reviews. In addition to complaints, in its methodology for selecting bingo halls for on-site monitoring reviews, the agency should consider analyzing factors such as bingo halls' history of compliance and length of time between the agency's monitoring reviews.

Status of Implementation:

Management concurs with the recommendation and has already implemented corrective actions. The CBOD appreciates that the SAO audit team validated that there is a need to increase the financial monitoring of bingo halls' financial information and inventory. The Audit Services Department (Department) of the CBOD recently implemented a new audit program with specific focus over financial monitoring. The new audit program incorporates the additional requirements passed with HB 1474 during the 81st Legislative Session effective October 1, 2009 and includes a review of financial information and documentation that support the quarterly reports. The overall audit objective, Determine if Proceeds from Charitable Bingo are used for Authorized Purposes, is broken into sub-objectives:

- Determine if the organization's bingo fund reconciliation is properly reported
- Determine if sales, prizes paid and prize fees withheld are complete and accurately reported
- Determine if the organization's bingo expenses are reasonable or necessary and are complete and accurate
- Determine if the organization's charitable distributions are used for authorized purposes and are complete and accurate

The Department began implementation of the new audit program in March 2010 at two locations to assist with considering any enhancements and modifications to incorporate. A full statewide implementation occurred beginning late June/early July 2010 after auditor training of the new program in June 2010. A risk-based methodology is used to select the bingo halls for these compliance reviews. Analyzing factors used in the risk-based methodology include history of compliance and length of time between monitoring activities. Management is committed to increasing the number of financial monitoring reviews and will continue to consider and enhance regulatory coverage to address public complaints, perform and conduct audits of quarterly financial information, and monitor and provide oversight of bingo games to increase integrity and public reliance that games are being conducted fairly and in compliance with regulations. Management has attempted to balance these areas using available staff resources. In 2009, approximately 30 percent of audit resources performed complaint investigations, 20 percent performed audits and 50 percent conducted game inspections. With the new audit program, the goal is to achieve financial monitoring and coverage over more licensed organizations, increasing the number of audits per year. However, limited budget and staff resources may impact the desired audit activity goals and achievements of the FY 2011-12 target performance measures.

SAO Recommendation:

Consistently maintain documentation demonstrating that it complied with state laws and its policies and procedures for lessors and conductors.

Implement a monitoring process to ensure compliance with the rent requirement in Texas Occupations Code, Section 2001.406(a).

Status of Implementation:

Management concurs with the recommendation and has already implemented corrective actions. The CBOD has recently reviewed and revised its original and renewal processing procedures and corresponding license review checklists to ensure they reflect the most current process. Additionally, a training class was held for all license examiners to reemphasize the current application review methodology and what supporting documentation must be maintained in the license files. Management plans to conduct routine Quality Assurance Reviews of select license renewal files to ensure that the application reviewed is compliant with the division's most current processing procedures and that all required documentation is maintained. On November 5, 2009, the CBOD requested the Information Resources Department to revise the Quarterly Returns ó Exception Report. This report was developed to identify accuracy and compliance anomalies related to the Quarterly Returns. Among the numerous new validations requested to be performed included the validation that rent collected does not exceed an average of \$600 per occasion as specified in Texas Occupations Code, Section 2001.406(a). In addition, the amount of rent reported as collected by the lessor will be compared to the amount of rent reported as paid by the conductor for the quarter to ensure that these figures are consistent. This revised Quarterly Returns ó Exception Report was developed, thoroughly tested for accuracy and reliability and implemented on August 26, 2010.

SAO Recommendation:

Use the functionality within the Automated Charitable Bingo System (ACBS) to flag amounts that are estimates that the agency entered to enable the agency to identify which amounts are actual amounts that a licensee has submitted.

Strengthen ACBS access controls.

Status of Implementation:

Management concurs with the recommendations. ACBS currently establishes a return type of "EST" when an estimated return is generated. The Accounting Services Section of the Taxpayer Services Department has implemented procedures to ensure that all organizations file an original return. The following steps have been implemented to strengthen ACBS access controls:

- The agency will review all users' access to ACBS and modify if necessary. Per agency directive, this review will be performed annually.
- All persons that access the ACBS database will use a unique user ID and password with the exception of those assigned database schema owner responsibility.
- All test accounts in ACBS production have been disabled.

- An exception report was developed to identify any errors in ACBS data entry and implemented on August 26, 2010.
- A revised exception report was developed, thoroughly tested for accuracy and reliability, and implemented on August 26, 2010.
- A review of the disaster recovery plan was finalized in July 2010. Annual reviews will be conducted.

The following recommendations are still under review by the Information Resources Department:

- Password requirements for ACBS need to be strengthened to ensure compliance with Title 1, Texas Administrative Code (TAC), Chapter 202.
- Programmer access rights should be limited to read only.
- Agency management assessed the feasibility and cost, and weighed the advantages and disadvantages of enabling audit trails in ACBS. In addition, agency management will also consider resources and capacity needed to enable such functionality. The agency included a needed redesign and conversion of ACBS as an exceptional item request in the agency's FY 2012-13 Legislative Appropriations Request funded by a license fee increase to cover the cost of the redesign.

Implementation of Internal Audit Recommendations related to Bingo Division- Audit Services

In August 2006, the Internal Audit Division released an audit report on the Audit Services Department of the CBOD. The purpose of this audit was to evaluate the effectiveness of the CBOD in achieving its statutory charge of ensuring that bingo conducted in this state is fairly conducted and that proceeds derived from bingo are used for an authorized purpose. Specifically, the focus was on the activities and responsibilities of the Audit Services Department. Overall conclusion was that the Audit Services Department does not effectively ensure that charitable bingo is fairly conducted, nor that proceeds derived from bingo are used for an authorized purpose. Fundamental changes are needed to ensure statutory objectives are effectively and efficiently met. These include defining and articulating the regulatory objective and focus for the division, providing for a more fair, open and consistent regulatory experience for licensees, adopting an audit methodology and protocol which will ensure adequate coverage and audit quality, and ensuring adequate independence for the auditors.

Subsequent to the report, substantial changes in Audit Services have been accomplished including reorganization of structure and responsibilities, hiring new management and staff, implementing defined methodology and standards used. Areas outlined in the report have been addressed and adopted in the department including new programs and standards used for all audits.

Implementation of Internal Audit recommendations related to the Bingo Division – Licensing

In October 2008, an internal audit of the CBOD was conducted. The purpose of this audit was to evaluate the effectiveness and efficiency of licensing and to evaluate the reliability of the ACBS data. The audit was limited to review the activities related to bingo conductors. Overall, it was found that current licensing activities and processes required improvement to ensure licenses were processed effectively, efficiently, and in compliance with the Bingo Enabling Act. In addition, while there were controls built into ACBS to protect the accuracy and reliability of the data regarding prize fee payments, allocations and fundamental license data, opportunities existed to circumvent these controls. The review disclosed errors in the system which reduced the integrity and reliability of data in ACBS. Specifically, the testing revealed the information contained in the regular licensing ledger was not sufficiently reliable.

The changes recommended in this report required that the CBOD take an organized and thoughtful approach while considering all licensing activities and processes. Overall, it was recommended that the CBOD implement a re-engineering project to update and streamline the licensing process and concurrently commence a data clean-up project to ensure accurate accounting of license fees. It was recommended that the re-engineering project take a holistic approach to ensure the following:

- all eligibility requirements are derived from the current Bingo Enabling Act,
- the administrative rules are aligned with the Act, and
- administrative rules and guidelines are established to provide clarification and/or interpretation of the Act as needed.

The CBOD has implemented all recommendations of this audit within its direct control. However, several key recommendations, which are dependent on programming changes, have not been implemented and are dependent upon redesign of the ACBS system.

Employee Survey Results—Survey of Organizational Excellence

One of the Texas Lottery Commission's core values—teamwork—is a work environment characterized by mutual respect and open communication among employees, and which accepts both diversity and individual perspective to get the job done. Success in this regard is measured by using the Survey of Employee Organizational Excellence (SOE), a confidential employee survey administered with assistance from the University of Texas at Austin. The survey asks employees how they feel about many aspects of working for the agency: their physical environment; the resources they are given to do their jobs; their pay and benefits; and about the effectiveness of their supervisors. Staff also are asked if they feel secure and to what extent they feel free from intimidation, retaliation and unfair discrimination.

Final, completed survey results are shared with all agency employees. The results are typically presented and explained as part of the agenda at one of the monthly all-staff meetings. The complete results also are posted on the agency's intranet site.

Executive staff direct responsive action to areas that indicate the need for attention. Agency employees know that leadership's interest is genuine, as evidenced by consistently high participation rates, and by overall satisfaction scores that have climbed steadily over the past five iterations of the survey. A score above 3.00 indicates that employees feel more positively than negatively about working at the Texas Lottery Commission. The agency's past five overall scores have been: 2002- **3.50**; 2004- **3.56**; 2006-**3.67**; 2008- **3.72** and 2010- **3.79**. The last three overall survey scores have exceeded the state agency average.

Compliance Activity Monitoring Process (CAMP) Results

The agency administers a robust Compliance Activity Monitoring Process (CAMP) system driven by public complaint intake, follow-up investigation and electronic tracking. The CAMP program has dedicated staffing and is actively utilized by the Lottery Operations, Charitable Bingo Operations, Enforcement and Legal Services divisions to effectively ensure charitable bingo and lottery licensee rule compliance with the Commission's administrative rules. This program was developed and implemented following Sunset Management recommendations associated with the 78th Legislative Regular Session. 164 charitable bingo-related complaints and 426 lottery-related complaints were addressed by the agency under the program in FY 2010.

D. Does your agency's enabling law continue to correctly reflect your mission, objectives, and approach to performing your functions? Have you recommended changes to the Legislature in the past to improve your agency's operations? If so, explain. Were the changes adopted?

In general, the State Lottery Act and the Bingo Enabling Act accurately reflect the agency's missions, objectives and approach to performing its functions. The agency occasionally suggests administrative changes for consideration by the Legislature. One example during the 81st Legislature related to the Bingo Enabling Act. HB 1474 was enacted and contained several provisions that streamlined procedures for the agency and its licensees, as well as provisions to remove obsolete language.

Another example during the 81st Legislature related to previous restrictions to the lottery advertising budget based on the lottery's overall prize payout percentage. HB 1963 was enacted and repealed the provision correlating the overall prize payout percentage with the amount of advertising funds available to the lottery.

During the 82nd Legislature, the agency suggested two changes to the State Lottery Act. HB 1955 would have permitted the agency to contract with or to license the lottery operator to act as a

retailer. Passage of this bill may have resulted in incremental revenue to the Foundation School Fund through additional sales channels for lottery products. Additionally, Senate Bill (SB) 626 clarifies language related to the assignment of lottery prize payments and the deduction from prizes for debts owed to the state. This amended language is intended to eliminate burdensome litigation arising from previously ambiguous language in the Act and to conform the Act to reflect recent court decisions.

E. Do any of your agency’s functions overlap or duplicate those of another state or federal agency? Explain if, and why, each of your key functions is most appropriately placed within your agency. How do you ensure against duplication with other related agencies?

The Texas Lottery Commission’s functions do not overlap or duplicate those of other state or federal agencies.

F. In general, how do other states carry out similar functions?

There are 46 jurisdictions in the United States conducting government-run lotteries, including 43 states, plus the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Some lotteries are structured as corporations, while the majority, including the Texas Lottery, are structured as traditional state agencies.

Many states outsource certain lottery-related operations. Of those functions outsourced, the gaming system is the most commonly outsourced activity. For purposes of this section, “gaming systems” includes the set of lottery software, lottery network, lottery equipment and any other components that perform all lottery functions, including, but not limited to, sales, validations, inventory and retailer management, claims processing, marketing support, instant ticket warehousing and distribution, and reporting. These systems provide the ability to control, monitor and report all lottery activity. Some states own and operate the gaming systems. In most states, not including Texas, the sales function is retained within the lottery. Additionally, some states retain the instant ticket distribution and warehousing functions within the state lottery. The Texas Lottery outsources the gaming systems, instant ticket distribution and warehousing, and other functions related to sales and marketing.

Almost all U.S. states, plus the District of Columbia, authorize and regulate the conduct of bingo. Generally a division, usually a Charitable Gaming division, of a larger agency, conducts the regulation of bingo. The most common types of agencies overseeing the regulation of bingo include: state lotteries, gaming commissions, departments of revenue and departments of public safety.

G. What key obstacles impair your agency's ability to achieve its objectives?
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Ever-Increasing Competition of Legal and Illegal Gaming; and General Competition for Discretionary Dollars

The Texas Lottery Commission recognizes that future results may flatten or possibly decrease, in large part due to the maturity of the lottery in Texas and due to increased competition from other gambling activities, legal and illegal, both in Texas and in surrounding states.

The Texas Lottery has no direct intrastate competition from other lotteries, but other gaming options exist which compete for Texans' entertainment dollars. This competition includes a proliferation of so-called "gray machines," including eight-liners and other games of chance, in lottery retail sales locations and bingo halls that continue to potentially impact revenue to the Foundation School Fund, charities and other designated good causes as defined by state law. In addition, the Texas Lottery is impacted by continued casino gaming expansion in bordering states and Mexico.

In response to changing economic conditions and competition posed by alternative forms of entertainment, the agency continues to look at new opportunities for meeting the interests of the playing public with new and different games, as authorized under current statutes.

General State of the Economy

Economic trends and fluctuations may affect the Texas Lottery's ability to generate revenue for the state of Texas through the conduct of the *Games of Texas* and charitable bingo. As with any sales oriented business, the Texas Lottery Commission's ability to generate revenue may be affected by myriad economic variables, including changes in the cost of living, fluctuating interest rates, shifts in discretionary dollars, economic swings, inflation, and so on. The United States recently experienced one of the worst recessions since the 1930s-era depression, and during FY 2010, Texas continued to experience the lagging effects of the recession.

Several examples reveal how Texas fared economically throughout FY 2010. Although no empirical tests were conducted to determine the relationships between Texas Lottery sales and the variables described herein, each example likely influenced how Texans spent discretionary dollars. Texas's FY 2010 average monthly unemployment rate, for example, exceeded eight percent, a 25 percent increase over FY 2009's average monthly rate of 6.6 percent, but less than the national FY 2010 monthly average of 9.8 percent. The average number of Texas's FY 2010 monthly residential housing permits issued, though stabilizing, was down roughly 41 percent compared to FY 2008 (averaging 11,937 in FY 2008 and 7,130 in FY 2010). Average monthly gasoline prices in Texas also continued to climb upwards through FY 2010, rising roughly 14 percent over FY 2009, from \$2.29 per gallon to \$2.62 per gallon.

Some FY 2010 economic indicators did, however, improve over FY 2009. Consumer confidence indexes for the West-South-Central region (which includes Texas) improved for the period, for example: increasing marginally from an annual average of 69 points to 71 points. Texas's quarterly retail sales also improved through the first three quarters of 2010 versus the first three quarters of 2009. Averaging \$86.7 billion in 2010 compared to slightly less than \$82 billion in 2009.

Other consumer outlook indexes exhibited less flattering images of what Americans were anticipating about the 2010 economy. For example, Ipsos's monthly Royal Bank of Canada Consumer Outlook Index Survey asked respondents to compare their present conditions to the preceding six months regarding general and specific economic issues such as employment, investments, and purchasing. Data were collected between February 2010 and May 2011. Respondents were typically *less comfortable* about making certain economically-driven decisions in the mid- and late-summer months of 2010 (dates/rates are at or near peak): job security (8/10: 49 percent were "less comfortable"); future investments (8/10: 53 percent); and, 33 percent were worried about job loss (7/10). Compared to three months prior to the survey, 61 percent claimed to feel "somewhat bad" or "very bad" about the "amount of money [they had] left over to spend on other things when all bills are paid" (8/10).

Finally, the agency collected data recently on how Texas Lottery players thought the economy affected their lottery purchases. Several economy-based questions were asked in the annual segmentation study. Roughly one-third of all respondents indicated that "recent economic conditions" had affected their lottery play. The majority of respondents that claimed economic conditions affected their lottery play was either spending less on lottery games or had quit playing entirely as a result of economic conditions. Finally, 71 percent of respondents that spent less money on any lottery game claimed to have less money available for entertainment. The economy was therefore showing initial signs of recovery through FY 2010, but consumers may have remained reserved in terms of spending money. Rising prices, a slowed housing market, higher unemployment, and negative economic and personal outlooks, among other things, likely contributed to cautious and restrained attitudes and behaviors among consumers.

Lottery Operations

As a mature entity (19 years old), the Texas Lottery recognizes that in order to remain relevant and continue to grow as a revenue generating agency for the state of Texas, it needs to continue to have broad consumer exposure to attract new players. The agency has identified three key areas that are potential obstacles to the continued success of the Texas Lottery: Impact of Declining Advertising Reach, Limitations on Product Game Portfolio and the Need for Lottery Retailer Expansion.

Impact of Declining Advertising Reach ó The Texas Lottery's advertising budget has diminished substantially over the years, while the actual cost of advertising has increased. An advertising budget of \$40 million in 1993 dollars would equate to \$59.7 million in 2010 dollars adjusted for inflation. This amount exceeds the FY 2010 budget of \$32.4 million by \$27.3 million.

With the greatly expanded product mix that the Texas Lottery now offers, the agency faces significant challenges in advertising its products. In FY 1992, lottery products consisted of one on-line game (*Lotto Texas*[®]) and two instant games. Today, the Texas Lottery offers seven different on-line games. Additionally, the agency now launches approximately 90 instant games each year.

In FY 1992, players were easy to reach frequently via TV and radio advertising. The market has experienced dramatic media proliferation over the last few years with the expansion of Internet advertising, growth in cable channels, satellite TV and radio, and the emergence of technology such as TiVo that can limit advertising exposure. These market trends mean it is becoming more difficult to reach large groups of consumers for the same level of media expenditures.

Statutory restrictions also affect the type of advertising the agency can use. Section 466.110 of the Texas Government Code states that advertisements or promotions sponsored by the Texas Lottery must not be of a nature that unduly influences any person to purchase a lottery ticket or number. This general restriction can be broadly interpreted and significantly limits both the types of advertising messages and the media placement strategies employed in the agency's messaging. For example, the Texas Lottery has interpreted these restrictions to limit lifestyle advertising that illustrates what winners did or might do with lottery winnings. The agency has been and will continue to be very respectful of and sensitive to the viewpoints of Texans who are not in favor of gaming in any form.

The following table summarizes these and other challenges that impact the real value of current advertising expenditures.

TEXAS LOTTERY ADVERTISING OVERVIEW – MARCH 2011
<p>Advertising Limitations:</p> <ul style="list-style-type: none"> • FY93-FY00 ó Agency advertising appropriation set at \$40 million with no prize payout limitations. • FY01-FY09 ó Agency advertising appropriation limitation implemented associated with prize payout (PPO) percentage. Appropriation was reduced \$1 million for each full percent by which the prize payout (PPO) exceeded 1) 57 percent in FY 2001, and 2) 52 percent beginning in FY 2002.

FY93 ó FY00 - \$40 million (no appropriation reduction)
 FY01 - \$40 million (no reduction) [PPO 56 percent]
 FY02 - \$34 million (reduced \$6 million) [PPO 58 percent]
 FY03 - \$35 million (reduced \$5 million) [PPO 57 percent]
 FY04 - \$34 million (reduced \$6 million) [PPO 58 percent]
 FY05 - \$33 million (reduced \$7 million) [PPO 59 percent]
 FY06 - \$32 million (reduced \$8 million) [PPO 60 percent]
 FY07 - \$31 million (reduced \$9 million) [PPO 61 percent]
 FY08 - \$31 million (reduced \$9 million) [PPO 61 percent]
 FY09 - \$30 million (reduced \$10 million) [PPO 62 percent]
 FY10 ó \$32.4 million

	Fiscal Year 1993	Fiscal Year 2010
Impact of Inflation	<ul style="list-style-type: none"> • \$40 million advertising budget • 12.6 million Texans 18 or older • \$3.17 ad spend per capita 	<ul style="list-style-type: none"> • \$32.4 million advertising budget <ul style="list-style-type: none"> o \$40 million in 1993 dollars equates to \$59.7 million in 2010 o Adjusted for inflation, \$32.4 million in 2010 equates to \$21.7 million 1993 dollars • 17.9 million Texans 18 or older • \$1.81 ad spend per capita <ul style="list-style-type: none"> o \$3.17 ad spend per capita in 1993 dollars equates to \$4.73 in 2010 o Adjusted for inflation, \$1.81 in 2010 equates to \$1.21 in 1993 dollars
Increase in Products	Two products: <ul style="list-style-type: none"> • <i>Lotto Texas</i> • Two scratch-off games 	Seven-plus products: <ul style="list-style-type: none"> • <i>Lotto Texas</i> • Scratch-off games (approx. 90 launched annually) • <i>Pick 3™/Sum It Up®</i> • <i>Cash Five®</i> • <i>Texas Two Step</i> • <i>Mega Millions®/Megaplier®</i> • <i>Daily 4™/Sum It Up</i> • <i>Powerball/Power Play</i>
Product Life Cycle	Lottery product was brand new, generating immense excitement and interest.	Lottery products are mature, meaning that advertising dollars must work harder to create player excitement and interest in the games. New games, game changes and add-on features continue to be introduced, all requiring additional advertising support.

Free Media Exposure	Extensive free coverage of winners, games and ball drawings by all media types due to newness of games.	Extremely limited coverage of positive news stories like winners and almost no coverage of live drawings.
Texas Ethnicity	Caucasians made up the significant majority of the population.	Population is much more diverse with a majority minority population.
Media Proliferation	Players were easy to reach frequently via TV and radio advertising.	Alternative media expansion occurs, (satellite TV/radio, Internet, TiVo, iPods) diluting effectiveness of conventional TV/radio advertising.
Pay at the Pump	Because pay-at-the-pump technology was new and limited, most people went into the store to pay for gas, allowing for exposure to lottery products.	Almost 90 percent of stores have pay-at-the-pump technology, and about 60 percent of consumers use it, requiring advertising to work harder to drive players into the store for lottery products.

Limitations on Product Game Portfolio ó The Texas Lottery must achieve its mission of generating revenue for the Foundation School Fund by working within the framework of traditional lottery game offerings. Traditional lottery game offerings include instant (scratch-off) games and on-line (ball drawing) games such as *Lotto Texas*, *Pick 3*, etc. The agency has continued to work to maximize lottery sales operating within this traditional framework. The agency leads the nation with one of the most aggressive launch schedules for instant games, introducing approximately 90 games every fiscal year. Texas offers instant games in a variety of price points from \$1 up to \$50. In addition, seven on-line games are available for sale. This includes two in-state jackpot style games, plus two multi-state jackpot games. Besides the jackpot game offerings, three daily games are also a part of the on-line product mix, creating a full suite of games for players to choose from. In summary, the Texas Lottery has developed a full and comprehensive mature product portfolio of traditional lottery games and now faces limited opportunities for new game concepts within the existing framework.

The ongoing challenge lies in continuing to make these traditional lottery games relevant in a fast-paced, Web-centered, socially networked, interactive world. New types of interactive games and play styles, including Internet-based games, offered through new channels of

distribution could offer the opportunity to attract new lottery players while maintaining the continued loyalty of existing players. Interactive games are particularly relevant in their potential to reach and engage the younger adult population in Texas, which embraces interaction and instant gratification as required elements of their entertainment experiences. Movement toward implementation of games with interactive or advanced features must be evaluated against a backdrop of not expanding gaming or exceeding the statutory authority of the agency. However, the inability to broaden product offerings to meet the demands of new players could impair the agency's ability to effectively compete for the public's discretionary entertainment dollars, potentially impacting the Texas Lottery's ability to generate revenue for the Foundation School Fund.

Lottery Retailer Expansion – A healthy distribution channel and broad consumer exposure are critical to the success of lottery product sales. While the Texas Lottery retail base has been stable with approximately 16,500 licensees over time, traditional lottery trade styles, convenience and grocery stores, comprise more than 90 percent of all lottery retailers and sales. Expansion into new trade styles, such as drug, general merchandise and big box retailer stores, offers the opportunity of broader consumer exposure and the ability to reach new customers. However, adoption of lottery sales in these trade styles remains elusive due to several challenges. Retailers are ultimately focused on offering products to their consumers that drive bottom-line profits in their stores. This focus typically translates into retailer emphasis on higher profit-margin items. Lottery products are capable of contributing to bottom-line margins, but produce lower profit margins than many other products. Lottery products, particularly instant tickets, can also present operational issues for the retailer. Key among them are inventory control and shrinkage concerns, back-office accounting challenges, and the potentially labor-intensive nature of requirements for licensing and sale of the product. Additionally, selling lottery products may not align with the retailer's corporate business strategy.

Charitable Bingo Operations Division

Significant Budget Reductions

The Legislative Budget Board and Governor's Office requested that as a starting point for the agency's baseline request for FY 2012-13, General Revenue related (GR) funds could not exceed the sum of the amounts expended in FY 2010 and budgeted in FY 2011 adjusted to reflect a full 5 percent reduction.

Approximately 85 percent of the CBOD's FY 2012-13 appropriation consists of the statutorily required allocation of bingo prize fees to counties and cities. This is strictly an appropriation of pass-through funds. The CBOD is charged with the collection and processing of the prize fees submitted by the licensed authorized organizations conducting bingo. A portion of those prize

fees collected is remitted back to the local jurisdictions where the bingo games are conducted. This estimated amount was included in the CBOD's appropriation as a separate strategy beginning in FY 2004. If the amount collected exceeds the estimated appropriation, then a contingency rider attached to the appropriation allows for this estimated amount to be increased without impacting any of the other strategies. On the other hand, should the amount collected fall short of the appropriation, the remaining balance of this strategy cannot be transferred to any other strategy.

As a result, in order to meet the 5 percent budget reduction for FY 2012-13 required by the Legislative Budget Board and the Governor's Office, the administrative portion of the CBOD's appropriation was reduced by 27 percent and included a decrease of 14 full-time-equivalent staff members in the CBOD and a reduction in salaries and other operating costs by \$1,553,349 over the next biennium. The impact of this reduction is substantial, resulting in reduced frequency of inspections and audits, as well as a lengthened processing time for license applications.

ACBS Limitations

At this time the CBOD has a critical need to redesign and convert the ACBS. This system is the primary database for all licensee information and contains extensive financial and operational performance data for licensees. Since implementation of the original system, there have been numerous changes to business processes which are better supported by newer versions of Oracle (Web Applications for Bingo Providers). The current Oracle application development suite of tools used as the foundation for this computer system will only be supported on older versions of the database limiting additional capabilities to support current business processes. Additionally, with the lottery side of the agency converting their databases to the newer version, bridging the two versions of the database would be problematic.

The CBOD has received approval for general revenue appropriation of \$2.5 million based on a contingency rider to redesign the ACBS computer system. Under the contingency rider, the funding for the system redesign must come from one-time license fee increases to bingo operators and lessors. There is precedent for this method, as the 76th Legislature in 1999 approved such an appropriation, contingent upon the agency generating the additional revenue through a one-time fee increase.

Utilizing current technologies, a redesign of the ACBS would allow for the automation of several manual processes which were implemented as a result of legislation, HB 2519, 78th Legislative Session, and HB 1474, 81st Legislative Session, as well as implementing audit recommendations from the September 2010 State Auditor's Office *Audit of the Charitable Bingo Operations Division*. Additionally, the redesign would allow licensees to begin conducting more of their business processes over the Internet. Licensed organizations would be able to renew licenses, amend licenses, request temporary licenses, pay appropriate license fees, file quarterly reports

and pay prize fees and taxes all online. This would enable the division to use its limited resources for compliance activities and monitoring financial activities of the organizations.

On June 13, 2011, the Commission voted to publish for public comment a new rule that would temporarily increase license fees to fund the redesign of the ACBS computer system.

The rule was published in the July 1, 2011, *Texas Register* for public comment. A public comment hearing was held on July 14, 2011. In addition, there was written comment provided prior to the end of the 30-day comment period. Overall, the comments received were strongly opposed to the adoption of this rule, in large part due to the economic burden on the bingo industry.

On August 10, 2011, the Commission took no action on the proposed rule and, if there is no further action taken, the rule will expire by operational law six months after the publication date of July 1, 2011.

H. Discuss any changes that could impact your agency's key functions in the future (e.g., changes in federal law or outstanding court cases).

Potential Enactment of Other Forms of Gaming

The Texas Lottery Commission remains respectful of, and sensitive to, the viewpoints of Texans who are not in favor of gaming in any form. However, economic trends and fluctuations may affect the agency's ability to generate revenue for the state of Texas through the conduct of the *Games of Texas* and charitable bingo.

There are opportunities (e.g., video lottery terminals (VLTs), Keno) being utilized in the lottery industry that are not being pursued at the Texas Lottery Commission, as they would require changes in legislation. Though the Commission remains neutral as to changes in legislation, agency staff continue to serve as a resource to Texas and other states on issues as they relate, or may potentially relate, to the Commission or gaming in general. The Legal Services Division has developed an expertise in state and federal lottery and charitable bingo laws. As new technology emerges regarding gaming opportunities, the agency continues to develop its expertise in an industry experiencing tremendous growth.

Demographics of Bingo Players and Bingo Organizations

The aging membership demographics of licensed authorized organizations is resulting in fewer members willing to volunteer their time to this fundraising activity. Therefore, the number of licensed authorized organizations and licensed playing locations has declined.

The charitable bingo player base consists primarily of adult Texans 18 years and older; however, it is not required that a bingo player be 18 if accompanied by a parent or guardian. Charitable bingo players tend to be Caucasian, married, female and over 65 years of age with a high school education and annual income of less than \$25,000. This dominant demographic highlights the cultural and social aspects of the games that align with older Texans. Attendance at licensed bingo games in Texas was approximately 18 million in 2010.

Changes in Federal Law or Outstanding Court Cases

Currently, there are no anticipated changes in federal law or outstanding court cases that would impact the agency's key functions.

I. What are your agency's biggest opportunities for improvement in the future?

Potential Revenue Opportunities Through New Game Development and/or Modifications for Both Instant and On-Line Games

While retail expansion has been a key obstacle in expanding product availability, it also represents one of the agency's biggest opportunities for improvement through distribution channel growth and consumer exposure expansion. The majority of Texas Lottery sales are generated through traditional clerk-assisted transactions at convenience stores. However, many other retail trade styles are best suited for a player-controlled or self-service model due to multiple venue entrances and a variety of customer traffic patterns. The Texas Lottery has successfully implemented this model at grocery stores around the state. Through the recent Lottery Operations and Services procurement, the Texas Lottery has strengthened retailer recruitment potential by securing next generation self-service equipment profiles to support recruitment of new trade styles along with a commitment from its vendor to provide dedicated recruitment personnel and route sales support for trade styles that wish to limit in-house labor associated with lottery product sales.

In order to retain player interest and continue generating revenue for the Foundation School Fund, the Texas Lottery must continue to work to drive innovation within its portfolio of traditional lottery games. The agency continues to explore new game opportunities and enhancements to existing game products that hold the greatest long term potential for revenue generation. The following section contains a summary of many current initiatives under review or currently being implemented.

On-Line Games

Cross-Sell Initiative ó In January 2010, the largest lottery agreement in U.S. history was signed between the Multi-State Lottery Organization (MUSL), which operates *Powerball*, and the *Mega Millions* member states allowing for the cross-sell (*Mega Millions* states

selling *Powerball* and *Powerball* states selling *Mega Millions*) of these two multi-state jackpot games. A new \$2 version of the *Powerball* game was approved by MUSL in June 2011 and agency staff have begun work on administrative rules that, if adopted, would allow for the implementation of the new *Powerball* game in Texas in January 2012. The new game, enhanced with a higher price point, improved jackpot, better overall odds of winning and higher starting jackpots, offers the potential for increased sales and revenue return.

National Game ó The next logical step for the lottery industry as a result of the cross-sell initiative is a true "national" game that, while still under individual state control, could potentially have a higher price point, contain elements of social media, and potentially reach a new generation of lottery players. Preliminary discussions and research have already begun on this initiative.

New on-line game concept ó In August 2011, the agency will conduct qualitative and quantitative player research on four new on-line game concepts. All concepts are priced at \$2 and involve multiple drawings per day. These game concepts provide attractive prizes, good overall odds of winning and increased drawing frequency offering players more immediate results associated with their play.

Lotto Texas ó The agency is considering add-on features such as a multiplier, additional prize tiers, and other potential options.

Pick 3 and Daily 4 ó The agency is considering additional game drawings.

Cash Five ó The agency is considering additional game drawings and possible game redesign options.

Green Ball ó A feature involving a separate drawing that is held immediately following a regular game drawing. The agency has run this promotion twice for the *Pick 3* game. Additional launches for *Pick 3* and/or on other games are being considered. With the deployment of new video display equipment in Texas Lottery retailer locations, the agency is considering running this promotion again in the future as it will be easier to communicate details about this promotion to players.

Kicker/Spiel ó A feature in which additional numbers are randomly printed at the bottom of a player's on-line ticket. If the Kicker numbers match the winning numbers drawn, the player can win prizes based on how many number are matched.

Combo Purchases/Package Play ó A way to market existing on-line games by selling products in packages and promotion trial of lesser played games.

Promotional Second-Chance Drawings for On-line Games ó Players would enter their non-winning on-line game tickets and be eligible for a prize through a second-chance drawing for merchandise or cash prizes. Through the agency's recent Lottery Operations and Services Procurement, players will have the ability to enter non-winning on-line game tickets via the Texas Lottery's Web portal. Agency staff will begin working on this entry system in FY 2012. These drawings can provide added value and increase player participation in base games as a certain purchase amount is required for the player to enter the drawing (e.g. enter a \$5 or more *Lotto Texas* non-winning ticket into the Texas Lottery's promotional second chance drawing).

Instant Games

Promotional Second-Chance Drawings for Instant Games ó The agency has offered many instant games with mail-in second-chance drawing options. However, in focus group research sessions, participants have commented that they do not enter the drawing due to postage costs and the inconvenience of mailing tickets as entries. Entries into drawings typically grow substantially when a Web-based entry option is used. Entry via a Web-based portal also offers the agency the opportunity to interact with players through the agency's website where other games and/or game features can be marketed.

Creation of core games ó Core games are those games that are continuously available for players. Currently, core games exist at the \$1, \$2, \$3, \$5, \$10 and \$20 price points. *Texas Lottery® Black*, a new \$10 instant game introduced in January 2011, has performed so well that the game has been reprinted and introduced three times. The agency has made the determination that this game should be a core product offering. Successful games at other price points may be evaluated for reintroduction as core games at new price points.

Licensed Property games ó Certain licensed property/branded games have appealed to new and lapsed players, such as *World Poker Tour®*, *I Love Lucy®*, *Houston Texans*, *Dallas Cowboys*, *Price Is Right®* and *Monopoly*. The agency continues to review licensed brand game concepts in an attempt to attract new players to the lottery category.

Spotlight/Mega games ó These types of games typically have very large print runs and elevated prize payout percentages. The prize structures typically have either very large top prizes and/or a large number of top prizes. All of these factors permit the game to have very appealing marketing call-outs, which are typically printed on the face of the ticket and used in the marketing campaigns for the games. The agency has launched two such games, *\$500,000,000 Blockbuster* and *\$500 Million Frenzy*. Both \$20 games have been very

successful and as *\$500,000,000 Blockbuster* nears the end of its life cycle, the agency will consider a timely launch of a replacement spotlight game.

Games with play areas on front and back ó Instant ticket manufacturers are developing new game production methods that permit play areas to now appear on the front and back of an instant game ticket. This option offers the players more play action without the need to increase the physical size of the ticket. The Texas Lottery is evaluating whether this additional play area will be perceived as added-value by players and increase enthusiasm for games that offer this feature.

New Lottery Equipment, Services and Technology

The Texas Lottery Commission recently completed a competitive procurement (RFP) process for the agency's Lottery Operations and Services Contract and entered into an agreement with GTECH Corporation. The contract was the culmination of more than three years of agency work resulting in significantly improved pricing and the acquisition of best-in-class services in support of lottery operations. The new contract features numerous operational enhancements including:

- All new retailer/player facing sales and marketing support equipment
- A comprehensive update and refresh of the gaming system, equipment and infrastructure supporting the operation of the lottery
- Enhanced player and retailer Web-based support services
- Higher levels of security and redundancy, and expanded capacity to handle the extremely high transaction volumes generated daily by the Texas Lottery
- Enhanced inventory management systems
- Changes and improvements to the lottery operator sales and marketing team with an increased focus on retailer recruitment and personalized marketing for major lottery retailers
- Route sales support
- Expanded marketing and sales organizational retail support
- Enhanced mobile in-field sales support solution
- Warehousing inventory management automation
- Comprehensive system-based service level monitoring (SLM)
- Sales transactional communication redundancy for top revenue generating locations

The successful implementation of these innovative services and solutions will yield enhanced service and support to retailers and players and create a platform from which to grow sales and revenue.

Redesign of the ACBS

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On August 10, 2011, the Commission took no action on the proposed rule and, if there is no further action taken, the rule will expire by operational law six months after the publication date of July 1, 2011.

J. In the following chart, provide information regarding your agency's key performance measures included in your appropriations bill pattern, including outcome, input, efficiency, and explanatory measures.

Texas Lottery Commission			
Exhibit 2: Key Performance Measures Fiscal Year 2010			
Key Performance Measures	FY 2010 Target	FY 2010 Actual Performance	FY 2010 % of Annual Target
Percent of Retailers Satisfied with Lottery Commission	93.00%	95.65%	102.85%
State Revenue Received Per Advertising Dollar Expended	\$32.71	\$33.12	101.25%
Number of Retailer Business Locations Licensed	16,500	16,758	101.56%
Average Cost Per Survey Issued	\$1.67	\$1.84	110.18%
Dollar Amount of Advertising Budget Spent on Television Advertising (Millions)	\$11.45	\$12.62	110.22%
Percentage of Adult Texans Aware of Lottery Advertising	64.00%	60.34%	94.28%
Percent of Complaints Referred for Disciplinary Action	33.33%	10.12%	30.36%
Net Bingo Games Revenue Received by Charitable Organizations (Millions)	\$31.20	\$36.09	115.67%
Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement	99.00%	99.81%	100.82%
Number of Licenses Issued to Individuals and Organizations	7,000	9,073	129.61%
Number of Bingo Complaints Completed	126	168	133.33%
Number of Days to Allocate Payments to Local Jurisdictions	12	7	58.33%

III. History and Major Events

Provide a timeline of your agency's history, and key events, including:

- X the date your agency was established;
- X the original purpose and responsibilities of your agency;
- X major changes in responsibilities or statutory authority;
- X changes to your policymaking body's name or composition;
- X significant changes in state/federal legislation, mandates, or funding;
- X significant state/federal litigation that specifically affects your agency's operations; and
- X key changes in your agency's organization (e.g., a major reorganization of the agency's divisions or program areas).

1991

- July 11 Legislation is introduced to create a state lottery.
- August 19 The Comptroller's Lottery Task Force forms and begins preliminary preparations.
- August 26 HB 54, creating a lottery in Texas, is signed by the Governor in a special session of the 72nd Legislature. The Lottery Act requires voter approval before taking effect.
- November 5 Texas voters approve the lottery by a two-to-one margin.
- December 16 Proposals for lottery operator and instant ticket manufacturer solicited.

1992

- January 8 The Texas Lottery distributed sales license application packets to 65,000 Texas retailers and held the first retailer application seminar in Austin. Eight additional retailer application seminars were held in eight other Texas cities over the next month. Proposals for advertising services are solicited by the lottery.
- March 6 The first contract for production of instant tickets is awarded.
- March 7 The first lottery operator contract and first contract for advertising services are awarded.

- March 19 The Texas Lottery announces the winner of the Texas Lottery Logo Contest. The design, a 10-gallon hat thrown high in celebration, wins in head-to-head competition against the ad agency's logo. Also in March, the lottery operator began installing instant ticket validation terminals in 15,000 licensed retail locations.
- May 29 The Texas Lottery is launched 647 days ahead of schedule! At 6 a.m. at Polk's Feed Store in Oak Hill, Gov. Ann Richards purchases the first Texas Lottery scratch-off ticket. In the next 24 hours, Texans buy 23.2 million more tickets, a world record for first-day sales. The cost of the lottery's start-up, with interest, is earned back during the first three hours of ticket sales.
- June 18 The first Texas Lottery Grand Prize Drawing was held in Dallas at the Plaza of the Americas.
- September In preparation for the introduction of *Lotto Texas*, the first on-line game offered by the Texas Lottery, the lottery operator begins installing on-line terminals in 5,250 retail locations.
- October 5 The Texas Lottery pays the 100 millionth winning ticket since the start of instant ticket sales.
- October Retailer training classes for *Lotto Texas* begin across the state.
- November 7 *Lotto Texas* sales begin eight weeks ahead of schedule.
- November 14 The first *Lotto Texas* drawing is held at 9:59 p.m. and televised via satellite across Texas.
- November 28 The first *Lotto Texas* jackpot winner receives \$21.8 million.
- December 22 Less than seven months after start-up, total Texas Lottery sales exceed \$1 billion.

1993

- May 1 The largest *Lotto Texas* jackpot to date of \$48.6 million is awarded.
- May 29 The new "Quick Pick" option for *Lotto Texas* is added on, the Texas Lottery's first anniversary.
- June 9 The first *Lotto Texas* jackpot, worth \$9 million, is won using the "Quick Pick" option.

- August 30 HB 947, 73rd Legislature, Regular Session, the recodification of the State Lottery Act and HB 1013, 73rd Legislature, Regular Session, abolishing the state lottery stabilization fund, go into effect. Additionally, the Texas Lottery transfers \$80.9 million in surplus administrative funds to the state's General Revenue Fund, making a total of \$812 million earned in the first 15 months. This is nearly \$350 million more than the original estimate of lottery earnings for the biennium.
- September 1 HB 1587, 73rd Legislature, Regular Session takes effect creating the Texas Lottery Commission.

BINGO HISTORY PRIOR TO INCEPTION OF TEXAS LOTTERY COMMISSION

1980

- November Texas voters approve a constitutional amendment authorizing charitable bingo by a vote of 2,205,355 (64 percent) for to 1,189,312 (35 percent) against. SJR 18, 66th Legislature, Regular Session required that bingo be authorized on a local option basis and that the proceeds from the conduct of bingo must be spent in Texas for charitable purposes.

1981

- November 10 The Bingo Enabling Act (HB 3, 67th Legislature, 1st Called Session) becomes effective.

1982

- Spring The first bingo licenses are issued. Bingo is a division at the Comptroller of Public Accounts. In calendar year 1982, the reported gross receipts from the conduct of charitable bingo total \$66 million, prizes awarded total \$45 million and charitable distributions total \$3,536.

1983

- September 1 HB 147, SB 741 and SB 897, 68th Legislature, Regular Session, amendments to the Bingo Enabling Act, take effect.

1984 The Comptroller of Public Accounts adopts an administrative rule authorizing Instant Bingo (pull-tabs). In calendar year 1984, the reported gross receipts from the conduct of charitable bingo total \$221 million, prizes awarded total \$161 million and charitable distributions total \$17.9 million.

1985 The Comptroller of Public Accounts adopts rules setting forth the minimum charitable distribution that each licensed organization had to make each quarter. Additionally, the Comptroller of Public Accounts administratively change the reporting period for the bingo gross receipts tax from monthly to quarterly.

October 1 SB 303, 69th Legislature, Regular Session, amendments to the Bingo Enabling Act, takes effect and includes the following change:

- Authorizing the Comptroller of Public Accounts to obtain additional criminal history information for licensees.

December The reported gross receipts from the conduct of charitable bingo total \$255 million, prizes awarded total \$186 million and charitable distributions total \$27.7 million.

1986

December The reported gross receipts from the conduct of charitable bingo total \$302 million, prizes awarded total \$220 million and charitable distributions total \$18.8 million.

1987

September 1 HB 1043 and SB 1479, 70th Legislature, Regular Session, amendments to the Bingo Enabling Act, take effect and include the following changes:

- Add a 2 percent state gross receipts tax (in addition to a local option 2percent gross receipts tax already included in the Bingo Enabling Act);
- Establish a separate \$1,500 prize limit for instant bingo (pull-tabs);
- Prohibit door prizes, the advertising of prize amounts and placing of ads by anyone other than a licensed authorized organization.

December The reported gross receipts from the conduct of charitable bingo total \$368 million, prizes awarded total \$270 million and charitable distributions total \$20.4 million.

1988

December The reported gross receipts from the conduct of charitable bingo total \$467 million, prizes awarded total \$346 million and charitable distributions total \$28 million.

1989

December The reported gross receipts from the conduct of charitable bingo total \$550 million, prizes awarded total \$407 million and charitable distributions total \$37.7 million.

1990

January 1 HB 2260, 71st Legislature, Regular Session, amendments to the Bingo Enabling Act, takes effect and includes the following changes:

- Establish limits on commercial lessors. Existing commercial lessors were grandfathered into the law and allowed to lease to the same number of organizations they were leasing to on or before June 10, 1989. New commercial lessors can only lease to one organization.
- Established limits on the amount of rent a lessor could charge.
- Restrict movement from one location to another by a grandfathered lessor.
- Include the minimum charitable distribution requirement, previously provided for by rule, in the Bingo Enabling Act.
- Transfer the regulation and administration of charitable bingo from the Comptroller of Public Accounts to the Texas Alcoholic Beverage Commission (TABC) effective January 1, 1990.

December The reported gross receipts from the conduct of charitable bingo total \$621 million, prizes awarded total \$447 million and charitable distributions total \$47.6 million.

1991

September 1 HB 11, 72nd Legislature, 1st Called Session, amendments to the Bingo Enabling Act, takes effect and includes the following changes:

- Increase of the state gross receipts tax from 2 percent to 5 percent.
- Create a 3 percent prize fee to be collected from prize winners.
- Initiate a 3 percent gross rental tax to be collected from commercial lessors.

December The reported gross receipts from the conduct of charitable bingo total \$673 million, prizes awarded total \$482 million and charitable distributions total \$54.5 million.

1992

March Shortly after HB 11 becomes effective a number of organizations conducting charitable bingo start to complain that the increase in the gross receipts tax imposed by HB 11 is presenting an undue financial burden on them. The organizations feel the increase in the gross receipts tax is making it impossible for them to continue to conduct charitable bingo. In response to complaints raised by organizations conducting charitable bingo regarding the increase in the gross receipts tax imposed by HB 11, the TABC changes the tax reporting period from quarterly to monthly through administrative rule. At the time, the Bingo Enabling Act provides that the first \$15,000 of gross receipts per reporting period was exempted from a tax authorized by the Act. By changing the reporting period from quarterly to monthly the exemption is effectively increased from \$15,000 a quarter to \$45,000 a quarter thus decreasing an organization's tax liability by as much as \$2,100 per quarter.

October In response to continued complaints from organizations conducting charitable bingo, the TABC further changes the tax reporting period for charitable bingo quarterly reports from monthly to semi-monthly by administrative rule. This change in the reporting period effectively increases the \$45,000 exemption a quarter to a \$90,000 exemption a quarter. This results in decreasing further an organization's tax liability by as much as \$3,150 per quarter for a total tax reduction of \$5,250.

December The reported gross receipts from the conduct of charitable bingo totals \$668 million, prizes awarded total \$485 million and charitable distributions total \$48.2 million.

AGENCY HISTORY AFTER THE INCEPTION OF TEXAS LOTTERY COMMISSION

1993

September 1 HB 1587, 73rd Legislature, Regular Session takes effect creating the Texas Lottery Commission.

September 1 HB 2771, 73rd Legislature, Regular Session, amendments to the Bingo Enabling Act, takes effect and includes the following changes:

- Transfer the regulation of charitable bingo from the Texas Alcoholic Beverage Commission to the Texas Lottery Commission by April 1, 1994.
- Repeal of both the state and local gross receipts tax.
- Increase in the prize fee collected from winners from 3 percent to 5 percent.
- Ease of restrictions on commercial lessors, i.e., repealed an earlier restriction that a group could only play at a commercial hall only if their facilities were not adequate or suitable for bingo games.
- Allow grandfathered lessors to move to another location regardless of whether their old location became unavailable due to circumstances beyond their control.
- Repeal the limit of organizations of which grandfathered lessors can lease to.
- Eliminate the \$1,500 prize limit on instant bingo (pull-tabs).
- Set administrative penalties, including fines.
- Allow a commercial lessor that is a sole proprietorship to incorporate and transfer its license to a corporation.
- Create the Bingo Advisory Committee.

October 23 With two weeks left in its first year and cumulative sales totaling \$973.6 million, *Lotto Texas* breaks the all time, first-year sales record for a lotto game set by Florida in 1989.

October 25 *Pick 3* start-up \$1.2 million in sales on the first day another record breaker.

November 3 The first members of the Texas Lottery Commission are appointed.

November 5 *Lotto Texas* reaches \$1 billion in sales, two days before its first birthday.

- December 3 The Comptroller of Public Accounts and the Acting Executive Director of the Texas Lottery Commission sign a transition agreement, transferring the functions of the lottery from the Comptroller of Public Accounts to the Texas Lottery Commission.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 1993 total \$654 million, prizes awarded total \$483 million and charitable distributions total \$51.4 million.

1994

- January 1 The newly created Texas Lottery Commission's Executive Director, appoints a special task force of agency employees to coordinate the transfer of the regulation of charitable bingo from the TABC to the Texas Lottery Commission.
- March 26 Still two months shy of the second anniversary of its first ticket sale, cumulative Texas Lottery sales surpass \$4 billion.
- April 1 The administration of charitable bingo is transferred from the TABC to the Texas Lottery Commission and all licensing functions relating to charitable bingo are moved to Austin.
- August 13 Cumulative sales pass the \$5 billion mark as the Texas Lottery is named the top lottery in the United States.
- August 30 The Texas Lottery ends FY 1994 with total ticket sales in excess of \$2.7 billion. Lottery profits to the General Revenue Fund total \$869 million, including \$87 million in unspent administrative funds.
- December 14 Total Texas Lottery sales pass the \$6 billion mark.
- December 31 Closing the year with \$2.8 billion in sales, the Texas Lottery ranks first in the U.S. and fourth in the world in total sales. Texas ranks third in the world in instant ticket sales and fifth in on-line product sales
- Reported gross receipts from the conduct of charitable bingo during calendar year 1994 total \$634 million, prizes awarded total \$473 million and charitable distributions total \$48.9 million.

1995

- March 25 The nine members of the newly created Bingo Advisory Committee are appointed by the Texas Lottery Commission.
- April 23 Cumulative Texas Lottery ticket sales exceed \$7 billion.
- April 24 The Bingo Advisory Committee holds its first organizational meeting.
- May 26 The Texas Lottery introduces instant ticket vending machines. The first machines are rolled out at selected lottery retailers in San Antonio.
- July 17 Texas Lottery profits for the General Revenue Fund pass the \$2.5 billion mark after just 37 months of ticket sales.
- August 11 Total Texas Lottery sales eclipse the \$8 billion mark.
- August 31 Texas Lottery ticket sales for FY 1995 reach a record \$3.037 billion. Texas is the top-selling lottery in North America for the second year in a row. Total transfers to the General Revenue fund exceed \$927 million.
- September 1 HB 3021, 74th Legislature, Regular Session, amendments to the Bingo Enabling Act, takes effect and includes the following changes:

- Reduce the number of years a "religious society" must be in existence within Texas from 10 years to eight years.
- Provide for the use of "electronic or mechanical cardminding devices" and "pull-tab or instant bingo dispensers" by organizations licensed to conduct charitable bingo.
- Require the toll-free number of the Texas Council on Problem and Compulsive Gambling to be displayed on these machines.
- Allow organizations licensed to conduct charitable bingo to lease bingo equipment from licensed distributors. Repeals the section of the Act that required organizations to use equipment they own.
- Provide that bingo may be played using a pull-tab.
- Require no more than 30 percent of sales from a bingo occasion be from cardminding devices.
- Set the price of pull-tabs at no more than a \$1 and limited the number of pull-tab dispensers at any bingo premise to five.
- Provide for the issuance of a temporary authorization after certain conditions had been met.
- Allow a commercial lessor who is incorporated to transfer its lessor's license to another corporation owned by the lessor.

- Create a new class of licensee to be known as a System Service Provider. A System Service Provider is intended to provide "automated bingo services" to organizations licensed to conduct charitable bingo.
- Amend the frequency and times that organizations can conduct charitable bingo games.

September 1 HB 3031, 74th Legislature, Regular Session, amendments to the State Lottery Act, takes effect and includes the following changes:

- Prohibit the authorization of a lottery sales agent license to an officer or employee of the Commission or a lottery operator, to a relative residing as a member of the same household in the principal place of residence of an employee of the Commission or lottery operator, or to a person whose location is a public school, institution of higher education or a state agency.
- Prohibit the sale of lottery tickets by another state or Indian tribe or tribal government unless the state of Texas has entered into a compact with another state or Indian tribe or tribal government.

September 21 Profits earned on FY 1995 sales reach a record \$1 billion. All Texas Lottery profits are deposited into the General Revenue Fund.

October 10 *Cash 5*, an on-line game in players pick five numbers from a field of 39 is introduced. *Cash 5* drawings will be Tuesday and Friday nights at 9:59 p.m. Central Time.

November 30 Texas Lottery sales since start-up reach \$9 billion.

December The Audit Services Division is merged into the Charitable Bingo Operations Division.

December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 1995 total \$636 million, prizes awarded total \$480 million and charitable distributions total \$46.7 million.

December 31 At the end of the calendar year, the Texas Lottery ranks second in the U.S. and seventh internationally in total sales. Texas ranks third in the world in instant ticket sales and eighth in on-line product sales.

1996

- March 10 The not-quite-four-year-old Texas Lottery becomes the fastest U.S. lottery ever to reach \$10 billion in sales.
- May 28 The Commission approves an extension, for a maximum of five years, of the lottery operator contract.
- June 23 Total Texas Lottery sales pass the \$11 billion mark.
- August 31 FY 1996 closes with a record \$3.4 billion in total lottery sales and more than \$1.1 billion in profits for the General Revenue Fund.
- October 9 Texas Lottery sales since start-up reach \$12 billion.
- November 6 *Happy Holidays*, the Texas Lottery's first \$5 scratch game, is launched.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 1996 total \$605 million, prizes awarded total \$456 million and charitable distributions total \$40.8 million.
- December 31 At the end of the calendar year, the Texas Lottery ranks second in the U.S. and seventh internationally in total sales. Texas ranks second in the world in instant ticket sales and eighth in on-line product sales.

1997

- January 10 Texas Lottery total ticket sales pass the \$13 billion mark.
- February 10 The Texas Lottery offers players a Cash Value Option, allowing *Lotto Texas* jackpot winners the option of collecting their prize money all at once, in addition to the existing installment option.
- May 21 HB 641, 75th Legislature, Regular Session, amendments to the Charitable Raffle Enabling Act, takes effect and includes the following changes:
 - Changing the maximum value of a raffle prize from \$25,000 to \$50,000.
 - Changing the maximum face value of lottery tickets awarded as a raffle prize from \$25,000 to \$50,000
- August 31 FY 1997 closes with another new lottery sales record with more than \$3.7 billion in total sales and almost \$1.2 billion in profits for the General Revenue Fund.

September 1 HBs 4, 566, 1445, 2424, 2768, and SB 581, 75th Legislature, Regular Session, amendments to the State Lottery Act, takes effect and includes the following changes:

- Direct lottery proceeds will be transferred to the Foundation School Fund, which supports public education in Texas.
- Mandate a reduction in prize payouts as an average for all lottery games by 4.5 percent in FY 1998 and 5 percent in FY 1999.
- Require the Texas Lottery Commission to deduct the amount from the winnings of a person determined to be delinquent in the payment of tax or other money collected by the Texas Workforce Commission.
- Require the Texas Lottery Commission to deduct from winnings an amount a court has ordered a person to pay in delinquent child support. A certified copy of a court order and a notice of child support lien must be provided to the Commission.
- Allow the sale of lottery tickets at racetracks.
- Require the Texas Lottery Commission to deduct from winnings paid in periodic installments an amount a court has ordered a person to pay as child support. The Texas Lottery Commission must be provided with a certified copy of a court order, writ of withholding, or notice of a child support lien.
- Mandate the debt set-off program be applied to lottery retailers by deducting any applicable amounts from their commissions.
- Clarify that documents in the possession of or maintained by the Texas Lottery Commission are subject to the Texas Open Records Act.
- Require the Texas Lottery Commission to deduct from lottery winnings delinquent reimbursements to the Texas Department of Human Services (DHS) for benefits granted in error under the food stamp program or the program of financial assistance.
- Reduce the allowable percentage of lottery ticket sales for the administration of the lottery from 15 percent to 12 percent.

September 1 HB 3370, 75th Legislature, Regular Session, amendments to Texas Government Code, Chapter 467, Texas Lottery Commission, takes effect and includes the following changes:

- Move provisions in the State Lottery Act relating to a gift, contribution or activity of an officer or employee of the Texas Lottery Commission to Chapter 467 of the Texas Government Code.

- Amend the definition of gift to allow the acceptance of a gift from a person of kinship or from a person of a personal, professional, or business relationship independent of the official status of the recipient.
- Establish restrictions for Commission members, the executive director, or an employee of the Commission on the acceptance of a gift or political contribution.
- Establish restrictions for a former Commission member, former executive director, or former employee of the Commission on the acceptance of a gift or political contribution.
- Establish restrictions on representation by a former Commissioner, former executive director or former director.

September 1 The General Appropriations Act goes into effect containing a rider directing that \$750,000 be expended biennially for offering assistance to compulsive gamblers through an interagency contract agreement with the Texas Commission on Alcohol and Drug Abuse.

October 1 HB 2086, 75th Legislature, Regular Session, amendments to the Bingo Enabling Act, takes effect and includes the following changes:

- Raise the prize amount for a single occasion to \$750.
- Authorize raffles during a bingo occasion.
- Include prize amounts in advertisements sponsored by charities or the Commission.
- Authorize door prizes not to exceed a value of more than \$250.
- Change the calculation determining the number of card-minding devices offered for sale from 30 percent of sales at an occasion to 40 percent of the average attendance during the previous two quarters.
- Outline what documentation is adequate evidence of the validity of an organization's tax-exempt status, i.e., 501(c).
- Require that organizations that hold a license to conduct charitable bingo and a license to lease bingo premises conduct bingo at the same location they lease.
- Require that applicants for a license to lease bingo premises submit proof of financial responsibility with their application.
- Prohibit a foreign corporation or a publicly traded corporation from holding a lessor's license.
- Prohibit more than one bingo location being located under a common roof or over a common foundation.
- Require that the Bingo Advisory Committee contain a representative from the System Service Provider license class.

- Reduce the amendment fees from \$25 to \$10 and allow organizations to submit changes for time or day via telephone or fax.
- Make the Director of Bingo Operations report directly to the Commission.
- Allow for a deduction for the Cost of Goods Sold from adjusted gross receipts in the 35-percent minimum charitable distribution requirement and strike rental income from the 35-percent formula.
- Require certain persons associated with organizations conducting charitable bingo to attend a training program approved by the Commission.
- Require renewal applications be no more than two pages in length.

December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 1997 total \$596 million, prizes awarded total \$439 million and charitable distributions total \$38.4 million.

December 31 At the end of the calendar year, the Texas Lottery ranks second in the U.S. and seventh internationally in total sales. Texas ranks third in the world in instant ticket sales and eighth in on-line product sales.

1998

January 8 The Texas Lottery celebrates selling \$10 billion in instant tickets. Those sales include tickets at the \$1, \$2, \$3 and \$5 price points.

May 18 *Texas Million* debuts. Tickets for the Texas Lottery's fourth on-line game go on sale and are available at any retailer where *Lotto Texas*, *Cash 5*, or *Pick 3* are sold.

June 3 The Texas Lottery premieres a new scratch game with a top prize of merchandise. With *Buck\$ 'N Truck\$*, players can win a fully loaded Special Edition Dodge Ram truck.

August 31 FY 1998 ends with total lottery sales of nearly \$3.1 billion. The Texas Lottery transfers more than \$1.1 billion to the Foundation School Fund.

December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 1998 total \$604 million, prizes awarded total \$432 million and charitable distributions total \$42.5 million.

December 31 At the end of the calendar year, the Texas Lottery ranks third in the U.S. and eighth internationally in total sales. Texas ranks third in the world in instant ticket sales and ninth in on-line product sales.

1999

- June 18 An amendment to the State Lottery Act (SB 616, 76th Legislature, Regular Session) goes into effect. The amendment provides that a contract between the lottery and a lottery operator may be terminated without penalty should the lottery be abolished through the Sunset process.
- June 19 HB 844, 76th Legislature, Regular Session, amendments to the State Lottery Act, takes effect and includes the following changes:
- Remove the cap on the prize-payout percentage.
 - Reduce the lottery's advertising budget in FY 2001 by \$1 million for each one percent that the prize payout exceeds 57.5 percent in FY 2000.
 - Reduce the lottery's advertising budget for FY 2002 and subsequent years by \$1 million for each 1 percent that the prize payout exceeds 52.5 percent in the prior year.
- June 30 The Texas Lottery Commission launches *www.txlottery.org* as its new website. In the first three weeks, more than a quarter of a million people visit the site. Charitable bingo licensees and the general public can access *www.txbingo.org* for useful information relating to bingo.
- August 31 FY 1999 ends with total lottery sales of more than \$2.5 billion, with nearly \$1 billion transferred to the Foundation School Fund. Since its inception, the Texas Lottery has returned more than \$7 billion to state coffers.
- September 1 HB 3155, 76th Legislature, Regular Session, recodifying the Bingo Enabling Act, takes effect.
- HBs 550, 703, 1799 and SB 1320, 76th Legislature, Regular Session, amendments to the State Lottery Act, take effect and included the following changes:
- Expand the ability of the Executive Director to enter into promotional contracts.
 - Allow an employee of a vendor, other than a primary vendor, to purchase a lottery ticket or claim a prize.
 - Authorize specific types of payment that would be the only permissible methods to purchase a lottery ticket. These would include (1) United States currency; (2) Checks; (3) Debit Cards; (4) Vouchers or Coupons issued by the Texas Lottery Commission, and; (5) Mail Order

subscriptions authorized by the Commission. Other means not listed, such as credit cards and food stamps, remain prohibited.

- Allow for Texas Lottery prize winners to sell or assign their right to collect annual prize payments in exchange for a lump sum cash payment from a third party, including individuals, banks, investment companies or other lenders.
- Clarify that voluntary assignment is allowable, subject to court authorization and specified consumer safeguards.
- Specify that unclaimed prize money can no longer be used to supplement future games and that, instead, the first \$40 million in unclaimed prizes will be directed to the Multicategorical Teaching Hospital Account to fund indigent healthcare. Any unclaimed prizes in excess of \$40 million will be transferred to the Tertiary Care Facility Account.
- Establish for the first time in statute the amount the Texas Lottery Commission can hold in reserve for potential retailer losses. Previously, the Executive Director determined this amount.
- Reduce from \$20 million to \$5 million the amount in the pooled bond reserve fund.

September 1 The General Appropriations Act takes effect and includes the following changes:

- Reduce the amount available for the administration of the lottery and for retailer commissions from 15 percent to 12 percent of sales.
- Restrict the use of unclaimed prizes as specified in HB 1799, above.
- Establish a limit on the amount held in the pooled reserve fund as specified by SB 1320, above.
- Restrict the agency from out-of-country travel, except that which is reimbursable by a third party.
- Permit the agency to collect and retain fees collected as administrative costs for assignment of lottery prizes pursuant to HB 1799.

December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 1999 total \$606 million, prizes awarded total \$430 million and charitable distributions total \$40.2 million.

December 31 At the end of the calendar year, the Texas Lottery ranks fourth in the U.S. and 10th internationally in total sales. Texas ranks third in the world in instant ticket sales and 11th in on-line product sales.

2000

- July 19 The first drawing under the new *Lotto Texas* game matrix, approved by the Texas Lottery Commission, takes place. The *Lotto Texas* field of numbers is expanded from 50 to 54. Among the changes is an increase in the prize pool to 55 percent of sales; players picking three of six winning numbers see their prize increase from \$3 to \$5; players picking four of six winning numbers will see an increase to \$105 average payout; and the five of six average prize climbs to \$2,500. The odds of winning the six-of-six jackpot prize changed from one in 15.8 million to one in 25.8 million.
- August 31 The Texas Lottery Commission ends its eighth fiscal year by posting sales in excess of \$2.6 billion. Public education is again the big winner, as it receives nearly \$900 million and over \$28 million to the Multicategorical Teaching Hospital Account. Since the first ticket was sold in May 1992, the state of Texas has received more than \$8 billion in lottery revenues.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2000 total \$581 million, prizes awarded total \$412 million and charitable distributions total \$37 million.
- December 31 At the end of the calendar year, the Texas Lottery ranks fourth in the U.S. and ninth internationally in total sales. Texas ranks third in the world in instant ticket sales and 13th in on-line product sales.

2001

- May 11 *Texas Million*, the fourth on-line game for the Texas Lottery, ends. Since its inception in May 1998, *Texas Million* created 25 millionaires and realized \$210 million in sales, resulting in transfers of close to \$65 million to the Foundation School Fund.
- May 13 *Texas Two Step*[®], the fifth on-line game for the Texas Lottery, goes on sale. Sales for the first week top \$1.2 million, with \$655,000 coming on the day of the first drawing, May 18.
- June 15 SB 390, 77th Legislature, Regular Session, amendment to Chapter 467 of the Texas Government Code goes into effect providing an exception to the Open Meetings Act to allow the Texas Lottery Commission to conduct a closed meeting to deliberate the negotiations of a lottery operator contract.

- August 31 FY 2001 ends on an upswing for sales of *Lotto Texas*. Up by 19 percent over the previous year, unaudited sales of game during FY 2001 total \$695 million, compared with \$583 million the previous fiscal year. Total cash transfers to the Foundation School Fund for FY 2001 are \$835.8 million.
- September 1 HB 965 and SB 257, 77th Legislature, Regular Session, amendments to the State Lottery Act take effect and include the following changes:
- Repeal provisions added by HB 2424, 75th Legislature, Regular Session, relating to debt set-off program applied to lottery retailers.
 - Authorize the Texas Lottery Commission to deny, revoke, or suspend a lottery retailer license if the Commission has determined the applicant or licensee is delinquent in the payment of taxes or other money collected by the Comptroller of Public Accounts, Texas Workforce Commission, Texas Alcoholic Beverage Commission, Texas Higher Education Coordinating Board or Texas Guarantee Student Loan Corporation.
 - Amend the Family Code to add the Texas Lottery Commission to the list of licensing authorities whose licenses are subject to license suspension on the order of the court or the attorney general for failure to pay child support.
 - Create an offense for a person younger than the age of 18 to purchase a Texas Lottery ticket. The offense is punishable by a fine of up to \$250.
- The General Appropriations Act takes effect and includes the following changes:
- Approve a capital budget request which permits the agency to purchase the equipment necessary to bring the drawings and broadcast studio onto its own premises.
 - Direct the Council on Competitive Government to evaluate the agency's policies, practices, and procedures regarding public information, media, and lottery advertising and to make recommendations for cost savings and increased efficiencies.
- October 10 The Texas Lottery Commission signs a new nine-year lottery operator contract with GTECH Corporation.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2001 total \$564 million, prizes awarded total \$400 million and charitable distributions total \$34 million.

2002

- March 6 Players may now claim prizes of up to \$999,999 at any Texas Lottery claim center statewide.
- March 18 Texas Lottery Commission launches a statewide public awareness campaign regarding the "*Latin Lotto Scam*." The lottery enlists the aid of law enforcement agencies throughout the state to help spread the message among elderly Hispanics to be aware of con artists duping citizens with altered lottery tickets.
- April Charitable Bingo in Texas marks its 20th Anniversary. Since 1982, Charitable Bingo has brought in approximately:
- \$682.4 million in charitable contributions,
 - \$9.8 billion in gross receipts,
 - \$7.1 billion in prize payouts, and
 - \$151.9 million allocated back to county and municipal governments.
- During the same time period, approximately 484.7 million people attended bingo games.
- April 29 The Texas Lottery launches the first-ever *Pick 3 Day Drawing* with an overwhelming response from players. First day sales from April 28 total more than \$99,000. Now drawings take place at 12:27 p.m. every day except Sundays.
- May 27 The Texas Lottery Commission changes the evening on-line game draw time from 9:59 p.m. to 10:12 p.m.
- May 29 The Texas Lottery Commission celebrates its 10-year sales anniversary.
- July 29 The first drawing is held for the Texas Lottery's newest game, *Cash Five*. The game replaces the old *Cash 5* game. Players can win a guaranteed cash prize of \$2 for matching only two numbers. The overall odds of winning change from 1-in-100 to 1-in-8, and it becomes the Texas Lottery's second on-line game to be drawn every day except Sundays.
- August 8 Texas Lottery terminals in more than 16,500 lottery retailers are switched over to the new ISYS terminal. The new terminals feature a customer display screen that provides players verification of winning tickets at lottery retail outlets.
- August 31 Sales for FY 2002 continue on an upward swing, making it the third straight year for increased sales, and helping to create the fifth-largest transfer of lottery dollars to the state in the agency's 10-year history. Sales total \$2.966 billion, and the state

receives \$956.6 million in revenue, a 10.5 percent increase from the previous fiscal year.

- September 22 The Commission approved the following types of pull-tab tickets that can be sold in Texas: sign-up board tickets, tip board tickets, event tickets, multiple-part event tickets, and multiple-part instant tickets.
- December 15 Total transfers to the state of Texas exceed \$10 billion. Transfers to the Foundation School Fund total more than \$4.9 billion since 1997.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2002 total \$557 million, prizes awarded total \$398 million and charitable distributions total \$32 million.

2003

- March 27 The Texas Lottery Commission votes unanimously in favor of changing the *Lotto Texas* game. The new bonus ball-style game, with ticket sales set to begin May 4, is expected to bring in more than \$50 million in additional revenue to the state of Texas in the first full fiscal year of sales.

Players will choose five numbers from one field of 44 numbers; then choose a bonus ball from a second field of 44 numbers.

- July 17 With FY 2002 sales of \$2.966 billion, the Texas Lottery moves to third place in the nation for overall sales behind the Massachusetts and New York lotteries, according to a fiscal sales summary provided by *La Fleur's 2003 World Lottery Almanac*.
- August 5 The Texas Lottery Commission authorizes the agency to begin negotiations to join *Mega Millions* ó the 10-member multi-state game. Added revenue for the state of Texas is expected to reach more than \$100 million for the first biennium.
- September 1 The Texas Lottery Commission begins a public awareness campaign to remind players that the *Games of Texas* were created to be a fun form of entertainment and to PLAY RESPONSIBLY!

Amendments to the Bingo Enabling Act that had been adopted by HB 2519 during the 78th Legislature go into effect. Those amendments include:

- Reclassifies bingo balls as bingo equipment.

- Authorizes the Commission to issue an "Advisory Opinion" upon request for clarification of a compliance question.
- Allows 12 temporary licenses per year.
- Allows an applicant for a license or renewal of a license the ability to pay for two years by paying an amount equal to two times the amount of the annual license fee plus \$25.
- Allows for emergency licensing changes in the event of a charity ceasing to conduct bingo at their licensed location or if the lease at that bingo location is terminated.
- Prohibits the Commission from issuing a commercial lessor license to an individual who proposes to: (a) lease premises to a single licensed authorized organization that subleases or will sublease the premises to one or more other licensed authorized organizations for the conduct of bingo; or (b) lease premises for the total control and exclusive use of only one licensed authorized organization as that organization's primary business office only if there is not a licensed commercial lessor whose premises is located in the county in which an applicant proposes to locate a bingo premises. NOTE: This subsection expired September 1, 2005.
- Requires each sale or lease of bingo supplies or equipment to a license holder be on terms of immediate payment or on terms requiring payment not later than the 30th day after the date of actual delivery.
- Authorizes a Registry of Approved Bingo Workers and requires that all bingo workers be issued and wear an Identification Card for Approved Bingo Workers while conducting bingo.
- Allows for joint employment of employees at a common location whereby a worker representing multiple organizations would be issued one check versus several checks for work performed.
- Allows a commercial lessor to advertise bingo.
- Allows the use of gift certificates to play a bingo game, including instant bingo. Includes the cost of printing gift certificates as an authorized expense.
- Allows two or more organizations who play at the same location to form a unit, which allows the charities to share revenues, expenses, and bingo inventory. Each member of the unit will deposit into the unit's bingo account all funds derived from the conduct of bingo, less the amount awarded as cash prizes and shall pay all authorized expenses from the unit's account. It further allows the unit to file a single bingo quarterly report with the Commission.
- Allows the use of debit cards and for the transaction fees to be considered an authorized expense.
- Allows the attendance to a bingo seminar as an authorized expense.

- Clarifies the meaning of "Use of Net Proceeds for Charitable Purposes" to be consistent with the federal tax exemption that the organization qualifies for as a nonprofit organization as defined by Section 2001.002.
- Changes the due date for payment and reporting tax or fee to the 25th of the month following the end of the quarter for conductors and lessors.
- Repeals Section 2001.409(b) which restricts the use of card-minding devices (40 percent rule).
- Repeals Section 2001.417(b) which required the bingo license holder to post the toll-free number operated by the Texas Council on Problem and Compulsive Gambling.

September 12 Texas Lottery retailers participate in their first Amber Alert since joining the Texas Amber Alert Network earlier in the year. On-line terminals and LED signs help spread the word about three children abducted from the Jourdanton area, outside of San Antonio.

October 16 Texas becomes the 11th state to join *Mega Millions*. Sales are anticipated to meet or exceed the Legislative Budget Board's initial estimate of \$101 million for the biennium.

December 3 Sales begin in Texas for *Mega Millions*. Texas becomes the only state in the 11-member *Mega Millions* group to offer an additional game feature, the *Megaplier*. For an extra \$1, players can choose to play the *Megaplier* feature, giving them the chance to multiply their non-jackpot prize winnings two, three or four times.

December 5 The Texas Lottery participates in its first ever *Mega Millions* drawing with an estimated, advertised jackpot of \$44 million. While no one correctly matches all five numbers plus the Mega Ball, there is one ticket sold in Texas that matches the first five numbers. The winner collects a \$175,000 prize.

December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2003 total \$576 million, prizes awarded total \$417 million and charitable distributions total \$30 million.

2004

January 15 The Texas Lottery hits a huge milestone— \$11 billion for Texas since the *Games of Texas* began in 1992. Since 1997, more than \$5.9 billion of that is transferred to the Foundation School Fund.

- March 15 With the most recent transfer of \$82.8 million, the Texas Lottery Commission's contributions to the Foundation School Fund top the \$6 billion mark.
- April 1 Charitable Bingo celebrates its 10th Anniversary at the Texas Lottery Commission. During that decade, 286.5 million people attended Charitable Bingo occasions in Texas, Charitable Bingo gross receipts totaled \$6 billion, prizes paid to Bingo players totaled \$4.4 billion, charitable distributions generated by Bingo activities totaled \$389 million, allocations to cities and counties totaled \$99.6 million.
- According to *La Fleur's Magazine*, the Texas Lottery ranks in the top 10 of worldwide lotteries in terms of total sales for the calendar year 2003. In the March/April edition, the magazine cited Texas Lottery sales for the 2003 calendar year at \$3.17 billion.
- May 29 The Texas Lottery celebrates its 12th Anniversary. Since its inception, total Texas Lottery sales have amounted to more than \$35 billion and retailer commissions have totaled \$1.8 billion. Total transfers to the state total more than \$11.4 billion, with more than \$6 billion of this amount transferred to the Foundation School Fund, to help support public education in Texas.
- August 31 FY 2004 ends as the second-highest sales year in the history of the Texas Lottery, with unaudited sales figures of all products totaling nearly \$3.5 billion. These sales resulted in a contribution of \$1 billion to the Foundation School Fund.
- Transfers to the Foundation School Fund now add up to more than \$6.6 billion since 1997, and total transfers from the Texas Lottery to the state of Texas equal more than \$11.9 billion.
- September 8 The Texas Lottery Commission announces the execution of contracts for instant ticket manufacturing and services with the following entities: Scientific Games International, Inc. (Primary Vendor), and Pollard Banknote Limited (Secondary Vendor).
- October 27 Texas' first \$30 scratch off game, *Holiday Millions Wishes*, debuts. In addition to four \$2 million top prizes, the game offers prizes in the amounts of \$20,000, \$2000, \$500, \$300, \$100, \$70, \$40 and \$30. Overall odds of winning any prize in *Holiday Millions Wishes* are 1 in 2.17.
- December 3 The Texas Lottery celebrates its first full year of participation in the multistate *Mega Millions* game. Through December 3, 2004, sales for *Mega Millions* totaled

\$234 million, placing Texas in the top three states in sales. With *Megaplier* sales for the same period added in, sales totaled \$289 million.

December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2004 total \$605 million, prizes awarded total \$445 million and charitable distributions total \$30 million.

2005

February 2 Transfers from the Texas Lottery Commission to the Foundation School Fund top \$7 billion. As of February 2, 2005, the exact amount transferred to the fund is \$7,012,935,039.

February 23 With the almost \$30 million in distributions that were made in calendar year 2004, Charitable Bingo distributions exceed \$773.6 million since 1982. More than 1,300 charitable organizations are licensed to conduct bingo in Texas.

May 10 The Texas Lottery Commission unanimously votes to adopt proposed rule amendments to the *Mega Millions* game, with a planned start date for the changes effective June 22, 2005. This action follows an announcement that California plans to become the 12th member state to join the game.

June 22 New *Mega Millions* rules go into effect as California joins the game. The second-tier prize increases to \$250,000, and the third-tier prize rises to \$10,000. Texas *Mega Millions* players who *Megaply* now have the chance to win up to \$1 million without hitting the jackpot.

August 31 FY 2005 ends. This marks the second consecutive year the Texas Lottery has transferred more than \$1 billion back to the state to support public education. Unaudited sales figures of all products total more than \$3.6 billion, an increase of 5 percent over FY 2004.

December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2005 total \$634 million, prizes awarded total \$472 million and charitable distributions total \$30 million.

2006

- February 9 Transfers from the Texas Lottery Commission to the Foundation School Fund top \$8 billion. As of February 3, 2006, the exact amount transferred to the fund is \$8,034,186,919.
- April 26 *Lotto Texas* returns to a straight 6-of-54 matrix with overall odds of winning of 1 in 71. The new matrix replaces the previous 5-of-44 plus 1-of-44 bonus ball game.
- August 31 FY 2006 ends as the highest sales year in the history of the Texas Lottery, with unaudited sales figures of all products totaling more than \$3.77 billion. These sales resulted in a contribution of \$1 billion to the Foundation School Fund.
- September 1 Texas non-profit organizations and charitable groups that conduct charitable bingo games to raise funds for their causes brought in \$8.5 million during the second quarter of 2006. Since 1982, non-profit groups have received a total of \$820 million from the conduct of bingo games.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2006 total \$658 million, prizes awarded total \$492 million and charitable distributions total \$32 million.

2007

- February 9 Transfers from the Texas Lottery Commission to the Foundation School Fund top \$9 billion. As of February 7, 2007, the exact amount transferred to the fund is \$9,051,351,808.
- March 30 The Texas Lottery Commission adopts a policy and subsequently revises procedures so that the closing process for any scratch-off game would begin within one week of the last top prize being claimed. In addition, the time period allowed for the closing process was shortened from 60 to 45 days.
- May 7 The first \$50 scratch-off ticket, *\$130 Million Spectacular*, is launched by the Texas Lottery Commission. The game features over \$133 million in prizes including three top prizes of \$5 million and six \$1 million prizes.

- August 31 Unaudited figures show that the Texas Lottery Commission transferred more than \$1 billion to the Foundation School Fund for the fourth year in a row during FY 2007. Sales totaled \$3.774 billion.
- September 30 The Texas Lottery Commission begins sales for *Daily 4* with *Sum It Up!* The twice-daily drawings began on October 1, offering new play styles and more ways to win based on the four numbers drawn.
- October 19 The Texas Lottery Commission joins the new Silver Alert Network to assist the Department of Public Safety in locating missing senior citizens.
- November 12 The first *Pick 3* drawing to include the add-on feature *Sum It Up* is held.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2007 total \$658 million, prizes awarded total \$493 million and charitable distributions total \$32 million.

2008

- January 4 Transfers to the Foundation School Fund surpass \$10 billion. Since FY 2004, the Texas Lottery has sent more than \$1 billion to the fund each year.
- June 30 All Texas Lottery claim centers may now process claims of \$1 million or less.
- August 31 The Texas Lottery transfers to the Foundation School Fund for FY 2008 were \$983 million from total sales of \$3.67 billion.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2008 total \$686 million, prizes awarded total \$513 million and charitable distributions total \$33 million.

2009

- February 20 Total Texas Lottery Commission transfers to the Foundation School Fund exceed \$11 billion.

- March 30 The Texas Lottery Commission introduces a new \$50 scratch-off, *\$140,000,000 Extreme Payout*, featuring three top prizes of \$10 million each and a prize payout of 78 percent, the highest ever for a Texas Lottery instant game.
- May 18 The Texas Lottery introduces a new \$20 scratch-off called the *\$500,000,000 Blockbuster*. With 10 top prizes of \$2.5 million and 40 second-tier prizes of \$1 million, it features more \$1 million-plus prizes than any other Texas Lottery scratch-off game ever offered.
- August 31 FY 2009 ends with total Texas Lottery sales (unaudited) of \$3.72 billion and transfers of \$1 billion to the Foundation School Fund.
- October 1 HB 1474 relating to the operation and regulation of charitable bingo and the use of bingo proceeds went into law. A summary of the key changes include:
- The amount of operating capital that may be in a licensed authorized organization's or unit's bingo account is now limited.
 - Licensed authorized organization must disburse all net proceeds from the preceding quarter for charitable purposes in lieu of the 35-percent distribution formula.
 - All Bingo Chairpersons and bingo bookkeepers for a licensed authorized organization must be listed on the Registry of Approved Bingo Workers.
 - Persons applying for the Registry of Approved Bingo Workers may work on a provisional basis for up to 14 days while the individual is awaiting the results of a background check provided that they disclose the provisional employment status on the application form.
 - A licensed authorized organization must disclose its bingo bookkeeper(s).
 - All Licensed Authorized Organizations may receive 24 temporary licenses for each 12 months of their license period.
 - A licensed authorized organization may conduct bingo in the same county as their primary business office or in a county contiguous to the county of their primary business office.
 - The bingo operations of a licensed authorized organization must result in net proceeds over the organization's license period.
 - Accounting Units are exempt from Franchise Tax imposed under Chapter 171, Tax Code.
 - Deposits of bingo receipts must be made no later than the second business day after the bingo occasion.
 - Licensed Authorized Organizations may now use electronic funds transfers to pay bingo expenses.

- A licensed authorized organization is no longer required to collect the 5 percent prize fee from the winner of a bingo prize of \$5 or less; however, the organization is required to remit the 5-percent prize fee for all prizes.
- All types of authorized organizations applying for an original license must be in existence for three years.
- Bingo Chairpersons, Unit Managers and Unit Designated Agents are the only persons required to attend the Bingo Training Program.
- A license may be renewed up to 60 days after the date the license expires if the organization pays a late renewal fee.
- A commercial lessor may charge an organization or unit a pro rata share of the location's property taxes, water, electric and gas utility expenses and property and casualty insurance premiums.
- An organization may designate members of the organization for the purposes of conducting bingo.
- A 10-minute intermission between bingo occasions is no longer required.
- Organization may transfer money from another account of the organization to their bingo account provided they do not exceed the maximum amount permitted in their bingo account and they notify the Commission not later than 14 days after the transfer date.
- The license type of System Service Provider has been eliminated.
- A commercial lessor may transfer their license to any business type.
- The requirement for the Problem Gamblers' Help Line toll-free numbers to be listed on card-minding devices and pull tab dispensers has been eliminated.

- October 12 The Texas Lottery Commission announces that an agreement in principle has been reached between the *Mega Millions* consortium and the Multi-State Lottery Association to allow for the sale of both *Mega Millions* and *Powerball* tickets in all U.S. lottery jurisdictions.
- November 9 The Texas Lottery launches the first-ever scratch-off game benefitting the Fund for Veterans' Assistance, which is administered by the Texas Veterans Commission and supports veterans' programs throughout the state. The \$5 *Veterans Cash* ticket features prizes up to \$20,000.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2009 total \$693 million, prizes awarded total \$518 million and charitable distributions total \$36 million.

2010

- January 6 The Texas Lottery Commission votes 3-0 to approve the *Powerball* game rule. January 31 is set as the target date to begin *Powerball* sales, with the first *Powerball* drawing for Texas Lottery players occurring on February 3.
- February 3 Texas Lottery players participate in the first *Powerball* drawing in Texas. Total sales in Texas for the drawing were more than \$1.3 million.
- February 10 With a transfer of \$73.3 million, the Texas Lottery Commission surpasses \$12 billion in total transfers to the Foundation School Fund since 1997.
- March 9 The Charitable Bingo Operations Division announces that calendar year 2009 was the highest grossing ever. Total receipts exceeded \$693 million, and players won \$518 million in prizes.
- August 31 The Texas Lottery concludes FY 2010 by transferring a total of \$1.095 billion to the state of Texas, the largest transfer to the state since 1998. Of that amount, slightly more than \$1 billion went directly to the Foundation School Fund. An additional \$7.3 million went to the Texas Veterans Commission from the sales of a new instant scratch-off game dedicated to veterans' assistance.
- December 14 The Texas Lottery Commission announces the award of a nine-year contract with GTECH Corporation for lottery operations and services. The new agreement has the potential to save the state \$160 million through the life of the contract.
- December 31 Reported gross receipts from the conduct of charitable bingo during calendar year 2010 total \$699 million, prizes awarded total \$527 million and charitable distributions total \$34 million.

IV. Policymaking Structure

A. Complete the following chart providing information on your policymaking body members.

Texas Lottery Commission Exhibit 3: Policymaking Body (Commission)			
Member Name	Term/ Appointment Dates/ Appointed by ___ (e.g., Governor, Lt. Governor, Speaker)	Qualification (e.g., public member, industry representative)	City
Mary Ann Williamson, Chairman	Six years/October 7, 2008/Appointed by Governor Rick Perry	public member	Weatherford
J. Winston Krause	Six years/March 27, 2009/Appointed by Governor Rick Perry to a vacant term expiring in 2013	public member	Austin
OPEN			

B. Describe the primary role and responsibilities of your policymaking body.

The three-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by law.

C. How is the chair selected?

The governor designates one member of the Commission as presiding officer.

D. List any special circumstances or unique features about your policymaking body or its responsibilities.

Commission members serve without salary, but are entitled to reimbursement for actual and necessary expenses incurred in performing Commission member duties, subject to any applicable limitation in the General Appropriations Act.

An individual is not eligible to be a member of the Commission unless the individual has been a resident of this state for at least 10 consecutive years immediately before appointment. One member must have experience in the bingo industry.

E. In general, how often does your policymaking body meet? How many times did it meet in FY 2010? in FY 2011?

By statute, the Commission must meet at least six times a year. Generally, the Commission meets more often than required. The Texas Lottery Commission met nine times in FY 2010, and 10 times in FY 2011.

F. What type of training do members of your agency's policymaking body receive?

A newly appointed Commission member receives internal training that encompasses the operations and activities of the agency and its operation of the lottery and regulation of charitable bingo. A newly appointed member receives in-house training regarding the conflicts of interest statutory provisions in Chapter 467, ethics laws applicable to the Texas Lottery and general state law, open records and open government law, and administrative procedures law relating to contested case proceedings and rulemaking.

A newly appointed Commission member is also notified of the training requirements on Open Government, specifically Open Records and Open Meetings, offered by the Texas Attorney General's Office. Furthermore, Commission members are notified and encouraged to attend the Open Government Conference sponsored by the Texas Attorney General's Office, Ethics Conference sponsored by the Texas Ethics Commission and the LBJ School of Public Affairs, and the new board member training sponsored by the Governor's Office.

New Commissioners are offered a tour of the Commission headquarters facility as well as the facilities of the lottery operator. Additionally, Commission members are encouraged to attend lottery-industry related workshops and conferences and to visit a bingo hall to observe an actual bingo game and operation of the hall.

G. Does your agency have policies that describe the respective roles of the policymaking body and agency staff in running the agency? If so, describe these policies.

The Commission has policies that describe the roles of the policymaking body and agency staff running the agency. The Commission's roles and responsibilities are established by law. The Commission hires the Executive Director, Charitable Bingo Operations Director, and the Internal Auditor. The direct reports' roles are defined by law, adopted policies and procedures, and each job description. The Ombudsman is an indirect report to the Commission. The Commission adopted the agency's Personnel Policy Handbook, which describes the respective roles for agency employees as well as sets out the standards and requirements for an employee. Also, the Commission adopts rules that set out the agency's policy in its operation of the lottery and regulation of charitable bingo and enters Commission orders in connection with licensing matters. Further, the Commission decides protests of the Executive Director's action in connection with a lottery-related procurement.

H. What information is regularly presented to your policymaking body to keep them informed of your agency's performance?

Lottery Sales and Revenue

Each Commission meeting includes a briefing on lottery sales including sales by product with comparative year over year sales data. Updates are also provided on monthly revenue transfers from lottery sales to the Foundation School Fund, Texas Veterans Commission and the revenue transfer of unclaimed lottery prizes to the General Revenue Fund.

Agency Budget and Other Financial Information

The Commission receives quarterly updates on the agency's budget and expenditures. Additionally, quarterly information on credits received from the Lottery Operator vendor in accordance with Amendment 8 to the Lottery Operator contract are provided to the Commission.

Lottery Operator Procurement Progress Reports

Regular progress reports were provided to the Commission during the RFP planning and development phases. Starting with the October 2009 Commission meeting, the "Report, possible discussion and/or action on the lottery operations and services procurement" became a standing agenda item for each meeting to provide status updates on the procurement process and any related issues. This agenda item remained in place through the procurement process, negotiation and contract award on December 14, 2010.

Lottery Budget Calculations

The agency's Annual Operating Budget is presented to the Commission on an annual basis and the Legislative Appropriations Request (LAR) is presented to the Commission on a biennial basis.

The Texas Lottery relies on marketing advice and expertise from GTECH in making business decisions about lottery products. As GTECH will be compensated under the contract based on a percentage of sales, it is important that the interests of GTECH and the Texas Lottery are generally aligned to ensure the greatest return to the state of Texas. The prize payout percentage from the sale of lottery products is a significant factor in determining net revenue and must be considered by GTECH when providing advice and expertise to the Texas Lottery. GTECH shall provide credits to the Texas Lottery based on lottery sales and increases in the overall prize payout percentage for Texas Lottery games as follows:

- **Annual Credit Based on Increase in Overall Prize Payout Percentage.**

Effective upon successful conversion, and continuing through the contract term (and any renewals thereof), GTECH shall provide a yearly credit to the Texas Lottery equal to 12 percent of GTECH's annual incremental revenue from sales above those revenues from sales over the previous state fiscal year (September 1 through August 31) for every .1 percent increase (rounded to the nearest tenth) in the overall prize payout percentage for Texas Lottery instant and on-line games, using the prize payout percentage for the previous state fiscal year as the basis. Sales are defined as sold tickets processed by the Lottery Gaming System, less any tickets that have been canceled or returned, less any promotional tickets or promotional coupons and less any retailer adjustments. FY 2011 revenue and prize payout percentage will be the basis for the calculation for the state fiscal year beginning September 1, 2011. This credit calculation shall be conducted annually (in September) each state fiscal year and the Texas Lottery will withhold the credit, if any, from payments to GTECH. Such credit will not exceed 50 percent of GTECH's incremental annual revenue in any state fiscal year.

- **Annual Credit Based on Declining or Flat Lottery Sales and Increase in Overall Prize Payout Percentage.**

Effective upon successful conversion, and continuing through the contract term (and any renewals thereof), GTECH shall provide a yearly credit to the Texas Lottery equal to 4.5 percent of the year-to-year decline (comparing current year dollar returns to the state to returns in the immediately preceding year), calculated on a modified accrual basis, in Texas Lottery monthly transfers to the state under Tex. Gov't Code Ann. § 466.355 (or as may be amended), excluding Texas Lottery transfers of any unspent administrative fundsó provided, during the applicable period, (i) overall lottery sales are flat or decline and (ii) the overall prize payout percentage for Texas Lottery instant and on-line games

increases by at least .1 percent (rounded to the nearest tenth). This credit calculation shall be conducted annually (in September) each state fiscal year and the Texas Lottery will withhold the credit, if any, from payments to GTECH. This Annual Credit section will be rendered null and void and no additional credits will be due if Texas law mandates a reduction to the prize payout percentage.

Lottery Operator Reports

As the largest and most important contract managed by the agency, the agency must stay abreast of not only Texas activities of the Lottery Operator, but also activities and events taking place in other jurisdictions that could potentially have an impact on GTECH's ability to perform in Texas. To that end, the Enforcement Division tracks such activities around the world via Internet searches, third-party research (OneSource) and self-reported data from GTECH. This information is provided to the Executive Director and the Commissioners in the Commission meeting notebooks.

Major Contracts and Amendments/Extensions

All major contracts that support the agency's core functions are reported to the Commission. All Prime contracts, defined as contracts for goods or services that *directly* support the agency's core gaming business function (i.e., lottery operator, instant ticket manufacturing, draw studio, etc.), are presented to the Commission prior to any action being taken (i.e., amendment, renewal, procurement). All High Risk contracts, defined as contracts for goods or services that support the agency's core gaming business function and have a direct impact on the agency's overall mission of ensuring integrity, security, accountability, and generating revenue (i.e., cost exceeds \$1 million, vendor has access to agency information systems, vendor provides audit, financial, legal or compliance services, etc.), are reported to the Commission annually for informational purposes only.

Reports from the CBOD

At each Commission meeting, the Director of the CBOD provides an update on the division's activities including updates on staffing, licensing, accounting and audit activities, pull-tab review, special projects, and upcoming operator training. The CBOD also will provide statistical information reported by licensed authorized organizations on their bingo activities on a quarterly basis.

Litigation

The Texas Lottery Commission generally meets monthly. During Executive Session, the Commission receives legal advice regarding pending litigation. Also, Commissioners are notified of litigation once the agency is notified of the litigation. Commissioners are also copied on each agency request for Texas Attorney General representation in connection with the litigation. In certain lawsuits, each Commissioner is informed of key events.

All Rulemaking

The Commission adopts the administrative rules in connection with the administration of the agency, State Lottery Act, and Charitable Bingo Enabling Act. At a publicly noticed Commission meeting, the Commission considers proposing a rulemaking for public comment. If the Commission proposes a rulemaking, at a subsequent Commission meeting, the Commission will consider action on the rule proposal. At the Commission meetings, the public is afforded an opportunity to provide comment.

HUB and Minority Business Participation

In the spring of each year, the agency's HUB Coordinator presents a report, possible discussion and/or action on HUB and/or minority business participation including the agency's Mentor/Protégé Program and the agency's annual Minority Business Participation Report. The Minority Business Participation Report, required by Section 466.107 of the State Lottery Act, must be made available to the governor, lieutenant governor, speaker of the house, and members of the Legislature on an annual basis and requires Commission approval prior to being printed and published on the agency's website.

Audits (External and Internal)

Information regarding external and internal audits and/or reviews relating to the Texas Lottery Commission, and/or on the Internal Audit Department's activities, is presented to the Commission in each Commission meeting.

Required Statutory Reports

Required statutory reports are presented to the Commission at a publicly noticed Commission meeting, either for the Commission's approval, if required, or for the Commission's information.

- The State Lottery Act requires the Executive Director to report the results of the demographic study of lottery players to the Commission. The demographic study is required to be conducted every two years.
- Each even numbered year, the Commission approves the strategic plan for the agency.
- Each even numbered year, the Commission approves the agency's legislative appropriations request.
- Annually, the Commission approves the agency's budget.
- Each year, the Executive Director provides for a CPA to conduct an independent audit of all accounts and transactions of the lottery.
- Each year, the State Lottery Act requires the Commission to make an annual report that provides a summary of lottery revenue, prize disbursements, and other expenses for the fiscal year preceding the report. The Government Code also requires a state agency to submit an annual financial report regarding the agency's use of appropriated money during the preceding year.

- Before the convening of each regular legislative session, the Executive Director provides the Commission with a report of the security study of the lottery.
- On or before June 1 of each even-numbered year, the Commission prepares a report for the preceding two calendar years on bingo, specifically total amount of adjusted gross receipts reported, total amount of net receipts reported, and a comparison of these amounts reported and the percentage that the net proceeds represents of the adjusted gross receipts.
- Each year, the Commission evaluates the Bingo Advisory Committee's work, usefulness and costs related to the committee's existence, including the cost of agency staff time spent in support of the committee's activities, and approves the Bingo Advisory Committee work plan if the committee is continued.
- Each year, the Commission approves the Internal Audit Activity Plan.

Agency Business Plan Updates

Agency Management routinely tracks and monitors progress toward the implementation of key initiatives identified in the agency's business plan. Management formally convenes and prepares a semi-annual progress report that is provided to the Commission.

Legislative Report

On a regular basis, the Governmental Affairs Director provides the Commission with information regarding pending legislation impacting the agency, actions taken by legislative committees, and the implementation of enacted legislation.

Executive Director Report

The Executive Director provides regular reports to the Commission at each Commission meeting which include, but are not limited to, the agency's/division's operational status and staffing.

Attitudinal Survey Results

Opinion data is gathered by the agency's market research firm and presented to the Commission semiannually. The data, gathered monthly, seeks feedback from respondents on their overall opinion of the operation of the lottery.

Licensing/Enforcement Administration Actions

The Commission licenses persons to sell lottery tickets under the State Lottery Act. Under the Bingo Enabling Act, the Commission issues manufacturer, distributor, commercial lessor, and conductor licenses. The Commission also maintains a Registry of Bingo Workers. Generally, at each Commission meeting, orders arising from contested cases and consent orders are presented to the Commission. In connection with lottery licensees, administrative enforcement action can range from a suspension of the license for a proscribed time period or license revocation. In

connection with bingo licensees, administrative enforcement action can range from a monetary penalty to license revocation.

Commissioners' Correspondence Report

A report reflecting external correspondence received by the agency and addressed to Commissioners is provided to Commissioners weekly. This includes, but is not limited to, correspondence received from leadership offices, the Legislature, other state agencies, and the general public.

Survey of Organizational Excellence Results

The Texas Lottery Commission has participated for many years in the Survey of Organizational Excellence (SOE), a confidential employee survey administered and scored by staff from the University of Texas at Austin. Since 1994, the agency has participated in the survey every other year. The survey results provide a measure of the agency's employee job satisfaction over time, and in comparison with other state agencies. After the survey is finalized, the results are formally presented to the Commissioners as part of a regular Commission meeting agenda.

<p>I. How does your policymaking body obtain input from the public regarding issues under the jurisdiction of the agency? How is this input incorporated into the operations of your agency?</p>

The Commission utilizes numerous means to obtain public input regarding issues under the jurisdiction of the agency. The Commission notices as an agenda item an item entitled "Public Comment" at each Commission meeting and may receive input from the public during this item. At times, the information received during the public comment item is placed on the next or future agenda for further development, discussion and/or action. Additionally, the Commission receives public comment on any specific agenda item during Commission meetings and is able at that time to consider public input and take appropriate action.

Public input is a vital component of the Commission's various rulemaking procedures under the Administrative Procedures Act (APA). In rulemaking matters, the Commission solicits formal input, both orally and in writing, from interested citizens throughout the state regarding proposed administrative rules. The Commission considers the comments and responds to them in the rulemaking process by amending the proposed rule, withdrawing the proposed rule, or adopting the proposed rule as proposed. Furthermore, the Commission frequently solicits and considers informal comments from interested members of the public prior to initiation of the formal rulemaking process.

The Commission obtains limited input from participants in contested case proceedings because of the prohibition against ex parte communication found in the APA. In the past, information has been received by the Commission in the context of a contested case procedure as that

information is developed. The information can be developed as part of: 1) evidence in the case, 2) the Proposal for Decision, any Exceptions of the Proposal for Decision, a Final Order or a Motion for Rehearing, or 3) otherwise during the administrative appeal process. The Commission is able to develop the public information and make the appropriate adjustments to the Commission's enforcement programs.

Commissioners, on an individual basis, as well as various agency staff, meet with members of the general public, vendors, or licensees to discuss agency rules, general policies, and agency practices as needed. In addition, Commissioners may receive input from the public through members of the Legislature or other state officials.

Each Commissioner is accessible to the public and receives letters and telephone calls from the public. The Texas Lottery Commission, through its Correspondence Section, tracks all general correspondence and responds to it. The Commissioners receive a tracking sheet identifying correspondence addressed to the Commission and its disposition.

J. If your policymaking body uses subcommittees or advisory committees to carry out its duties, fill in the following chart.

Texas Lottery Commission			
Exhibit 4: Subcommittees and Advisory Committees			
Name of Subcommittee or Advisory Committee	Size/Composition/How are members appointed?	Purpose/Duties	Legal Basis for Committee
Bingo Advisory Committee (see details below)	Nine members appointed by the Commission, each serving a three-year term. The appointments shall represent the following interest groups: <ul style="list-style-type: none"> • the public • conductors that are not licensed commercial lessors • conductors that are licensed commercial lessors, and • commercial lessors The Commission may appoint members to represent: <ul style="list-style-type: none"> • licensed manufacturers, and • licensed distributors 	To advise the Commission on the needs and problems of the state's Bingo industry.	Bingo Enabling Act Section 2001.057 and Bingo Administrative Rule 402.102

The purpose of the Bingo Advisory Committee (BAC) is to advise the Texas Lottery Commission on the needs and problems of the state's charitable bingo industry; comment on rules involving bingo during their development and before final adoption, unless an emergency requires immediate action by the Commission; report annually to the Commission on the committee's activities; and other duties as assigned. The BAC is composed of nine individuals representing the following interest groups: the public, conductors that are not licensed commercial lessors, conductors that are licensed commercial lessors, commercial lessors, licensed manufacturers, and licensed distributors. Each member of the BAC is appointed for a three-year term. The three-member Texas Lottery Commission appoints members of the BAC. Appointments to the BAC must represent a balance of interests in the charitable bingo industry in Texas. The BAC must annually select a presiding officer to conduct meetings and general business. The presiding officer must designate a member of the BAC to conduct meetings and general business in the presiding officer's absence. The first Bingo Advisory Committee was appointed on March 25, 1995. The BAC meets at the call of the Commission.

On August 10, 2011, the Texas Lottery Commission took no action on the agenda item: XXV - Report, possible discussion and/or action on the Bingo Advisory Committee, including continuation of the BAC FY 2011 and/or FY 2012 work plan.

Section 2110.006 of the Government Code states:

Sec. 2110.006. AGENCY EVALUATION OF COMMITTEE COSTS AND EFFECTIVENESS.

A state agency that has established an advisory committee shall evaluate annually:

- (1) the committee's work;
- (2) the committee's usefulness; and
- (3) the costs related to the committee's existence, including the cost of agency staff time spent in support of the committee's activities.

In accordance with administrative rule 16 TAC §402.102(o), the BAC will cease to exist annually on August 31, unless the Commission, prior to August 31, votes to continue the BAC.

V. Funding

A. Provide a brief description of your agency's funding.

The Texas Lottery Commission is funded from two funding sources. The operation and administration of the state lottery is funded from the GR Dedicated Lottery Account. Charitable Bingo is funded from General Revenue.

	FY 2010	FY 2011
General Revenue (Charitable Bingo)	\$15,546,681	\$15,520,280
General Revenue Dedicated Fund- Lottery Account Number 5025	\$183,361,743	\$179,785,075
	\$198,908,424	\$195,305,355

Source SB1, General Appropriations Act (GAA), 81st Legislature, Regular Session

B. List all riders that significantly impact your agency's budget.

SB 1, GAA, 81st Legislature, Article VII Rider 3: Operate Lottery

Pursuant to Government Code, Chapter 466, appropriations made to Goal A, Operate Lottery, shall not exceed 12 percent of the gross revenue from the sale of lottery tickets. This appropriation shall be used for the administration of the lottery and for retailer commissions.

SB 1, GAA, 81st Legislature, Article VII Rider 4: Appropriation: Payment of Prizes

In addition to the amounts appropriated for the administration of the lottery and retailer commissions, there is appropriated pursuant to Government Code, Chapter 466, out of the State Lottery Account in the General Revenue Fund, sufficient funds for the payment of prizes to the holders of winning tickets.

SB 1, GAA, 81st Legislature, Article VII Rider 7: Appropriations Limited to Revenue Collections

Fees, fines, and other miscellaneous revenues as authorized and generated by the operation of charity bingo shall cover, at a minimum, the cost of the appropriations made for the strategy items in Goal B, Enforce Bingo Laws, as well as the other direct and indirect costs associated with this goal, appropriated in the Act. Other direct and indirect costs for goal B, Enforce Bingo Laws, are estimated to be \$711,815 for FY 2010 and \$734,986 for FY 2011. In the event that actual and/or projected revenue collections are insufficient to offset the costs identified by this provision, the Legislative Budget Board may direct the Comptroller of Public Accounts to

reduce the appropriation authority provided to be within the amount of revenue expected to be available.

SB 1, GAA, 81st Legislature, Article VII Rider 10: Retailer Commissions

Pursuant to Government Code, Chapter 466, an amount equal to 5 percent of gross sales shall be made available for the purpose of paying retailer commissions. In addition, an amount not to exceed an additional one-half of one percent of gross sales each fiscal year may be made available for the purpose of paying sales performance retailer commissions. Prior to providing an additional retailer commission above 5 percent of gross sales, the Texas Lottery Commission shall provide a report to the Governor and the Legislative Budget Board outlining the Texas Lottery Commission's plans to implement a retailer sales performance commission or similar sales performance incentive program and the projected benefits of the program to lottery ticket sales and state revenue.

SB 1, GAA, 81st Legislature, Article VII Rider 11: Lottery Operator Contract

The amounts included in Strategy A.1.6, Lottery Operator Contract, are estimated appropriations out of the State Lottery Account in the General Revenue Fund and may only be used for payment of lottery operator contractual obligations. The estimated amount appropriated for FY 2010 is an amount equal to 2.6999 percent of gross sales in FY 2010; and the estimated amount appropriated in FY 2011 is an amount equal to 2.6999 percent of gross sales in FY 2011.

SB 1, GAA, 81st Legislature, Article VII Rider 12: Appropriation of Increased Revenue

In addition to the amounts appropriated, there is appropriated out of the State Lottery Account in General Revenue, an amount equal to 1.49 percent of the amount by which gross sales exceed \$3,572,150,000 in FY 2010 and the amount of which gross sales exceed \$3,492,200,000 in FY 2011 for the purpose of fulfilling contractual obligations and other administrative costs in the administration of the lottery. Any unexpended balances remaining from appropriation as of August 31, 2010, are appropriated for the same purposes for the fiscal year beginning September 1, 2010.

C. Show your agency's expenditures by strategy.
--

Texas Lottery Commission		
Exhibit 5: Expenditures by Strategy for Fiscal Year 2010 (Actual)		
Goal/Strategy	Total Amount	Contract Expenditures Included in Total Amount
A. Goal: Operate Lottery		
A.1.1 Lottery Operations	\$6,959,934.82	\$3,168,304.10
A.1.2 Lottery Field Operations	\$2,458,182.47	\$0.00
A.1.3 Marketing and Promotion	\$4,393,199.11	\$1,099,618.93
A.1.4 Security	\$4,674,435.70	\$2,093,368.72
A.1.5 Central Administration	\$11,441,540.83	\$2,192,811.90
A.1.6 Lottery Operator Contract(s)	\$99,387,744.89	\$99,387,744.89
A.1.7 Instant Ticket Production Contract(s)	\$16,102,131.22	\$16,102,131.22
A.1.8 Mass Media Advertising Contract(s)	\$31,864,315.83	\$31,864,315.83
A.1.9 Drawing & Broadcast Contract(s)	\$1,575,149.04	\$1,575,149.04
A.1.10 Market Research Services Contract(s)	\$694,492.25	\$694,492.25
A.1.11 Retailer Bonus	\$8,844,051.68	\$0.00
TOTAL GOAL A	\$188,395,177.84	\$158,177,936.88
B. Goal: Enforce Bingo Laws		
B.1.1 Bingo Licensing	\$821,990.17	\$75,525.58
B.1.2 Bingo Education and Training	\$125,474.34	\$0.00
B.1.3 Bingo Law Compliance Field Operations	\$1,271,429.48	\$0.00
B.1.4 Bingo Prize Fee Collections and Accounting	\$211,305.93	\$0.00
B.1.5 Bingo Prize Fee Allocation	\$12,169,783.23	\$0.00
TOTAL GOAL B	\$14,599,983.15	\$75,525.58
GRAND TOTAL	\$202,995,160.99	\$158,253,462.46

D. Show your agency's objects of expense for each category of expense listed for your agency in the General Appropriations Act FY 2010-2011.

Texas Lottery Commission			
Exhibit 6: Objects of Expense by Program or Function for Fiscal Year 2011 (Budget)			
Object of Expense	Executive	Governmental Affairs	Media Relations
Salaries and Wages	\$340,459	\$345,813	\$407,402
Other Personnel Costs	\$8,640	\$6,440	\$10,540
Professional Fees and Services	\$55,000	\$0	\$600
Fuel and Lubricants	\$0	\$0	\$0
Consumable Supplies	\$1,000	\$0	\$700
Utilities	\$0	\$0	\$0
Travel	\$103,978	\$1,000	\$5,000
Rent- Building	\$0	\$0	\$0
Rent- Machine and Other	\$0	\$0	\$0
Other Operating Expense	\$32,070	\$18,938	\$41,180
Grants	\$0	\$0	\$0
Capital Expenditures	\$0	\$0	\$0
Total	\$541,147	\$372,191	\$465,422

Texas Lottery Commission			
Exhibit 6: Objects of Expense by Program or Function for Fiscal Year 2011 (Budget)			
Object of Expense	Enforcement	Office of the Controller	Human Resources
Salaries and Wages	\$1,029,163	\$1,527,453	\$459,110
Other Personnel Costs	\$18,880	\$36,280	\$12,780
Professional Fees and Services	\$520,450	\$0	\$15,000
Fuel and Lubricants	\$0	\$0	\$0
Consumable Supplies	\$1,500	\$4,500	\$400
Utilities	\$0	\$0	\$0
Travel	\$43,000	\$4,500	\$1,000
Rent- Building	\$0	\$0	\$0
Rent- Machine and Other	\$0	\$0	\$0

Other Operating Expense	\$26,494	\$97,389	\$31,125
Grants	\$0	\$0	\$0
Capital Expenditures	\$0	\$0	\$0
Total	\$1,639,487	\$1,670,122	\$519,415

Texas Lottery Commission			
Exhibit 6: Objects of Expense by Program or Function for Fiscal Year 2011 (Budget)			
Object of Expense	Internal Audit	Legal Services	Lottery Operations
Salaries and Wages	\$496,281	\$1,395,085	\$6,704,941
Other Personnel Costs	\$10,760	\$23,040	\$192,860
Professional Fees and Services	\$376,000	\$293,500	\$2,625,521
Fuel and Lubricants	\$0	\$0	\$0
Consumable Supplies	\$500	\$1,230	\$13,155
Utilities	\$0	\$0	\$0
Travel	\$5,000	\$2,000	\$211,275
Rent- Building	\$0	\$2,200	\$377,552
Rent- Machine and Other	\$0	\$0	\$0
Other Operating Expense	\$17,414	\$110,300	\$176,116,959
Grants	\$0	\$0	\$0
Capital Expenditures	\$0	\$0	\$120,000
Total	\$905,955	\$1,827,355	\$186,362,263

Texas Lottery Commission			
Exhibit 6: Objects of Expense by Program or Function for Fiscal Year 2011 (Budget)			
Object of Expense	Administration	Bingo	
Salaries and Wages	\$4,814,540	\$2,515,452	
Other Personnel Costs	\$104,200	\$69,460	
Professional Fees and Services	\$2,137,036	\$133,500	
Fuel and Lubricants	\$4,000	\$0	
Consumable Supplies	\$130,250	\$1,300	
Utilities	\$518,459	\$0.00	
Travel	\$41,100	\$79,640	
Rent- Building	\$2,921,923	\$0	

Rent- Machine and Other	\$1,061,594	\$16,838	
Other Operating Expense	\$4,109,648	\$68,590	
Grants	\$0	\$12,635,500	
Capital Expenditures	\$0	\$0	
Total	\$15,842,750	\$15,520,280	

E. Show your agency's sources of revenue. Include all local, state, and federal appropriations, all professional and operating fees, and all other sources of revenue collected by the agency, including taxes and fines.

Texas Lottery Commission Exhibit 7: Sources of Revenue for Fiscal Year 2010 (Actual)	
Source	Amount
General Revenue Fund	\$14,599,983.15
General Revenue Dedicated Fund- Lottery Account Number 5025	\$188,395,177.84
TOTAL	\$202,995,160.99

F. If you receive funds from multiple federal programs, show the types of federal funding sources.

The Texas Lottery Commission does not receive federal funds.

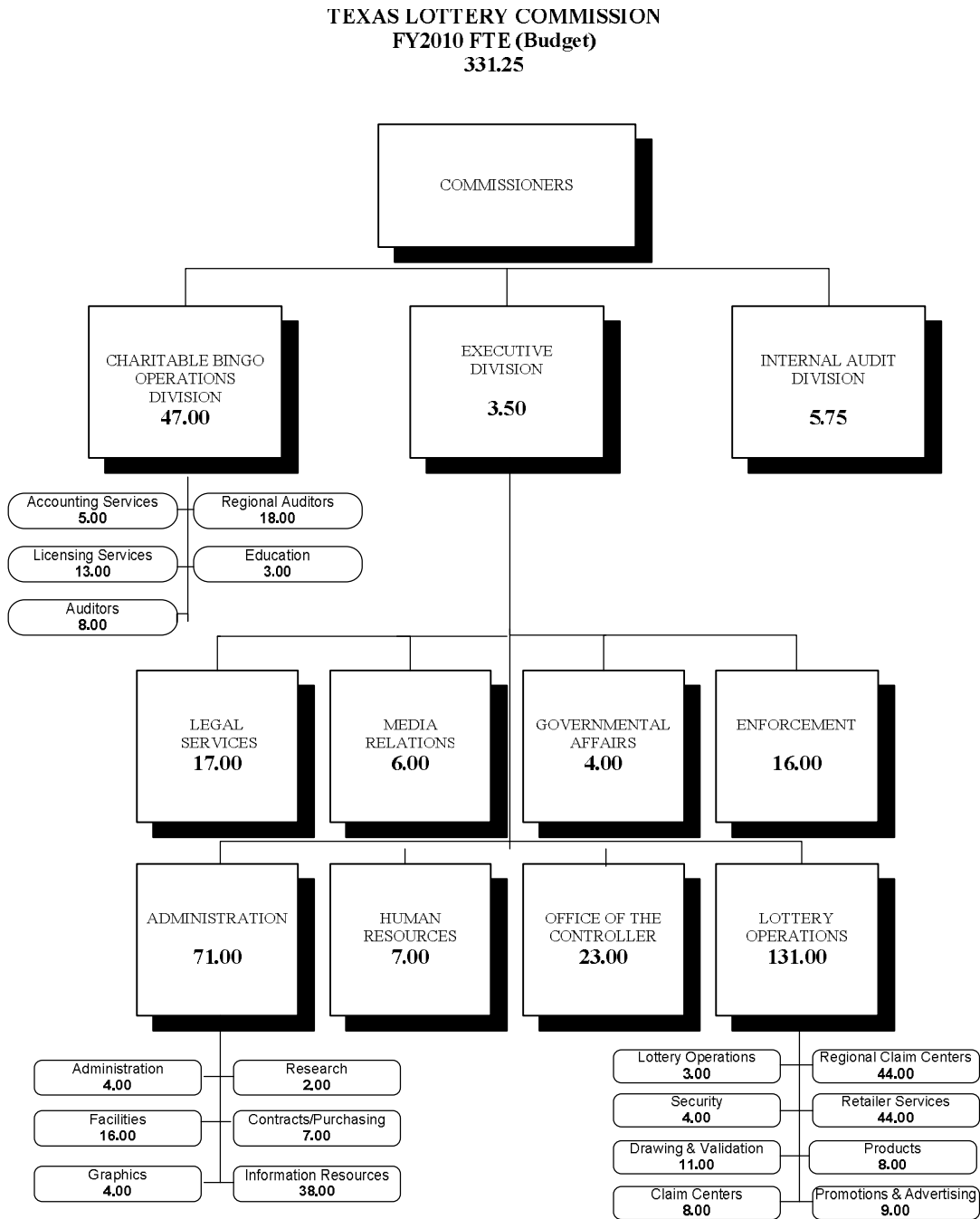
G. If applicable, provide detailed information on fees collected by your agency.

Texas Lottery Commission Exhibit 9: Fee Revenue for Fiscal Year 2010				
Fee Description/ Program/ Statutory Citation	Current Fee/ Statutory maximum	Number of persons or entities paying fee	Fee Revenue	Where Fee Revenue is Deposited
Lottery License Application Fees Texas Government Code, §466.152	\$100 for one location, \$25 for each additional location	2,547	\$201,188	GR- Dedicated
Lottery License Renewal Fees Texas Government Code, §466.158	\$15	6,304	\$94,560	GR- Dedicated
Lottery Security Proceeds Texas Government Code, §466.156	\$25	Unknown	\$60,950	GR- Dedicated

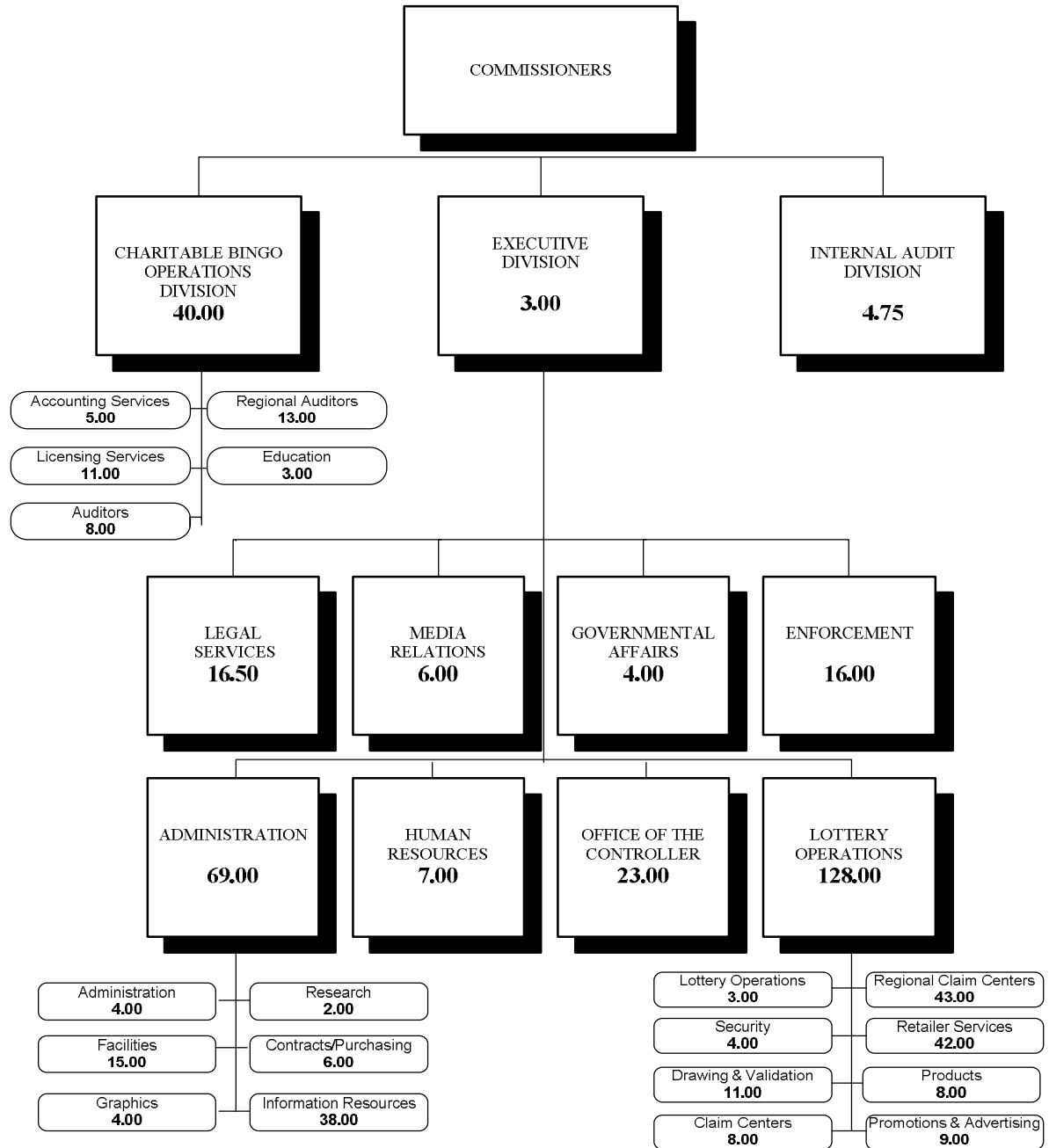
Lottery Ticket Sales- Stolen/Lost Ticket, Packet Fee Texas Administrative Code, §401.370	\$25	Unknown	\$54,325	GR- Dedicated
Lottery Ticket Sales- Late Penalties Texas Government Code, §466.019 and Texas Tax Code, §111.061	5 percent of Amount	Unknown	\$261,179	GR- Dedicated
Lottery Ticket Sales- NSF Fee Texas Government Code, §466.019 and Texas Tax Code, §111.002	\$25	Unknown	\$49,875	GR- Dedicated
Lottery Assignment Fee Texas Government Code, §466.410	\$500	30	\$15,000	GR- Dedicated
Open Records Fees Texas Government Code, §552.261	Varies	Unknown	\$2,249	GR- Dedicated
Administrative Penalties Texas Occupations Code, §2001.601	Varies	54	\$244,612	General Revenue
Bingo Prize Fees Texas Occupations Code, §2001.502	5 percent of amount or value of prize	1,128	\$25,881,024	General Revenue
Bingo Operators/Lessors- Conductor Original Texas Occupations Code, §2001.104	\$100- \$2,500	84	\$118,050	General Revenue
Bingo Operators/Lessors- Conductor Renewal Texas Occupations Code, §2001.104-105	\$100-\$2,500	985	\$2,175,477	General Revenue
Bingo Operators/Lessors- Conductor Amendment Texas Occupations Code, §2001.306	\$10	278	\$12,310	General Revenue
Bingo Operators/Lessors- Conductor Temporary Texas Occupations Code, §2001.103	\$25	809	\$186,199	General Revenue
Bingo Operators/Lessors- Lessor Original Texas Occupations Code, §2001.158	\$100-\$2,500	22	\$42,400	General Revenue
Bingo Operators/Lessors- Lessor Renewal Texas Occupations Code, §2001.158	\$100-\$2,500	283	\$421,646	General Revenue
Bingo Operators/Lessors- Lessor Amendment, Bingo Texas Occupations Code, §2001.306	\$10	0	\$0	General Revenue
Bingo Operators/Lessors- Unit Manager Original/Renewal Texas Occupations Code, §2001.437	\$250	0	\$0	General Revenue
Bingo Equipment- Distributor Original Texas Occupations Code, §2001.209	\$1,000	3	\$3,000	General Revenue
Bingo Equipment- Distributor Renewal Texas Occupations Code, §2001.209	\$1,000	13	\$15,000	General Revenue
Bingo Equipment- Manufacturer Original Texas Occupations Code, §2001.205	\$3,000	2	\$5,500	General Revenue
Bingo Equipment- Manufacturer Renewal Texas Occupations Code, §2001.205	\$3,000	12	\$44,000	General Revenue
Open Records Fees Texas Government Code, §552.261	Varies	Unknown	\$1,809	General Revenue

VI. Organization

A. Provide an organizational chart that includes major programs and divisions, and shows the number of FTEs in each program or division.



TEXAS LOTTERY COMMISSION
FY2010 FTE- (Actual)
August 31, 2010
317.25



B. If applicable, fill in the chart below listing field or regional offices.

Texas Lottery Commission			
Exhibit 10: FTEs by Location for Fiscal Year 2010			
Headquarters, Region, or Field Office	Location	Number of Budgeted FTEs, FY 2010	Number of Actual FTEs as of August 31, 2010
Divisions by Headquarters			
Executive	Austin	3.50	3.00
Governmental Affairs	Austin	4.00	4.00
Media Relations	Austin	6.00	6.00
Enforcement	Austin	16.00	16.00
Office of the Controller	Austin	23.00	23.00
Human Resources	Austin	7.00	7.00
Internal Audit	Austin	5.75	4.75
Legal Services	Austin	17.00	16.50
Lottery Operations	Austin	87.00	85.00
Administration	Austin	69.00	67.00
Bingo	Austin	29.00	27.00
Total		267.25	259.25
Divisions by Region or Field Office			
Administration-Cameron Warehouse	Austin	2.00	2.00
Lottery Operations- Claim Center	Abilene	2.00	2.00
Lottery Operations- Claim Center	Amarillo	2.00	2.00
Lottery Operations- Claim Center	Beaumont	2.00	2.00
Lottery Operations- Claim Center	Corpus Christi	2.00	2.00
Lottery Operations- Claim Center	Dallas	6.00	6.00
Bingo Regional Office	Dallas	6.00	4.00
Lottery Operations- Claim Center	El Paso	2.00	2.00
Lottery Operations- Claim Center	Fort Worth	4.00	4.00
Lottery Operations- Claim Center	Houston	8.00	8.00
Bingo Regional Office	Houston	3.00	2.00
Lottery Operations- Claim Center	Laredo	2.00	2.00
Lottery Operations- Claim Center	Lubbock	2.00	1.00
Lottery Operations- Claim Center	McAllen	2.00	2.00
Lottery Operations- Claim Center	Odessa	2.00	2.00
Bingo Regional Office	Odessa	2.00	2.00
Lottery Operations- Claim Center	San Antonio	3.00	3.00
Bingo Regional Office	San Antonio	7.00	5.00
Lottery Operations- Claim Center	Tyler	3.00	3.00
Lottery Operations- Claim Center	Victoria	2.00	2.00

Total		64.00	58.00
Grand Total		331.25	317.25

C. What are your agency's FTE caps for fiscal years 2010-2013?

81st Legislature SB 1, General Appropriations Act

FY 2010: 321.50

FY 2011: 321.50

82nd Legislature HB 1, General Appropriations Act (as proposed)

FY 2012: 309.50

FY 2013: 309.50

D. How many temporary or contract employees did your agency have as of August 31, 2010?

The Texas Lottery Commission had no temporary or contract employees as of August 31, 2010.

E. List each of your agency's key programs or functions, along with expenditures and FTEs by program.

Texas Lottery Commission			
Exhibit 11: List of Program FTEs and Expenditures for Fiscal Year 2010			
Program	Number of Budgeted FTEs, FY 2010	FTEs as of August 31, 2010	Actual Expenditures
Executive	3.50	3.00	\$354,285.13
Governmental Affairs	4.00	4.00	\$321,654.02
Media Relations	6.00	6.00	\$456,955.58
Enforcement	16.00	16.00	\$1,133,339.87
Office of the Controller	23.00	23.00	\$1,591,553.59
Human Resources	7.00	7.00	\$483,279.16
Internal Audit	5.75	4.75	\$708,141.70
Legal Services	17.00	16.50	\$1,778,422.27
Lottery Operations	131.00	128.00	\$167,622,278.36
Administration	71.00	69.00	\$13,945,268.16
Bingo	47.00	40.00	\$14,599,983.15
Total	331.25	317.25	\$202,995,160.99

VII. Guide to Agency Programs

Introduction and Organizational Structure

The three-member Texas Lottery Commission sets policy, promulgates rules for the agency, and performs all other duties required by law. The Governor appoints Commission members, with the advice and consent of the state Senate, to staggered six-year terms. One member must have experience in the bingo industry.

The Executive Director, the Charitable Bingo Operations Division Director, and the Internal Audit Director are appointed by and report to the three-member Commission. The Texas Lottery Commission Executive Director provides leadership to nine divisions within the agency, ensuring that staff carries out applicable state law and Commission policies. The Charitable Bingo Operations Director is responsible for the day-to-day operations relating to the regulation of charitable bingo, ensuring that the staff carries out applicable state law and Commission policies. The Internal Audit Director works to ensure that internal and external controls are adequate to improve the efficiency and effectiveness of the Texas Lottery Commission.

The agency is divided into 11 divisions: Administration, Charitable Bingo Operations, Enforcement, Executive, Governmental Affairs, Human Resources, Internal Audit, Legal Services, Lottery Operations, Media Relations and the Office of the Controller.

Shorter narratives are provided in Section VII to describe the support functions of the agency that are typically germane to all state agencies. The more detailed *Guide to Agency Programs* is provided for the Texas Lottery's core business functions.

Executive Division

The Executive Division refers to the Executive Director and administrative staff. The Executive Division is the focal point for the decision making and strategic planning related to the day-to-day operation and administration of the Texas Lottery.

The Executive Director serves as the Chief Executive Officer for the Texas Lottery Commission relating to the agency's lottery operations and plays a key role in the short- and long-term planning for the agency. The Executive Director performs highly advanced management activities with broad oversight responsibility, and exercises strict control and supervision over all lottery games conducted by the Commission. Through leadership, example, and daily conduct, the Executive Director promotes and ensures integrity, security, honesty, and fairness in the operation and administration of the Texas Lottery. The Executive Director also is responsible for

the day-to-day operations of the agency and for overseeing the agency's strategic and budget planning process.

The Agency Ombudsman function was created in 2007 in response to a recommendation resulting from a workforce management audit conducted by the State Auditor's Office. The Ombudsman function serves the agency's employees by providing independent, neutral third-party assistance in resolving employment problems, concerns, and complaints.

Support Functions

Administration Division

The objective of the Administration Division is to serve the needs of the Texas Lottery Commission and its customers in the areas of information resources and support services.

The Information Resources Department is responsible for managing the agency's network infrastructure, which includes the local- and wide-area networks, telecommunications, the Intranet site and the agency's website. The department manages and supports a variety of software applications, including the agency's Internal Control System, which replicates transactions from the lottery operator and is used for reporting and balancing daily sales activity.

The Support Services Department is organized into six distinct functional areas: Facilities, Research, Purchasing and Contracts, Publications and Graphics, Records Retention and Agency Policies and Procedures. The Facilities Section manages the day-to-day physical operations of the agency. These services include building security and safety, warehouse management, property management, risk management, copy-center services, mail-center services, supply-inventory management, shipping and receiving, and vehicle-fleet management. This section manages support operations for office locations throughout the state, including the Austin headquarters facility, 15 field offices and Austin warehouse facilities. The Research Section oversees a variety of market research on the demographics, behaviors and attitudes of players and retailers, enabling staff to respond to the ever-changing market conditions of the gaming industry. The Purchasing and Contracts Section manages all procurements for the agency and administers the HUB/Mentor-Protégé Program. The agency contracts for a broad range of goods and services required for daily business operations, and many of the vendors used by the agency are unique to the lottery industry. The Purchasing and Contracts Section is also responsible for monitoring performance and compliance for all agency contracts, including the assessment of liquidated damages and sanctions if applicable. The agency contracts with a third party vendor to provide risk analysis and compliance monitoring services for the lottery operator contract. The Support Services Manager administers the lottery operator compliance contract.

Governmental Affairs Division

The Governmental Affairs Division serves as the Texas Lottery Commission's primary liaison with the legislative and executive branches of state government. Its actions are designed to assist the Commissioners, the Executive Director, the Charitable Bingo Operations Director, and all divisions of the agency by providing legislative tracking, analysis, representation, recommendations and information.

Human Resources Division

Human Resources supports the agency in accomplishing its mission by providing and coordinating personnel administration programs necessary to support its employees and managers, and by promoting mutual positive regard between the agency and its employees.

The Human Resources Division assists the agency to recruit and hire the best qualified workforce available by working with agency division managers to coordinate recruiting, interviewing, hiring and orienting new employees. Division staff help agency managers post vacant positions, classify jobs and develop position descriptions in compliance with the state Position Classification Plan and the salary schedules established by the current General Appropriations Act.

Human Resources staff communicate and interpret provisions of insurance, deferred compensation and retirement program benefits to agency employees. Division employees serve as liaisons between employees and the Employees Retirement System and health insurance providers. Staff also promote internal benefit programs, including the sick leave pool, the employee assistance program, and the tuition reimbursement program, and assists eligible employees with access to those programs.

Human Resources staff coordinate employee attendance and leave accounting from all the agency timekeepers with the agency payroll system. Staff also process all employee salary actions in accordance with rules established by the state Comptroller of Public Accounts. Staff tracks and accounts for individual employee leave attributed to the agency sick leave pool as well as absences associated with Family and Medical Leave.

Human Resources staff coordinate the agency's workforce management programs, including tracking and scheduling of employee performance evaluations, as well as employee counseling and discipline. Division staff provide consultation with managers and employees regarding interpretation and application of state and agency employment policies. Staff coordinate

resolution of employee complaints and conducts related complaint investigations. Staff also coordinate employee recognition programs.

In the agency's interest, Human Resources staff must maintain current technical and practical knowledge of critical employment laws affecting personnel administration, including: The Fair Labor Standards Act; Family and Medical Leave Act; Americans with Disabilities Act; Civil Rights Act, Title VII; Uniformed Services Employment and Reemployment Rights Act; and other state and federal laws relating to equal employment opportunity and military veteran rights and benefits. Human Resources also coordinates and tracks required employee training that is mandated by state statutes and agency policy.

Internal Audit Division

The Internal Audit Division serves as an independent appraisal function within the agency. The purpose of Internal Audit is to provide independent, objective assurance and advisory services designed to add value and improve the agency's operations.

The division helps the agency accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The division supports the mission of the agency by evaluating the adequacy and effectiveness of controls designed to meet agency objectives.

The scope of work of Internal Audit is to determine whether the agency's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are monitored and achieved in line with the agency mission.
- Quality and continuous improvement are fostered in the agency's control process.
- Significant legislative or regulatory issues impacting the agency are recognized and addressed appropriately.
- Other goals and objectives of economy, efficiency, effectiveness, compliance, and safekeeping are achieved.

Internal Audit assists the Commission and agency management by furnishing independent analyses, appraisals, and recommendations about the adequacy and effectiveness of the agency's

systems of internal control policies and procedures and the quality of performance in carrying out assigned responsibilities.

Legal Services Division

The objective of the Legal Service Division is to serve the agency and provide legal advice, assistance and services to the Commissioners, the Executive Director, the Charitable Bingo Operations Director, the Internal Audit Division Director, and agency staff. The Legal Services Division is the agency's in-house legal department. The division handles all requests for legal services, works closely with the Office of the Attorney General (OAG) on agency referrals for OAG assistance, and manages outside counsel contracts.

The General Counsel is the chief legal advisor for the Commission. The General Counsel provides legal assistance and advice on enforcement actions, rulemaking, litigation, and other general legal matters that come before the Commission for consideration. The General Counsel also oversees the scheduling and management of Commission meetings, including compliance with the Open Meetings Act. The Special Counsel is the lead attorney for labor and employment law matters. The Special Counsel also provides independent legal advice to the 3-member Commission regarding administrative enforcement case proceedings and other administrative adversarial proceedings. The Deputy General Counsel supervises the majority of the Legal Services Division staff and reviews and assigns routine requests by agency divisions for legal services. Both the General Counsel and Special Counsel provide legal assistance to the Commission on compliance with ethics standards.

The Legal Services Division advises the Administration Division, Purchasing and Contracts Section, and provides all legal services in connection with procurements and contracts for goods and services. The Legal Services Division provides legal assistance on rulemaking, including preparing drafts of agency administrative rules, conducting public rulemaking hearings, receiving public comment, and preparing agency rules for adoption by the Commission. The Legal Services Division represents the Commission before the State Office of Administrative Hearings in lottery and bingo administrative enforcement matters and serves as the agency's liaison to the Office of the Attorney General.

The Legal Services Division provides legal assistance to agency staff in processing lottery prize claimants and winners. The Legal Services Division also provides legal assistance regarding the Commission's compliance with voluntary assignment court orders, as well as involuntary court orders involving divorce or other issues that would require the Commission to change its payment schedule for a prize winner.

The Legal Services Division provides personnel and employment law advice involving general matters, such as leave issues, performance evaluations, investigations, complaints and disciplinary actions. The Legal Services Division also provides legal advice to ensure agency compliance with applicable state and federal employment laws.

The Open Records function for the agency is in the Legal Services Division. The Open Records Coordinator function processes all open record requests received by the agency. The Legal Services Division also provides assistance and advice to the Executive Director regarding the Public Information Act requirements and exceptions, and provides legal briefing in support of requests for decisions submitted to the Open Records Division of the Office of the Attorney General.

Media Relations Division

The Media Relations Division is managed by a director who reports to the Executive Director. The division director works in conjunction with the Executive Director, Charitable Bingo Operations Division director and Commissioners to develop and execute a media relations strategy that supports the agency's mission and vision.

The Media Relations Division is the first point of contact for all inquiries from local, state and national news media. The division also works with other divisions to maintain uniform messaging on the agency website.

Two distinct sections make up the Media Relations Division: Media Relations and Audio-Visual. The Media Relations section responds to media inquiries and issues media advisories and news releases in English and Spanish to inform the public about agency activities. Through its Spanish-language outreach efforts, the section prepares news releases and video news releases for the Spanish-language media and makes bilingual staff available for interviews when needed.

Through its winner awareness efforts, the Media Relations section generates publicity for winners of large jackpots and other on-line prizes, as well as instant ticket merchandise and cash prizewinners. The section also coordinates agency public awareness campaigns and provides agency representatives to speak to interested groups throughout Texas as part of the agency's Speakers Bureau. By working with other divisions and making information about agency news and initiatives available to the media, the Media Relations section helps keep the agency's public service role in the public eye.

The Audio-Visual section produces informational audio and video segments for statewide broadcast and satellite distribution, including video news releases on lottery and charitable bingo activities, events and issues. This group also provides audio-visual support for events, as well as

archival and training services for other divisions. In addition, the section occasionally furnishes audio-visual services to other state agencies and legislative offices upon request.

The Media Relations Division also has oversight of the Play Responsibly program. The Texas Lottery designs its games to be a fun form of entertainment. The agency encourages players to "play responsibly;" however, some players may have difficulty knowing when to stop. For some, gambling of any kind can become a problem. "Responsibility" is a core value of the Texas Lottery Commission. That includes educating players about important game-related issues and encouraging them to play responsibly through point-of-sale material, news releases and the agency's website.

Office of the Controller

The Office of the Controller provides financial services and reporting functions for the Texas Lottery Commission in accordance with statutes and requirements set by the Comptroller of Public Accounts, the Legislative Budget Board, the Governor's Office of Budget, Planning and Policy, and other oversight agencies. The division's primary functions include administration of the development, submission, and management of agency financial statements, financial reports, payroll, accounts payable, sales reporting, revenue projections allocations, fiscal notes, performance measures, annual and biennial budgets, jackpot estimations, retailer incentive, Internal Revenue Service (IRS) tax reporting, and all other agency reports necessary to comply with agency and state requirements.

Core Business Functions

A. Provide the following information at the beginning of each program description.

Name of Program or Function	Lottery Operations Division
Location/Division	611 E. 6th Street Austin, Texas 78701
Contact Name	Michael Anger, Division Director
Actual Expenditures, FY 2010	\$167,622,278.36
Number of FTEs as of August 31, 2010	128.00

B. What is the objective of this program or function? Describe the major activities performed under this program.

The Lottery Operations Division is responsible for player, retailer and vendor compliance with the requirements of Chapters 466 of the Texas Government Code and Chapter 401 of the Texas Administrative Code. The division serves the needs of the agency and its customers in the areas of vendor and licensee compliance, jurisdictional complaint monitoring; instant ticket printing, testing, security, warehousing and distribution; retailer recruitment and development; retailer licensing and accounting; customer service through the operation of a toll-free hotline, a customer service email box on the agency's website, and oversight of the agency's correspondence functions; product development and product marketing; oversight of the Lottery Operator's sales force; lottery drawings; claims processing; retailer surveys and inspections; security of lottery drawings and claim validation processing; promotional events; and the oversight of mass-media advertising.

The division serves as the regulatory arm of the Texas Lottery, while also contributing substantially to the agency's revenue-collection function. Product development in the division focuses on maximizing revenue to the state, while advertising efforts support the goal of effectively reaching the public to enhance the awareness of Texas Lottery games and to increase sales. Retailer development efforts focus on the enhancement and expansion of distribution channels to reach new player segments and increase sales.

The division is organized into five distinct functional areas: Advertising and Promotions, Drawings and Validations, Retailer Services, Products and Security. The Lottery Operations Division is managed by a Director, who reports to the Executive Director.

Advertising and Promotions Department

The Advertising and Promotions Department oversees Texas Lottery advertising services and promotional events. The Advertising Section is responsible for overseeing and managing all advertising services for the agency. The section works with the advertising vendor(s), currently TracyLocke and LatinWorks, to plan, develop, and implement lottery advertising, and is responsible for making recommendations regarding marketing initiatives, advertising concepts and campaigns, media plans and media buys. Advertising services include creative conceptions, production, planning, buying and placement of electronic, print and outdoor advertising, as well as brand management and creation of the communications strategy. The Promotions Section is responsible for overseeing and managing all promotional events, along with the procurement and distribution of promotional products for the agency.

Drawings and Validation Department

The Drawings and Validations Department has two operating units consisting of the Drawings and Claim Center sections. The Drawings Section conducts a comprehensive program that protects and maintains the security and integrity of lottery on-line game drawings, while ensuring that the on-line games are conducted fairly and in compliance with applicable statutes, agency guidelines, policies and procedures.

The agency contracts with a production company to broadcast drawings, and an independent certified public accountant is present to certify all drawings in accordance with statute. In addition, the section handles a variety of administrative responsibilities, including the maintenance of drawing machines, ball sets and related equipment.

The Claim Center Section is composed of 16 offices statewide. Claim centers process ticket claims for payment; respond by telephone and in person to player and general public information inquiries; represent the agency at local public events; conduct retailer site inspections for ADA compliance; and conduct Retailer Research Surveys to gather marketing data and feedback on agency and lottery operator service levels.

By statute, all lottery prizes of \$600 or more must be claimed through the Texas Lottery Commission at a Texas Lottery claim center. Prizes of \$1 million or less may be claimed at any of the 16 claim center offices. Prizes of more than \$1 million and prizes involving installment payments must be claimed at the headquarters claim center in Austin.

Products Department

The Products Department is responsible for managing the research, development, implementation, promotion and sale of instant and on-line Texas Lottery products, with a focus on maximizing revenue generation for the state of Texas. Products staff works closely with instant ticket

manufacturers, currently Scientific Games International, Pollard Banknote Limited and GTECH Printing Corporation in coordination with the lottery operator to plan the distribution of instant games and manage the ticket inventory, as well as to market and promote the games to retailers and players through contests and promotions.

The Products Department oversees the development of new on-line games and enhancements to existing games, and evaluates the performance of current product offerings and research data. The Products Manager and Product Coordinators, both instant and on-line, work closely with research staff in the Administration Division to coordinate marketing research that provides the Texas Lottery with information about market conditions and player opinions, so that the agency can respond to the dynamic nature of its customer base. In addition, there is a great deal of coordination between Products and Advertising and Promotions to ensure that the necessary level of advertising and promotional support is present to make the Texas Lottery games successful. The development and on-going support for the retailer sales incentive program is co-managed by the Products Manager along with staff from the Retailer Services Department and the Office of the Controller. This program rewards retailers for meeting defined sales goals while increasing revenue contributions to the state. Products Department staff is also responsible for administering the agency's retailer bonus program and for top-prize claimant processing functions that take place at Texas Lottery Commission headquarters.

Retailer Services Department

The Retailer Services Department is responsible for processing new retailer license applications and license renewal applications. Department staff enters and monitors retailer information, coordinates ownership transfers and lottery terminal moves, processes license terminations, performs retailer records maintenance, and evaluates retailer compliance with ADA requirements. The department interacts daily with retailers on Electronic Funds Transfers (EFTs), sweep amounts, account adjustments, account reconciliations and final balances due. The department works with retailers who have experienced a non-sufficient fund EFT bank-account sweep to ensure prompt payment. When appropriate, the department conducts collection/enforcement activities through the preparation of notices and evidence required for adverse licensing actions. The department tracks and manages delinquent retailer accounts using various collection methods, including bank account freezes, levies and property liens.

The Retailer Development Section in the Retailer Services Department designs and implements strategies for developing the retailer base through cooperative efforts with Products, Advertising and Promotions, and the lottery operator. Staff coordinates initiatives for exploring new trade styles and recruitment, as well as developing new business opportunities with existing retailers. The effective placement and maximum revenue generation of self-service equipment is also a priority. Retailer Development staff is also responsible for coordinating the agency committee process for ensuring consistent and accurate training and communication with retailers.

The Compliance Hotline Section in the Retailer Services Department takes in complaints regarding bingo and lottery issues from the public. Staff involved in tracking compliance issues use an automated system developed to monitor all lottery and bingo jurisdictional complaints received by the agency. A jurisdictional complaint is one in which the Texas Lottery Commission has the authority to interpret and apply the law in accordance with the State Lottery Act, the Bingo Enabling Act, or the Texas Lottery or Bingo administrative rules. Compliance staff provides general support related to complaints for the Legal Services, Enforcement, Charitable Bingo and Lottery Operations Divisions.

The Retailer Services Department monitors lottery operator compliance with contractual requirements related to instant ticket distribution, sales terminal installation, equipment moves, retailer training and interaction with retailer licensees. Department staff is also stationed at the instant ticket distribution warehouse to monitor lottery operator compliance with contractual requirements related to instant ticket warehousing, distribution and returns.

The Retailer Services Department also responds to customer contacts through the toll-free Communications Services Telephone Hotline. Hotline staff answers questions about retailer licensing, retailer accounting and general regulatory issues. Questions are also received from the general public and Texas Lottery players and callers are directed to other sources if their questions are not related to one of these subject areas. Hotline staff also communicates with retailers, game players and the general public via e-mail and written correspondence. The department is further responsible for tracking, routing and responding to correspondence and ensuring timely responses on matters directed to the agency, the Executive Director and the Commissioners.

Security Department

The Security Department's primary role is to ensure the security and integrity of lottery drawings and ticket validations. In accomplishing this function, Security Department personnel work closely with personnel from other Texas Lottery Commission divisions and departments.

The Security Department monitors lottery drawings and validation processes to ensure that they are conducted in compliance with the applicable laws, rules, regulations, and policies and procedures. In addition to the regular daily lottery drawings, the Security Department works with the Products Department and the Drawings Section in providing monitoring activities at all second-chance drawings and retailer incentive drawings. The Security Department works with MUSL to ensure that the multi-jurisdictional *Powerball* game security requirements set up by this organization are being met.

The Security Department works with the Austin Claim Center to verify and confirm the legitimacy of on-line lottery tickets with prize payments in excess of \$1 million or more, and winning *Mega Millions* tickets valued at \$250,000 or more. Claims involving questionable lottery tickets (tickets

reported stolen, altered, damaged or previously paid) are submitted to the Security Department. Security personnel conduct a preliminary investigation to determine the true status of the ticket. Based on the findings of the preliminary investigation, the claim is either forwarded to the Enforcement Division for further investigation or returned to the Austin Claim Center for payment determination.

The Security Department houses a forensic laboratory which is used to perform forensic analysis on questionable tickets. The forensic analysts, through the use of laboratory equipment, examine tickets with suspected alterations to the game play data and claimant signatures to determine the legitimacy of ticket claims. Those tickets found to have been altered are routed to Enforcement for further investigation.

The Security Department works closely with the instant ticket manufacturers, the instant ticket testing vendor, and the Products Department to ensure that all Texas Lottery tickets sold to the public are fully tested, secure, and of the highest quality.

The Security Department is involved with instant ticket games throughout their existence. The department works with the Products Department in the production and design of new games, with the claim centers and Enforcement while games are being offered for sale and with Retailer Services in the destruction of games that have ended.

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and performance measures that best convey the effectiveness and efficiency of this function or program.

Advertising ó The goal of the Texas Lottery Commission's advertising efforts is to responsibly reach and communicate with adult Texans to enhance awareness and participation in Texas Lottery games. Public awareness of Texas Lottery Commission products is important to the agency's effectiveness in generating revenue for the state of Texas and to maintaining the public trust. The agency evaluates expenditures on advertising by media type annually based on the product game plan, new game launch initiatives and communication strategies planned for the upcoming fiscal year. Monies spent among different media types shift annually based on these factors. While the agency tracks expenditures by all media categories, television remains an essential form of media communication. The key performance measure assigned to Advertising is as follows:

Performance Measures	FY 2009 YTD Perf.	FY 2010 YTD Perf.
Dollar Amount of Advertising Budget Spent on Television (Millions)	\$11.23	\$12.62

Retailer Services ó Making the best use of automated systems and human resources and innovation are key to the efficient effective operation of programs for which the Retailer Services Department is responsible. The department is responsible for a wide array of functions that relate to the daily operation of the lottery in general along with a significant customer service component. Ensuring that these functions are addressed in a manner that results in an integrated cohesive approach to implementing lottery policies, rules and statutes is a focus of the department. The department reports on the following key performance measure and the statistics that result from the calculations of the functions measured convey the effectiveness and efficiency of the department.

The key performance measure assigned to Retailer Services is as follows:

Performance Measures	FY 2009 YTD Perf.	FY 2010 YTD Perf.
Number of Retailer Business Locations Licensed	16,647	16,758

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.

May 2002 ó The agency determined to restructure certain departments of the Lottery Operations Division that were focused on various retailer support issues in order to attain greater efficiency and streamline support for licensed retailer sales agents. Three former departments, Games Compliance, Retailer Accounting and Retailer Licensing, were brought together to form the new Retailer Services Department ensuring that a diversity of retailer support functions were conducted under a common management structure.

Spring 2003 ó The agency recognized an opportunity existed for greater efficiency and customer (player and retailer) responsiveness through the consolidation of its Customer Service and Retailer Services phone and correspondence operations. The Customer Service operations were transferred from the Marketing Division to the Lottery Operations Division under the oversight of the Retailer Services Department. Combined staffing has resulted in collaborative initiatives to ensure consistent messaging to retailers and the general public. Additionally, operational efficiencies have been realized due to cross training of player and retailer focused personnel.

January 2004 ó The Texas Lottery Commission made the determination to close five (San Angelo, Wichita Falls, Sherman, Bryan and Waco) of its 21 statewide claim centers. This determination was made based on workload analysis, geographic proximity of other claim locations and consideration of operational budgetary constraints. In addition to the closures, the Tyler and San Antonio Claim Centers each reduced their staffing by one FTE.

January 2004 ó In response to recommendations from the Sunset Advisory Commission associated with the 78th Legislative Regular Session, the agency embarked on an ambitious effort to create a universal tracking system to coordinate the collection and intake of agency complaints. The CAMP program was formally launched with the implementation of a complaint tracking system and the hiring of personnel to staff the new program. The CAMP program has dedicated staffing and is actively utilized by the Lottery Operations, Charitable Bingo Operations, Enforcement and Legal Services divisions to effectively ensure Bingo and Lottery licensee rule compliance with the Commission's administrative rules.

November 2004 – The Texas Lottery Commission undertook a significant reorganization of its organizational structure impacting the Lottery Operations Division. The new structure changed the scope of the Lottery Operations Division to include operational units unique to a state lottery. The goal of the initiative was to fully focus all operational activities of the division's core business of the lottery.

The significant changes included:

- The addition of a Security Department to oversee the ticket validation and lottery drawings processes to meet and provide the appropriate focus on statutory requirements. This was a core business activity previously performed by the former Security Division which was reorganized to focus on enforcement activities.
- The addition of the Drawings function to the Lottery Operations Division. This was a core business activity previously performed by the former Security Division which was reorganized to focus on enforcement activities.
- The addition of the Instant and On-line Products, and Promotion and Advertising functions to the Lottery Operations Division. These functions were transferred from the former Marketing Division, which was eliminated as a stand-alone division during the reorganization.
- An increase of emphasis and resources on retailer communication, development and recruitment.
- The transfer of the Support Services functions out of the Lottery Operations Division

and into the new Administration Division.

- The creation of a Creative Coordinator position dedicated to focusing on advertising concepts and the image of the Texas Lottery brand.

As several departments and/or positions were restructured and/or reorganized, there were 33 positions identified that were eliminated and processed under the agency's "Reduction-in-Force" policy. The affected employees were appropriately communicated with and every effort was made to handle these situations not only according to agency policy and guidelines, but also with the utmost respect for and assistance to the employees. Although 33 positions were eliminated under this reorganization, the agency's then full-time equivalent employee cap of 325 was not affected, as an offsetting number of new positions focused on the mission of the agency were created. The implementation of the new organizational structure yielded expected savings of \$296,000 in annual salary costs for the agency. In addition, potential annual field lease cost savings were identified based on lease negotiations with lessors. Most importantly, however, the agency and the state stood to benefit from an agency aligned in a more efficient and effective manner, and better positioned for any potential changes in the future.

Operational Changes Over Time

Products – After more than 19 years of operations, as a mature lottery, the agency must remain vigilant and responsive to industry trends and players' interests in order to continue its high level of support for Texas education in the coming years. The agency continues to consider and/or research which new game opportunities and enhancements hold the most promise to provide incremental revenue to the state.

The *Games of Texas* are the body of games that the Texas Lottery makes available to the playing public. These include instant games (scratch-offs) and on-line games. By the completion of FY 2010, seven on-line games and approximately 80 to 90 instant games constituted the game portfolio.

On-line games, industry wide, have relied primarily on jackpot levels to drive sales and revenue generation. Lotteries nationwide are attempting to increase on-line game sales by exploring the introduction of higher price points, licensed property games and non-cash prizes that have been successful tools in expanding and increasing instant game sales. Texas was instrumental in working with both multi-state game consortiums, *Mega Millions* and *Powerball*, to come together to expand the offering of both games across significantly larger population bases. On January 28, 2010, the largest lottery agreement in U.S. history was signed creating the largest market ever in North America for jackpot games. The agreement allowed for cross-selling,

meaning *Mega Millions* states had the ability to sell the *Powerball* game and *Powerball* states had the ability to sell the *Mega Millions* game. Texas, which was previously a *Mega Millions* game state, began selling *Powerball* tickets on January 31, 2010. Members from both games are working towards the development of a true national game that could have a higher price point and reach jackpot levels never seen before.

The agency continues to follow an aggressive instant game-launch strategy. In the late 1990s, approximately 25 to 30 games were introduced in a fiscal year. By FY 2004, approximately 88 games constituted the game plan. The FY 2010 game plan contained approximately 80 to 90 game introductions. Introducing more games at smaller print runs kept the product line new, fresh and exciting. In addition, higher price-point games and the "Spotlight" or "Mega" game concept have allowed the agency to reach impressive sales levels. A Spotlight or Mega game is known in the industry as a game that typically has a larger than normal print-run with an increased prize payout. Utilizing industry best practices, *\$500,000,000 Blockbuster*, the Texas Lottery's first Spotlight game, was introduced in FY 2009. This game was very successful in terms of sales and revenue generation. Future Spotlight games will be launched so the agency can continue to benefit from the sales success derived from this game type.

The agency continually evaluates its product mix and looks at new opportunities for meeting the interests of the playing public with new and different games as authorized under current statutes.

Advertising – The agency makes considerable efforts to wisely allocate its advertising dollars and meet the objectives of reaching the public to responsibly increase revenue and enhance awareness of Texas Lottery games. The Texas Lottery Commission's advertising is allocated among the 20 Designated Market Areas (DMAs) throughout the state, using a combination of mass media (television, radio, newspaper, billboards, Internet) and point-of-sale materials (flyers, brochures, posters, etc.).

While the Texas Lottery's advertising budget has diminished in nominal dollars from \$40 million in 1993 to \$32.4 million in 2010, the effects of inflation are even more pronounced. An advertising budget of \$40 million in 1993 dollars would equate to \$59.7 million in 2010 dollars adjusted for inflation.

With the greatly expanded product mix, the agency faces significant challenges in advertising and communicating with the public about all of its products. In FY 1993, lottery products consisted of one on-line game (*Lotto Texas*) and two instant games. Today, the Texas Lottery offers seven different on-line games. Additionally, the agency now introduces approximately 80 to 90 instant games each year.

In FY 1993, players were easier to reach frequently via network TV and radio advertising. However, the advertising industry has experienced dramatic challenges with the proliferation of new media choices for consumers in recent years with the expansion of Internet advertising, growth in cable channels, satellite TV, radio and the emergence of technology such as TiVo, DVRs, and iPods that can limit advertising exposure. This market dilution means it is becoming more difficult to reach large groups of consumers for the same level of media expenditures.

Since FY 1993, the population of Texas over the age of 18 has increased by 47 percent from 12.6 million to 17.9 million. Additionally, the population of Texas has become more ethnically diverse with a majority-minority population. The increased population and decreased advertising budget have combined to lower per capita expenditures over a 17-year period by 57 percent from \$3.17 to \$1.81.

The agency adheres to specific guidelines to ensure appropriate communications with the public regarding Texas Lottery products. In accordance with Government Code 466.110, advertisements or promotions sponsored by the agency may not be of a nature that unduly influences any person to purchase a lottery ticket or number. The agency's advertising reflects the Texas Lottery's mission and core values.

E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.

The Lottery Operations Division serves both external and internal customers. These customers include lottery players, winners, retailers, Commissioners and agency staff.

The retailer base serviced by the Lottery Operations Division has remained stable with slight growth over the past few years. As of August 28, 2010, the retailer base (16,758) included the following categories within the Standard Industrial Codes (SIC):

Trade Style	Count as of 8/28/2010
Convenience Stores	13,344
Supermarket/Grocery	2,114
Beer, Wine, and Liquor Stores	834
Credit Intermediation Activities	84
Tobacco Stores	66
Gift, Novelty, and Souvenir Stores	22
News Dealers and Newsstands	7

Pharmacies and Drug Stores	11
Sporting Goods Stores	2
Other	274
FY 2010 Total	16,758

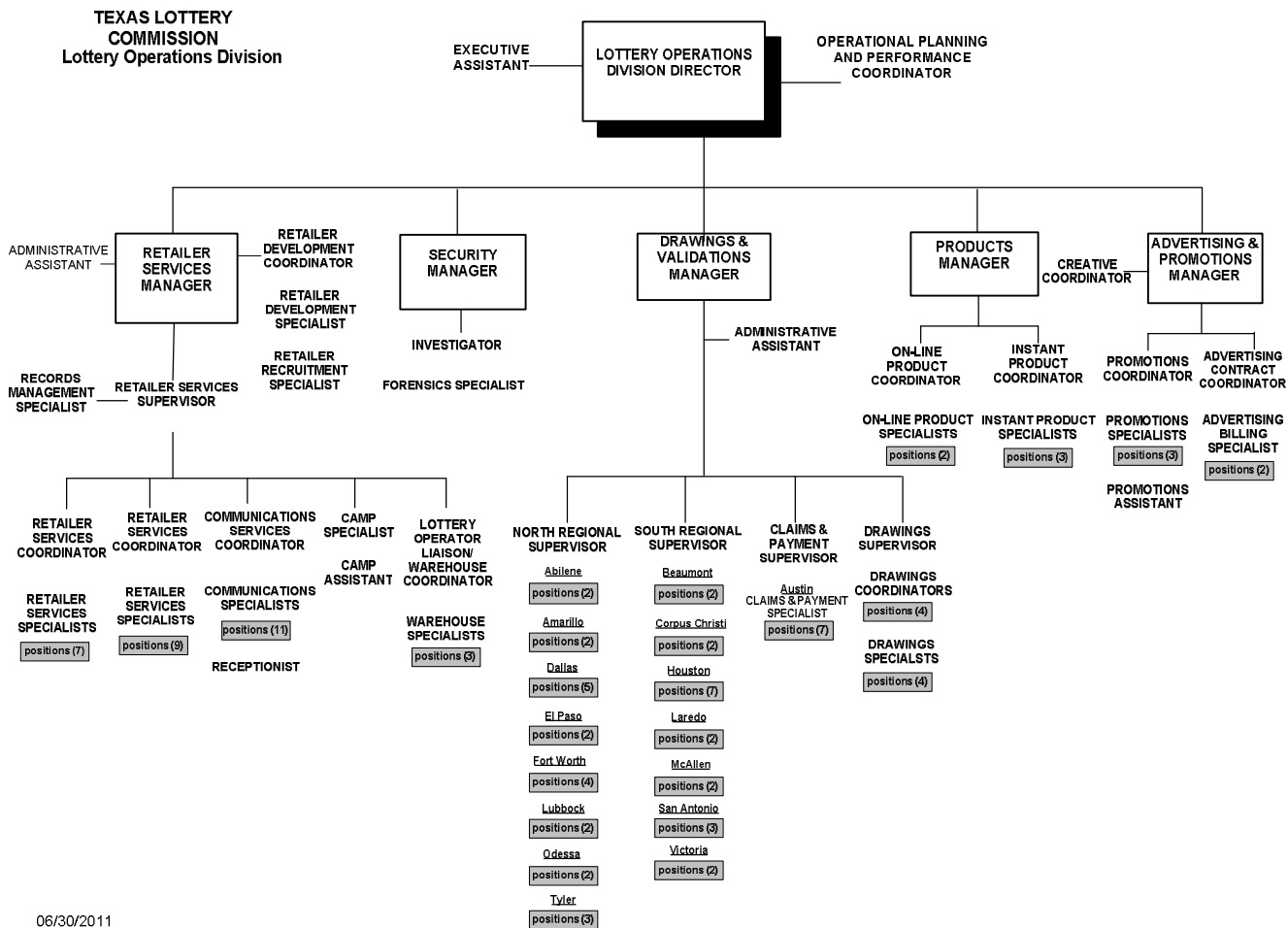
The majority of the lottery retailer base is concentrated in the convenience store industry. Barring any statutory changes that would allow the sale of tickets in ineligible locations (i.e. bars and/or restaurants with "on-premise consumption" TABC permits), this trend is expected to continue. The Texas Lottery is engaged in an active recruitment program to expand the retailer base to new trade styles to include general merchandise, drug, home improvement and "Big Box" retail trade style but even with the addition of these types of businesses, convenience stores are expected to remain the predominate trade style. To be eligible to sell lottery tickets in Texas, individuals and entities must complete and submit an Application for Texas Lottery Ticket Sales License. The application is reviewed by the agency and a license may be issued provided all requirements set forth in the State Lottery Act and Title 16, Chapter 401 of the Texas Administrative Code are met.

The player base consists predominantly of Texans of legal age (18 years or over) who purchase lottery tickets and includes players from surrounding states and Mexico who travel to Texas to purchase their tickets. Both players and retailers rely upon the Lottery Operations Division for assistance and guidance regarding the rules for claiming prizes and selling lottery tickets. The division fulfills these responsibilities by providing necessary services to lottery players and retailers. Players are also subject to all of the requirements set forth in the State Lottery Act and Title 16, Chapter 401 of the Texas Administrative Code.

F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. List any field or regional services.

The Lottery Operations Division is managed by a Director, who reports to the Executive Director. The division encompasses staff both in the Austin headquarters and field staff located in the 15 field claim centers.

Following is the Lottery Operations Division organizational chart:



06/30/2011

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

The Lottery Operations Division is funded through the General Revenue - Dedicated Lottery Account 5025.

In addition, the following appropriation Riders provide funding for the Lottery Operations Program:

Rider 10. Retailer Commissions. In addition to the 5 percent retailer commission granted to retailers, the Commission is appropriated an amount not to exceed an additional one-half of one percent of gross sales each fiscal year for the purpose of paying sales performance retailer commissions.

Rider 11. Lottery Operator Contract. The amounts appropriated in Strategy A.1.6, Lottery Operator Contract, are an estimated amount and may only be used for payment of lottery operator contractual obligations. The estimated amount appropriated is an amount equal to 2.6999 percent of gross sales in each fiscal year of the biennium.

Rider 12. Appropriation of Increased Revenues. This Rider provides for increased appropriation out of the State Lottery Account of 1.49 percent of the amount by which gross sales exceed \$3,572,150,000 in FY 2010 and \$3,492,200,000 in FY 2011. The funds are appropriated for the purpose of fulfilling contractual obligations and other administrative costs in administration of the lottery.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions. Describe the similarities and differences.

N/A

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

N/A

J. If the program or function works with local, regional, or federal units of government include a brief description of these entities and their relationship to the agency.

N/A

K. If contracted expenditures are made through this program please provide:

- the amount of those expenditures in fiscal year 2010;
- the number of contracts accounting for those expenditures;
- a short summary of the general purpose of those contracts overall;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

FY 2010	Number of Contracts	General Purpose
\$27,679.62	1	<i>Mega Millions Administration</i>
\$22,420.00	1	Statistical Consulting- Products
\$499,140.55	2	Promotional Products
\$100,292.30	Multiple	Rental of Event Space
\$3,845.00	1	Security Officer Services
\$168,450.00	1	Instant Ticket Testing Services
\$628,025.00	1	Lottery Drawing Audit Services
\$85,440.00	1	Statistical Consulting- Drawing and Validations
\$99,387,744.89	1	Lottery Operator Contract
\$16,102,131.22	5	Instant Ticket Production Contract
\$31,864,315.83	Multiple	Mass Media Advertising Contract
\$1,575,149.04	2	Drawing and Broadcast Studio Contract
\$150,464,633.45		TOTAL

L. What statutory changes could be made to assist this program in performing its functions? Explain.

Retailer Services – The agency has proposed amending Chapter 466 of the Government Code to allow the agency to contract with or license the Lottery Operator to act as a ticket sales agent. This change could result in opportunities to develop a new approach in supporting retail locations that have not traditionally offered lottery tickets at their retail businesses.

Products – The ability to offer subscriptions and process payments for those subscriptions via the Internet has the potential to expand playership and positively impact sales and revenue for the state of Texas.

M. Provide any additional information needed to gain a preliminary understanding of the program or function.

None identified at this time.

N. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe:

- **why the regulation is needed;**
- **the scope of, and procedures for, inspections or audits of regulated entities;**
- **follow-up activities conducted when non-compliance is identified;**
- **sanctions available to the agency to ensure compliance; and**
- **procedures for handling consumer/public complaints against regulated entities.**

Licensing of Sales Agents – The licensing of Texas Lottery retailers or ticket sales agents is needed to ensure that the integrity and security of Texas Lottery games are maintained to protect the interests of the state of Texas and Texas Lottery players. Licensing of sales agents is necessary to ensure that the marketing and sale of Texas Lottery games is conducted in an appropriate manner. Particular provisions in the State Lottery Act set out the eligibility parameters for an applicant for a sales agent's license. In addition, the director may license as a sales agent each person the director believes will best serve the public convenience. The director may not issue a license to a person to engage in business exclusively as a lottery sales agent and a license may not be transferred or assigned to any other person or location. The director may issue a license to a person only if the director finds that the person's experience, character, and general fitness are such that the person's participation as a sales agent will not detract from the integrity, security, honesty, and fairness of the operation of the lottery.

The agency conducts retailer investigations based on system monitoring of business activities, public complaints and issues identified by lottery operator or agency personnel in the course of their work activities in support of licensed retailers.

When a licensed sales agent/retailer is found to be noncompliant with regulations related to the retailer's eligibility, the sales agent is advised of the issue impacting its eligibility. Compliance issues may be identified through the filing of complaints by members of the public via the CAMP process or by reviews conducted by department staff. Some compliance issues require formal investigations by Texas Lottery Commission investigators while others may be evaluated via a review of agency official records. Retailer Services personnel will advise the sales agent via correspondence and/or telephone contact of measures they can take to resolve issues impacting their eligibility.

If the sales agent's eligibility issue is not resolved or cannot be resolved, action may be taken

against the sales agent's license. If the agency summarily suspends a sales agent's license, the agency shall give the lottery retailer written notice of the time and place of the administrative hearing within ten days of the hearing. The hearing is to determine whether the sales agent can show cause why the licenses should not be suspended. If the agency proposes the revocation of a sales agent's license, the agency shall give the lottery retailer written notice of the time and place of the administrative hearing not later than the 20th day before the date of the hearing. The administrative hearing, except in the summary suspension proceedings, shall be a contested case hearing conducted by the State Office of Administrative Hearings (SOAH) pursuant to the Administrative Procedure Act and the Commission's Rule of Practice and Procedure, Title 16, Chapter 401 of the Texas Administrative Code. All relevant rules of evidence and time limits established in those rules shall apply to hearings conducted. The scope of judicial review of a decision in a contested case shall be under the substantial evidence rule.

The CAMP section of the Retailer Services department is the intake point for consumer/public complaints against sales agents. Complaints about lottery sales agents are reviewed and, when necessary, investigated by the Texas Lottery Commission Enforcement Division. The investigative reports are reviewed by Lottery Operations Division management and administrative action against a sales agent's license may be initiated.

All applicants for a sales agent's license are required to certify that their location is in compliance with the Americans with Disabilities Act (ADA) as set forth in the State Lottery Act. Retailer locations must be accessible to everyone, including physically challenged individuals, so that anyone can enter (if applicable) and purchase or redeem a lottery ticket.

Retailer locations may require a formal inspection for ADA compliance in response to a complaint received from a player or a member of the public. The ADA compliance inspection covers areas of retailer locations that a player needs to enter, if applicable, and to purchase or redeem a lottery ticket. The inspection follows the State Lottery Act as it relates to federal ADA guidelines. Inspections are performed by claim center staff and are evaluated for ADA compliance by designated Retailer Services staff.

If a location is noncompliant, then Retailer Services staff notifies the retailer of the areas of noncompliance via certified letter. Noncompliant retailers are then responsible for making the changes needed to bring the location into compliance. Follow-up inspections are performed to ensure compliance. The agency may initiate administrative action against a sales agent's license if it fails to come into compliance with ADA guidelines.

O. For each regulatory program, if applicable, provide the following complaint information. The chart headings may be changed if needed to better reflect your agency's practices.

Texas Lottery Commission Lottery Operations Exhibit 12: Information on Complaints Against Regulated Persons or Entities Fiscal Years 2009 and 2010		
	FY 2009	FY 2010
Total number of regulated persons	16,647	16,758
Total number of regulated entities	16,647	16,758
Total number of entities inspected	NA	NA
Total number of complaints received from the public	311	430
Total number of complaints initiated by agency	5	11
Number of complaints pending from prior years	108	99
Number of complaints found to be non-jurisdictional	5	48
Number of jurisdictional complaints found to be without merit	217	241
Number of complaints resolved	325	426
Average number of days for complaint resolution	116.04	97.62
Complaints resulting in disciplinary action:		
administrative penalty	NA	NA
reprimand	97	131
probation	NA	NA
suspension	2	4
revocation	0	1

A. Provide the following information at the beginning of each program description.

Name of Program or Function	Charitable Bingo Operations Division
Location/Division	611 E. 6th Street Austin, Texas 78701
Contact Name	Phil Sanderson, Division Director
Actual Expenditures, FY 2010	\$14,599,983.15
Number of FTEs as of August 31, 2010	40.00

B. What is the objective of this program or function? Describe the major activities performed under this program.

The Charitable Bingo Operations Division (CBOD) is responsible for the regulation of all activities relating to the conduct of charitable bingo games in the state of Texas. The CBOD regulatory objective is:

Charitable bingo is an important fund-raising activity for a variety of Texas nonprofit organizations. The Charitable Bingo Operations Division of the Texas Lottery Commission is charged with the strict control and close supervision of bingo conducted in this state so that bingo is fairly conducted and the proceeds from bingo are used for an authorized purpose. Our goal is to achieve voluntary compliance and assist licensees through training and education.

We will strive for the highest levels of professionalism, conducting our regulatory activities fairly, competently and consistently. We will develop clear regulatory requirements in an open environment, encouraging two-way communication.

The CBOD is managed by a Director, who reports to the three-member Commission. The division is organized into two departments: Audit Services and Taxpayer Services. While each department of the CBOD performs a distinct function, they also interact frequently with each other, as well as with other divisions of the Texas Lottery Commission in the regulation of charitable bingo activities in Texas.

Audit Services Department

The CBOD's regulatory objective states, "The Charitable Bingo Operations Division of the Texas Lottery Commission is charged with the strict control and close supervision of bingo conducted in this state so that bingo is fairly conducted and the proceeds from bingo are used for

an authorized purpose.” The activities conducted by the Audit Services Department address these components of the regulatory objective.

The Audit Services Department has two sections: Audit and Inspection. The key activities performed by the audit team include compliance audits and complaint investigations. The inspection team has primary responsibility for conducting complaint investigations and bingo game inspections.

The Audit Services Department conducts testing on bingo card-minding systems, video confirmation devices, bingo paper, pull-tab bingo tickets and pull-tab bingo ticket dispensers. Only bingo products approved by the Commission can be sold, leased or used in Texas. The Audit Services Department also provides assistance to the Taxpayer Services Department in the areas of taxpayer assistance, and licensing and accounting activities.

Taxpayer Services Department

The Taxpayer Services Department has two sections: Accounting Services and Licensing Services. The key services and functions of Accounting Services are óTo process all quarterly tax returns and mail out billing notices; calculate and remit allocation checks to local jurisdictions that share the revenue from bingo; review unit accounting agreements for compliance; monitor the operating capital limits and distributions of bingo net proceeds; process waiver requests and communicate with licensees regarding compliance issues.

If a licensee does not pay, or underpays, its prize fee or gross rental tax for a quarter, the Accounting Services Section is responsible for collection of those fees and taxes. The collection of prize fees and rental tax may include forfeiting bonds, placing licensees on payee hold with the Comptroller of Public Accounts, or requesting and testifying in administrative hearings to revoke or deny the license.

Accounting Services interacts frequently with licensees regarding the filing of reports, meeting their net proceed requirements, notification of accounting unit changes or the transfer of funds into their bingo account, and the calculation of their operating capital and required distribution. On a quarterly basis, Accounting Services notifies all conductors in writing of their required distributions and then verifies that their distributions were made as mandated by the Bingo Enabling Act.

Accounting Services is responsible for working with the agency’s Office of the Controller to allocate bingo funds to local cities and counties on a quarterly basis. The allocation of bingo funds to local jurisdictions is based on bingo prize fees collected at games conducted in counties and municipalities. A county or municipality that imposed a gross receipts tax on the conduct of bingo as of January 1, 1993, is entitled to 50 percent of the prize fee collected under Section

2001.502 on a prize awarded at a game conducted in the county or municipality. In the event that a county and municipality are both entitled to a share of the fee, the county is entitled to 25 percent of the fee on a prize awarded at a game conducted in the county, and the municipality is entitled to 25 percent of the fee on a prize awarded at a game conducted in the municipality.

Licensing Services is responsible for the review and processing of all applications to conduct a charitable bingo activity in the state of Texas. Licensing examiners communicate via written correspondence, fax or telephone with all applicants to clear deficiencies before licenses are issued. Licensees may renew their licenses for one year or two years, and all license renewal applications are reviewed by licensing examiners to verify compliance with the Bingo Enabling Act and the Charitable Bingo Administrative Rules. Examiners also process and issue temporary licenses to authorized organizations for one-time occasions. The Licensing Services Section is responsible for maintaining a registry of approved bingo workers, processing equipment transfer requests, updating changes to licensee's information on file and, conducting pre-licensing interviews and site inspections.

In addition, Licensing coordinates collection and maintains data related to customer satisfactions, surrendered and expired licensees, and licenses that have been placed in administrative hold status. Also, all examiners provide assistance as necessary to applicants who call on the 1-800 information line.

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and performance measures that best convey the effectiveness and efficiency of this function or program.

In calendar year 2010, the Licensing Services Section processed and issued 9,202 licenses to individuals and organizations, which generated \$699.3 million in gross receipts, the highest since charitable bingo started. Also \$33.9 million was distributed for charitable purposes by licensed conductors and \$30.6 million was deposited into the General Revenue Fund and of that amount, \$12.3 million was allocated to local jurisdictions. Net proceeds realized by conductor licensees in calendar year 2010 were \$28,301,437.

Based upon the type of licensee, the Licensing Services Section processes original, renewal, amended, and temporary licenses to individuals and organizations that hold one of the following types of licenses: conductor, lessor, distributor, manufacturer, and unit manager.

The following key performance measures provide information on the level of efficiency and effectiveness of the CBOD ensures that charitable bingo in Texas is conducted fairly and the proceeds from charitable bingo are used for an authorized purpose.

Bingo Key Performance Measures	FY 2009 Actual Performance	FY 2010 Actual Performance
Percent of Complaints Referred for Disciplinary Action	9.03%	82.14%
Net Bingo Games Revenue Received by Charitable Organizations (Millions)	\$34.67	\$36.09
Percentage of Organizations Who Met the Statutory Charitable Distribution Requirement	98.97%	99.81%
Number of Licenses Issued to Individuals and Organizations	7,135	9,073
Number of Bingo Complaints Completed	144	168
Number of Days to Allocate Payments to Local Jurisdictions	16.75	7

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.

The basic functions of the CBOD have not changed from the original intent. So long as bingo is regulated by the state of Texas, the mission and program of the CBOD will always be necessary.

E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.

The CBOD regulates all aspects of charitable bingo activities in Texas and issues the following types of licenses:

- **Conductor** – a non-profit organization authorized to conduct bingo in Texas. A non-profit organization applying for a license to conduct charitable bingo must meet requirements for licensing as stated for the various types of non-profits (fraternal, veteran, religious, medical, emergency medical services, national historical districts and volunteer fire departments) as specified by §§ 2001.002 (11) (19) (27) (28), 2001.101, 2001.102 of the Bingo Enabling Act. Once licensed the organization must comply with the Bingo Enabling Act and Charitable Bingo Administrative Rules. In calendar year 2010 there were 1,254 licensed conductors in Texas.
- **Lessor** – an individual or organization that leases a location for the purpose of conducting a charitable bingo game. An applicant for a lessor license must meet the requirements of §§ 2001.151, 2001.152, 2001.153, 2001.154, 2001.156, 2001.157, 2001.158, 2001.159, 2001.160 and 2001.161 of the Bingo Enabling Act. Once licensed the individual or organization must comply with the Bingo Enabling Act and Charitable Bingo

Administrative Rules. In calendar year 2010 there were 418 licensed commercial lessors in Texas.

- **Distributor** – an individual or organization that sells, distributes, or supplies equipment to organizations licensed to conduct charitable bingo in Texas. An applicant for a distributor's license must meet the requirements of §§ 2001.206, 2001.207, 2001.208, 2001.209, 2001.210, and 2001.211 of the Bingo Enabling Act. Once licensed the organization must comply with the Bingo Enabling Act and Charitable Bingo Administrative Rules. In calendar year 2010 there were 18 licensed distributors in Texas.
- **Manufacturer** – an individual or organization that manufactures bingo equipment and sells to licensed distributors in Texas. An applicant for a manufacturer's license must meet the requirements of §§ 2001.201, 2001.202, 2001.203, 2001.204, and 2001.205 of the Bingo Enabling Act. Once licensed the individual or organization must comply with the Bingo Enabling Act and Charitable Bingo Administrative Rules. In calendar year 2010 there were 17 licensed manufacturers in Texas.
- **Unit Manager** – an individual who will be responsible for revenue, authorized expenses, and inventory of an accounting unit. Applicants for a unit manager license must meet the requirements of §§ 2001.431(4) and 2001.437 of the Bingo Enabling Act and Charitable Bingo Administrative Rules § 402.407. Once licensed the individual must comply with all applicable sections of the Bingo Enabling Act and Charitable Bingo Administrative Rules. In calendar year 2010 there were no licensed unit managers in Texas.

Any individual who acts as an operator, manager, cashier, usher, caller, bingo chairperson, bookkeeper, or sales person for a licensed authorized organization must be listed on the Registry of Approved Bingo Workers. To be listed on the registry all individuals must meet the requirements of §§ 2001.313 and 2001.314 of the Bingo Enabling Act. Once an individual is listed on the Registry of Approved Bingo Workers, that individual must meet all applicable requirements of the Bingo Enabling Act and Charitable Bingo Administrative Rules.

Ultimately, the regulatory practices of the CBOD impact bingo players in Texas and citizens of Texas who benefit from the charitable distributions generated by organizations that conduct bingo in Texas. In calendar year 2010, attendance at charitable games in Texas exceeded 17.7 million and charitable organizations made more than \$33.9 million in charitable distributions.

Cities and counties in Texas benefit from charitable bingo activities in the form of allocations derived from bingo prize fees. In calendar year 2010, bingo allocations were made as follows:

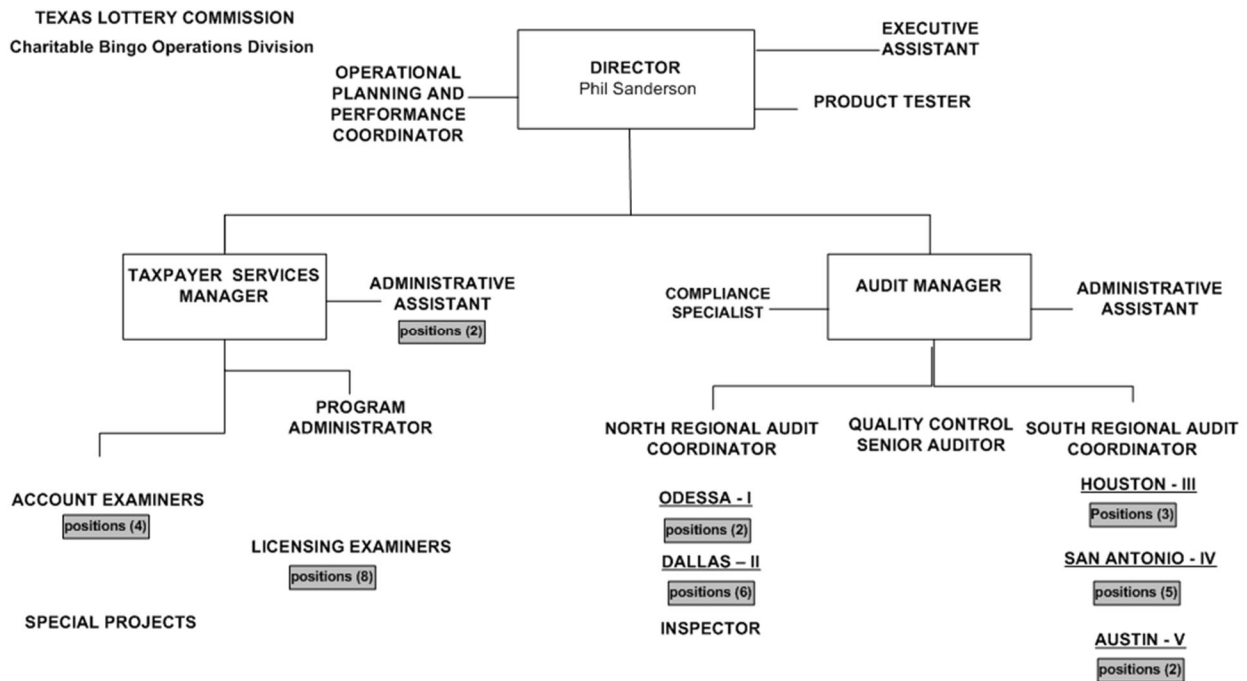
- Cities - \$5,891,872
- Counties - \$6,446,725

In addition, the state of Texas realized \$13,680,985 in allocations derived from bingo prize fees.

F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. List any field or regional services.

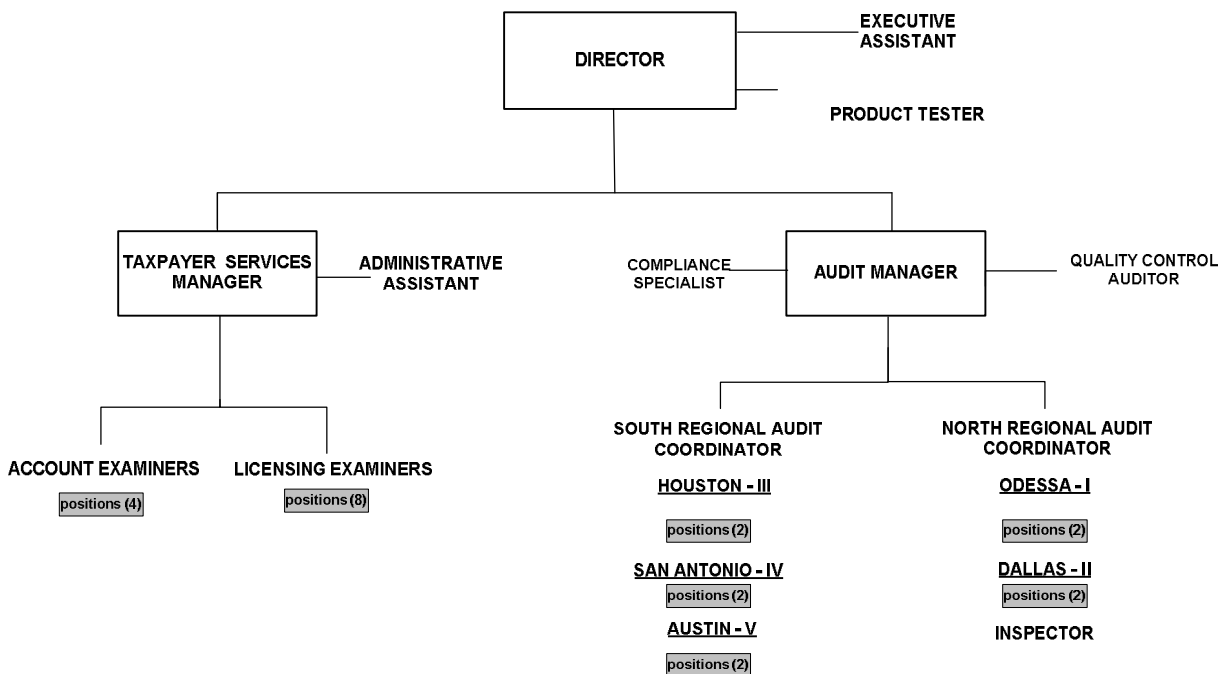
The CBOD is administered by the CBOD Director who is a direct report to the three-member Commission. The CBOD is comprised of staff in the Austin headquarters and field auditors located in four regional offices.

Following are two CBOD organizational charts. The first is based on the appropriation for FY 2011 and the second is after the budget reductions for FY 2012-2013:



06/30/2011
*FTE Count will reduce
effective 9/1/11

TEXAS LOTTERY COMMISSION
Charitable Bingo Operations Division



Effective 9-1-2011

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

The CBOD is funded through General Revenue. In addition, the following appropriation Riders provide funding for the Bingo Program:

Rider 9. Local Bingo Prize Fees. The amounts appropriated in Strategy B.1.5, Bingo Prize Fee Allocations, includes \$12,635,500 in each year of the biennium. Bingo prize fees collected in excess of the amounts appropriated are appropriated for the same purpose.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions. Describe the similarities and differences.

There are no internal programs providing similar functions as those offered by the Audit Services Department or Accounting Services Section. Other state agencies such as the TABC or the Comptroller of Public Accounts provide similar audit and tax collection functions for organizations that fall under their respective statutory authority.

A similar program to the CBOD Licensing Section is that of the Lottery Licensing Section. The two regulatory programs have various similarities and differences in how they are performed. Both the CBOD Licensing Section (for distributors and manufacturers) and the Lottery Operations Licensing Section (for retailers) must obtain fingerprint cards on all officers of the entity being licensed. Applicants for both types of licenses must submit completed application forms signed by authorized individuals. Applicants must be in good standing with the state of Texas and may post a bond or certificate of deposit, depending on their credit history. Both the bingo licensee and the lottery retailer licensee must submit renewal fees. The licensed authorized organization must have a separate bingo bank account and the licensed lottery retailer must have a commercial bank account.

The CBOD regulates more than 1,700 organizations and issues more than 9,200 licenses annually (licensee may choose to renew their license either annually or bi-annually) of the different types. The Lottery Operations Licensing Section regulates approximately 17,000 retailers over a two-year period and issues about 8,000 licenses each year. Finally, the licensing prerequisites for bingo conductors are more restrictive, requiring more detailed applicant information, than the requirements for a lottery retailer license.

Another function in the CBOD, the Accounting Services Section, may appear to have similar functions as the Retailer Services Department of the Lottery Operations Division. Although both sections are responsible for the collection of monies due to the state and the enforcement of applicable bingo and lottery statutes, bingo licensees self-report the amount owed to the state and manually pay the amount due while lottery retailers' transactions are tracked by the Commission on the lottery operator accounting system and the monies owed are electronically transferred from the retailers' bank accounts. In addition, the Accounting Services Section performs duties specific to the CBOD, including, but not limited to, making allocations to local jurisdictions, and verifying charitable distributions.

Enforcing bingo laws requires close supervision and strict control so that bingo is conducted fairly. To have an effective enforcement program of a gaming activity, the CBOD must work closely in concert with the Commission's Enforcement and Legal divisions, and outside law enforcement agencies such as the Department of Public Safety, Office of the Attorney General, Internal Revenue Service, and county and district attorneys.

Other agencies conduct licensing and enforcement functions but, because of the complex nature of the licensed activity, resulting enforcement and interplay of substantive law, regulation of a specific industry like gaming is left to a specific agency.

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

There is no duplication or conflict with the licensing of organizations to conduct charitable bingo and those licensed as lottery retailers.

J. If the program or function works with local, regional, or federal units of government include a brief description of these entities and their relationship to the agency.

The CBOD does have a working relationship with the IRS. This generally involves the sharing of audits performed by the CBOD that indicate an organization may be in violation of federal statutes relating to the exempt status of non-profit organizations. Additionally, the Licensing Services Section verifies the required 501(c) exemptions of organizations with the IRS.

K. If contracted expenditures are made through this program please provide:

- the amount of those expenditures in fiscal year 2008;
- the number of contracts accounting for those expenditures;
- a short summary of the general purpose of those contracts overall;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

FY 2010 Expenditures	Number of Contracts	General Purpose
\$8,689.88	1	Copy Center, Copy Machines and Services
\$21,274.00	1	Background Investigations
\$45,561.70	1	Website Hosting Fee and Services
\$75,525.58		TOTAL

There were not any contracting problems with the above contracts for FY 2010.

L. What statutory changes could be made to assist this program in performing its functions? Explain.

None identified at this time.

M. Provide any additional information needed to gain a preliminary understanding of the program or function.

None identified at this time.

N. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe:

- **why the regulation is needed;**
- **the scope of, and procedures for, inspections or audits of regulated entities;**
- **follow-up activities conducted when non-compliance is identified;**
- **sanctions available to the agency to ensure compliance; and**
- **procedures for handling consumer/public complaints against regulated entities.**

The regulation is needed so that bingo games are fairly conducted and the proceeds derived from the conduct of the games are used for an authorized purpose. The scope of audits and inspections of licensees focuses on all records related to the conduct of charitable bingo. The procedures for conducting those audits and inspections are contained in the CBOD Bingo Procedures, Audit Services Department. For audits and inspections, an auditor provides a violation form or report to the licensee. The auditor then discusses the violations with the licensee with recommendations.

Administrative sanctions or disciplinary actions are available to the agency to monitor compliance. The director may issue a violation report stating the facts on which the conclusion that a violation occurred is based, recommending that an administrative penalty be imposed on the person alleged to have committed the violation, and recommending the amount of the proposed penalty. Additionally, the division issues Opportunity to Show Compliance letters and Notice of Application Denial letters. Individuals and organizations may enter into a Settlement Agreement accepting the administrative penalty or a Memorandum of Agreement and Consent Order accepted by the Commission. Both agreements can provide for disciplinary action against a licensee, including monetary forfeiture, license suspension or revocation, or license application denial. Contested administrative disciplinary actions are conducted in a State Office of Administrative Hearings (SOAH) administrative hearing pursuant to the provisions of the Administrative Procedures Act.

The CAMP Section of the Retailer Services Department of the Lottery Operations Division operates an intake function that includes receiving complaints. The complaints are then forwarded to the Bingo Division and discussed at a weekly meeting attended by representatives from Bingo, Enforcement and Legal Divisions. Based on the nature of the complaint, the complaint may be investigated by Enforcement Investigators or referred to the Audit Services Department. If the complaint is referred to the Audit Services Department, it is then assigned to an auditor or inspector. There are instances where a complaint is worked jointly by an Enforcement Investigator and an auditor.

O. For each regulatory program, if applicable, provide the following complaint information. The chart headings may be changed if needed to better reflect your agency's practices.

Texas Lottery Commission Charitable Bingo Operations Exhibit 12: Information on Complaints Against Regulated Persons or Entities Fiscal Years 2009 and 2010		
	FY 2009	FY 2010
Total number of regulated persons	14,448	17,010
Total number of regulated entities	7135	9073
Total number of entities inspected	362	620
Total number of complaints received from the public	182	163
Total number of complaints initiated by agency	2	3
Number of complaints pending from prior years	92	96
Number of complaints found to be non-jurisdictional	23	27
Number of jurisdictional complaints found to be without merit	111	113
Number of complaints resolved	180	164

Average number of days for complaint resolution	276.99	197.10
Complaints resulting in disciplinary action:		
administrative penalty	3	3
reprimand	1	0
probation	N/A	N/A
suspension	N/A	N/A
revocation	0	0

A. Provide the following information at the beginning of each program description.

Name of Program or Function	Enforcement Division
Location/Division	611 E. 6th Street Austin, Texas 78701
Contact Name	Ed Rogers, Division Director
Actual Expenditures, FY 2010	\$1,133,339.87
Number of FTEs as of August 31, 2010	16.00

B. What is the objective of this program or function? Describe the major activities performed under this program.

The objective of the Enforcement Division is to ensure the integrity and security of the Texas Lottery Commission and its games through the investigation of Texas Lottery applicants; bingo & lottery licensees; contract vendors and their employees; and allegations of administrative and criminal violations of the rules and laws governing lottery and bingo.

The major activities include the following:

- **Background Investigations** ó Conduct criminal background checks on, but not limited to, lottery employees/retailers/vendors, and bingo manufacturers/distributors/workers to ensure the integrity of its licensees and employees.
- **Criminal/Administrative Investigations** ó Investigate complaints from the public as referred from Lottery Operations or the Bingo Division through the CAMP process and investigate any claim by fraud cases as referred by the Security Division.
- **Assist Law Enforcement Agencies** ó Assist local law enforcement agencies with their investigations by providing information on criminal offenses involving the theft or redemption of lottery tickets.

C. What evidence can you provide that shows the effectiveness and efficiency of this program or function? Provide a summary of key statistics and performance measures that best convey the effectiveness and efficiency of this function or program.

Performance Measure	Target	FY 2010
Number of Lottery Investigations Initiated	865	1012
Number of Lottery Investigations Completed	500	558
Number of Lottery Background Investigations Completed	320	458

Average Time to Complete Lottery Investigations (Days)	60	53.84
Average Cost Per Lottery Investigation Completed	\$255	\$236.64
Average Time to Complete Lottery Background Investigations (Days)	40	16.94
Number of Bingo Background Investigations Completed	370	453
Average Time to Complete Bingo Background Investigations (Days)	40	25.32

D. Describe any important history regarding this program not included in the general agency history section, including how the services or functions have changed from the original intent.

In August 2004, an interagency workgroup was created to evaluate the Security Division's functions. Based on the workgroup's evaluation, it was determined that certain responsibilities performed by the Security Division could be restructured and conducted by other agency divisions to maximize efficiency and personnel. These functions included, but were not limited to, reassigning color testing of tickets, risk management, supervision of lottery drawings, auditing of instant ticket games at ticket manufacturing locations and administration of building security. In December 2004, the Enforcement Department was created and placed under the direction of the Legal Division. In July 2006, the Enforcement Department became its own division. Since the introduction of the Enforcement Division, formerly the Enforcement Department, the priorities of the division have been 1) conducting background investigations (employees, retailers, vendors, etc.), 2) investigating complaints and questionable prize claims, and 3) serving as a resource to local law enforcement agencies.

E. Describe who or what this program or function affects. List any qualifications or eligibility requirements for persons or entities affected. Provide a statistical breakdown of persons or entities affected.

As part of its regulatory role, the Texas Lottery Commission, through its Enforcement Division, investigates alleged violations of the State Lottery Act, Bingo Enabling Act and the respective administrative rules.

Qualifications and eligibility requirements:

For lottery operators, vendors and retailers – Refer to Texas Government Code, Chapter 466 and Texas Administrative Code, Chapter 401

For Charitable Bingo workers – Refer to Texas Occupations Code, Chapter 2001 and Texas Administrative Code, Chapter 402

For Texas Lottery Commission Employees – Refer to Texas Lottery Commission Personnel Handbook and Texas Government Code

Investigations are initiated from complaints originating inside and outside the agency. During FY 2010, Enforcement Division investigators conducted 1,524 investigations, including 555 alleged violations of the Lottery Act and 55 alleged violations of the Charitable Bingo Act. Background investigations were conducted on 13 Texas Lottery Commission employment applicants, 212 lottery operator employees, and 93 vendor employees. In addition, Enforcement staff screened a total of 21,627 bingo and lottery licensee applicants which resulted in 453 bingo background investigations and 130 lottery retailer background investigations. The Enforcement Division conducted 13 lottery vendor site inspections.

F. Describe how your program or function is administered. Include flowcharts, timelines, or other illustrations as necessary to describe agency policies and procedures. List any field or regional services.

The Enforcement Division is located at Texas Lottery headquarters in Austin and performs numerous types of investigations for the agency throughout the state of Texas. The Enforcement Division is managed by a Director, who reports to the Executive Director. The types of investigations performed are as follows:

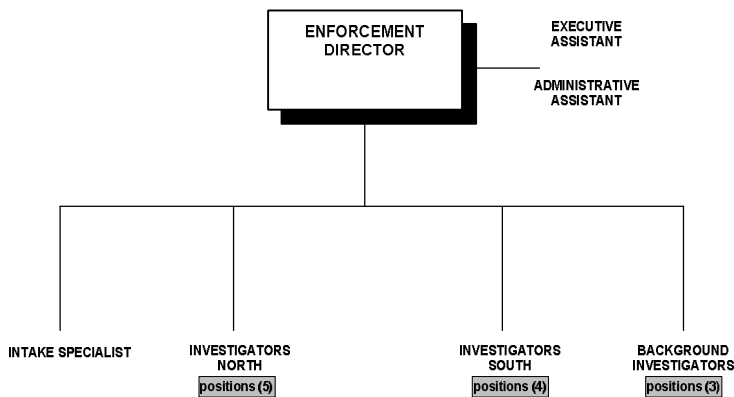
- Bingo Worker Registry/Bingo Licensee Backgrounds
- Lottery Retailer Backgrounds
- Texas Lottery Commission Vendor Backgrounds
- Potential Texas Lottery Commission Employee backgrounds
- Lottery Operator Employee backgrounds
- Security Referral on Questionable Claims
- Complaints ó Lottery or Bingo
- Internal Investigations
- Assist Outside Law Enforcement Agencies
- Proactive High Tier and Retailer Activity Investigations

Investigation referrals are received from different divisions and departments within the agency or initiated by Enforcement investigators. Upon completion of investigations, the results are forwarded back to the referring party for administrative action or if criminal violations are found, the case is referred to the local prosecutor or court of jurisdiction.

For division timelines, refer to Key Performance measures table in item C.

Following is the Enforcement Division organizational chart:

TEXAS LOTTERY COMMISSION
Enforcement Division



06/30/2011

G. Identify all funding sources and amounts for the program or function, including federal grants and pass-through monies. Describe any funding formulas or funding conventions. For state funding sources, please specify (e.g., general revenue, appropriations rider, budget strategy, fees/dues).

The Enforcement Division is funded through the General Revenue Dedicated Fund- Lottery Account Number 5025.

H. Identify any programs, internal or external to your agency, that provide identical or similar services or functions. Describe the similarities and differences.

At this time, no other internal or external programs provide similar services. The activities conducted by the Enforcement Division are unique to this division.

I. Discuss how the program or function is coordinating its activities to avoid duplication or conflict with the other programs listed in Question H and with the agency's customers. If applicable, briefly discuss any memorandums of understanding (MOUs), interagency agreements, or interagency contracts.

N/A

J. If the program or function works with local, regional, or federal units of government include a brief description of these entities and their relationship to the agency.

When requested, the Enforcement Division provides assistance to local law enforcement agencies in their investigation of criminal offenses involving theft or redemption of lottery tickets.

K. If contracted expenditures are made through this program please provide:

- the amount of those expenditures in fiscal year 2010;
- the number of contracts accounting for those expenditures;
- a short summary of the general purpose of those contracts overall;
- the methods used to ensure accountability for funding and performance; and
- a short description of any current contracting problems.

FY 2010 Expenditures	Number of Contracts	General Purpose
\$41,796.75	1	Background Investigations

L. What statutory changes could be made to assist this program in performing its functions? Explain.

None identified at this time.

M. Provide any additional information needed to gain a preliminary understanding of the program or function.

None identified at this time.

N. Regulatory programs relate to the licensing, registration, certification, or permitting of a person, business, or other entity. For each regulatory program, if applicable, describe:

- why the regulation is needed;
- the scope of, and procedures for, inspections or audits of regulated entities;
- follow-up activities conducted when non-compliance is identified;
- sanctions available to the agency to ensure compliance; and
- procedures for handling consumer/public complaints against regulated entities.

None identified at this time.

O. For each regulatory program, if applicable, provide the following complaint information. The chart headings may be changed if needed to better reflect your agency's practices.

Texas Lottery Commission Enforcement Exhibit 12: Information on Complaints Against Regulated Persons or Entities Fiscal Years 2009 and 2010		
	FY 2009	FY 2010
Total number of regulated persons	N/A	N/A
Total number of regulated entities	N/A	N/A
Total number of entities inspected	13*	13*
Total number of complaints received from the public	N/A**	N/A**
Total number of complaints initiated by agency	316***	361***
Number of complaints pending from prior years	0	0
Number of complaints found to be non-jurisdictional	N/A	N/A
Number of jurisdictional complaints found to be without merit	N/A	N/A
Number of complaints resolved	316	336
Average number of days for complaint resolution	48.2	55.42
Complaints resulting in disciplinary action:		
administrative penalty	N/A	N/A
reprimand	N/A	N/A
probation	N/A	N/A
suspension	N/A	N/A

revocation	N/A	N/A
other (criminal charges filed)	11	1
other (criminal convictions)	6	1

* Enforcement conducts yearly inspections of all GTECH facilities located in Texas, out -of-state vendors who manufacture instant tickets and new vendor facilities that have never undergone an inspection.

**The Lottery Operations and the Charitable Bingo Division review all incoming complaints from the public and forward to Enforcement only those complaints needing investigation.

***In addition to complaints, investigations are initiated upon referrals from the Security Division and assistance requested from law enforcement agencies.

VIII. Statutory Authority and Recent Legislation

A. Fill in the following chart, listing citations for all state and federal statutes that grant authority to or otherwise significantly impact your agency. Do not include general state statutes that apply to all agencies, such as the Public Information Act, the Open Meetings Act, or the Administrative Procedure Act. Provide information on Attorney General opinions from FY 2006 - 2010, or earlier significant Attorney General opinions, that affect your agency's operations.

Texas Lottery Commission Exhibit 13: Statutes/Attorney General Opinions	
Statutes	
Citation/Title	Authority/Impact on Agency
Texas Constitution, Article 3, Section 47	Provides that the Legislature by law may authorize and regulate certain charitable bingo games, and further provides that the Legislature by law may authorize the state to operate lotteries.
Government Code, Chapter 467	Establishes the Commission and sets forth its powers and duties.
Government Code, Chapter 466 State Lottery Act	Authorizes the state to operate lotteries.
Occupations Code, Chapter 2001 Bingo Enabling Act	Authorizes charitable bingo and authorizes the state to regulate charitable bingo.
Attorney General Opinions	
Attorney General Opinion No.	Impact on Agency
GA-103	Article III, section 47(e) of the Texas Constitution does not permit the Legislature to authorize the state to operate video lottery terminals.

GA-248	The Bingo Enabling Act, Texas Occupations Code chapter 2001, does not authorize the Bingo TVNet Corporation to conduct BingoTV in Texas. BingoTV is not a legal "sweepstakes" within any Texas law.
GA-323	The Texas Lottery Commission lacks authority to sell promotional goods.
GA-358	The Legislature may not, absent a constitutional amendment, authorize the creation of county gaming districts on a local option basis that would then permit the Texas Lottery Commission to administer a video lottery in those counties.
GA-385	A nonprofit organization would violate Penal Code section 47.03(a)(3) and (5) by sponsoring a poker run in which participants are entitled to receive a five-card hand for each \$10 donation they make to a charitable cause and will receive cash prizes for the best, second best, and worst hands.
GA-410	For purposes of the State Lottery Act, a "minor" is an individual who has not yet attained the age of 21 years. The Texas Lottery Commission must award the cash equivalent of a prize to a person who is at least 18 years of age but not yet 21 years of age in accordance with the terms of section 466.405 of the Government Code.
GA-458	Occupations Code chapter 2001, The Bingo Enabling Act, permits the Texas Lottery Commission to issue a manufacturer's or distributor's license to a group that is composed of multiple legal

	<p>entities. A person comprising a group of entities that applies for a manufacturer's or distributor's license must meet the eligibility requirements established by the act and Commission rules, which do not necessarily require common ownership and control of the group.</p>
GA-499	<p>Occupations Code section 2001.458(b) prohibits an authorized organization licensed to conduct bingo games from incurring or paying from a bingo account the costs of health insurance or benefits for the organization's employees or their dependents.</p>
GA-505	<p>Section 2001.160 of the Occupations Code does not authorize the holder of a commercial bingo lessor license to transfer the license to a person other than a corporation formed or owned by the license holder. An order of the Texas Lottery Commission transferring a commercial lessor license or granting a subsequent license, an amended license, or a renewal that does not show a lack of Commission authority on its face and that was not procured by extrinsic fraud is not void. The Commission does not have general authority to reopen an order granting a license transfer that has become administratively final.</p>
GA-527	<p>A stored-value card enabling the purchase of merchandise is a medium of exchange within the definition of cash and therefore does not constitute a "noncash merchandise prize" within the exception of section 47.01(4)(B), Penal Code. Eight-liner machines rewarding play with such a stored-value card are gambling</p>

	devices.
GA-541	Texas Constitution article III, section 47(b) authorizes the Legislature to enact legislation permitting charitable entities to conduct bingo games for charitable purposes. The constitutional authorization for charitable bingo does not include "electronic pull-tab bingo," which an un-enacted bill of the Seventy-ninth Regular Legislative Session would have authorized. The proposed legislation would be unconstitutional under article III, section 47(a).
GA-563	Under the Bingo Enabling Act, chapter 2001 of the Occupations Code, an applicant required to list in its application an individual who holds ten percent or more of an equitable or credit interest in a holding company that, in turn, holds an equitable or credit interest in another subsidiary manufacturer or distributor company, is not ineligible as a matter of law for a distributor's or manufacturer's license. Because the holding company and its subsidiary are treated as separate and distinct legal entities under Texas law, the individual does not hold, as a matter of law, an equitable or credit interest in the subsidiary bingo manufacturer or distributor by virtue of his or her equitable or credit interest in the holding company.
GA-579	A court would probably find that the Texas Lottery Commission violates the Americans with Disabilities Act if it fails to provide Texas residents with "meaningful access" to state services.

GA-591	A Texas Lottery Commission rule authorizing the "graphic and dynamic" video confirmation device solely to inform players of the winning numbers in a bingo game would not by itself convert the game into electronic bingo.
GA-592	The Texas Lottery Commission may not operate a "raffle-style" game, nor may it enter into a contract with a private entity to operate such a game on behalf of the state.
GA-647	<p>Depending on the particular facts, Government Code section 467.025(a)(5) could apply to prohibit a member of the Lottery Commission from inviting a person to a political fundraising event, authorizing the inclusion of the member's name as a sponsor or host of a political fundraising event, or soliciting a contribution to a candidate for a federal office. The applicability of the statute does not depend on the current status of the candidate as a state officeholder.</p> <p>A court would not likely find section 467.025(a)(5) unconstitutional on its face, although a court could possibly conclude that it is unconstitutional as applied in particular circumstances.</p>
GA-675	Because the use of electronically readable information on a driver's license to verify the age of a person attempting to purchase a lottery ticket serves legitimate law enforcement or governmental purpose, the Texas Lottery Commission is not prohibited by section 521.126 of the Transportation Code from using self-service terminals and vending machines

	to accomplish that purpose.
GA-804	A participant paying an amount of money to purchase a square in the game activity you describe does not make a bet under chapter 47 of the Texas Penal Code. Absent a bet, we cannot conclude that the activity you describe implicates sections 47.02 and 47.03 of the Penal Code.
GA-812	Texas courts have repeatedly considered the legal status of eight-liner machines that award gift certificates redeemable at retail establishments or tickets redeemable for further play and have determined that those machines are gambling devices and do not meet the requirements for exclusion under subsection 47.01(4)(B) of the Penal Code. Similarly, a device that awards bingo cards or paper, card-minding devices and pull-tab bingo, or gift certificates redeemable for the same, is not rewarding the player exclusively with "noncash merchandise prizes, toys, or novelties," under subsection 47.01(4)(B) of the Penal Code.

B. Provide a summary of recent legislation regarding your agency by filling in the chart below or attaching information already available in an agency-developed format. Briefly summarize the key provisions. For bills that did not pass, briefly explain the key provisions and issues that resulted in failure of the bill to pass (e.g., opposition to a new fee, or high cost of implementation).

Texas Lottery Commission Exhibit 14: 82nd Legislative Session Chart		
Legislation Enacted – 82nd Legislative Session		
Bill Number	Author	Summary of Key Provisions

SB 626	Carona	Relating to lottery winnings, including assignment of winnings, periodic payments of winnings, and the deduction of child support delinquency amounts from winnings paid to a prize winner.
SB 1342	Seliger	Relating to the use of bingo proceeds by licensed authorized organizations, including the use of proceeds to provide health insurance or health insurance benefits to certain employees.
HB 2728	Thompson	Related to the operation and regulation of charitable bingo. Clarifies the allowance for the transfer of commercial lessor licenses and also clarifies the term "crime of moral turpitude".
Legislation Not Passed – 82nd Legislative Session		
Bill Number	Author	Summary of Key Provisions/Reason the Bill Did Not Pass
HB 382	Menendez	Related to poker gaming. Regulated by TLC. Establishes licenses for charity operators, commercial operators, and Indian tribes. TLC would establish separate division and division director.
HB 700	Hilderbran	Related to consolidating TLC, Racing Commission and TABC. Creates new Texas Alcoholic Beverage and Gaming Commission. Governed by five commissioners with knowledge of bingo, greyhound racing, horse racing, and general business. Separate divisions for lottery, bingo, racing and alcoholic beverages
HB 1955	Thompson	Related to contracting with or licensing a lottery operator. Would authorize TLC to contract with or license lottery operator to act as retailer.
HB 2111	Woolley	Related to operation of video lottery terminals. SB 1118 by Hinojosa is companion bill. Regulated by TLC. Would authorize VLTs at pari-mutuel tracks and permit Indian tribes to offer VLTs.
HB 2424	Thompson	Related to video lottery terminals at bingo premises. SB 1212 by Van de Putte is companion bill. Regulated by TLC. Would permit VLTs at bingo halls; number of machines based on bingo license class.
HB 3042	Kleinschmidt	Related to lottery ticket to benefit breast cancer efforts. New game to be introduced not later than March 1, 2012. Net revenue would be used for breast cancer research,

		education and patient support.
HB 3282	Guillen	Related to authorization of 24-number bingo games. Would introduce new bingo game with stored value card-minding devices. Would exempt prizes of \$25 or less from current statutory limit of \$2,500 per occasion.
HB 3575	Thompson	Related to casino gaming on Indian tribal lands. Regulated by TLC. State would enter into a 25-year compact with tribes. Tribes would transfer to TLC a percentage TBD of gross gaming revenue.
HB 3576	Thompson	Related to casino gaming on Indian lands and pari-mutuel tracks. Regulated by TLC. State would enter into a 25-year compact with tribes. Tribes would transfer to TLC a percentage TBD of gross gaming revenue. TLC would also derive revenue TBD from casinos at pari-mutuel tracks.
HJR 28	Alvarado	Related to creating the Texas Gaming Commission and regulating gaming at various locations throughout the state. Regulated by Texas Gaming Commission. Would require Governor to call special session to authorize gaming legislation. Would authorize gaming at: Coastal barrier islands, Dredge spoil islands, Pari-mutuel track, and Municipalities of at least 675,000 population.
HJR 41	Raymond	Related to local option elections for eight-liners. Would authorize local option elections to authorize or prohibit eight-liner machines. Regulatory structure TBD by Legislature.
HJR 43	Quintanilla	Related to local option elections for gaming. Would authorize county option elections to authorize or prohibit various types of gaming. Regulatory structure TBD by Legislature.
HJR 111	Woolley	Related to video lottery terminals at pari-mutuel tracks and on tribal lands. Companion is SJR 33 by Hinojosa . Would authorize the operation of VLTs at pari-mutuel tracks and on tribal lands. No regulatory structure provisions contained in HJR.
HJR 112	Menendez	Related to casino games and slot machines. Companion is SJR 34 by Ellis . Would authorize establishment of Texas Gaming Commission. Revenue to the state would be directed to property tax relief fund. TGC would license and regulate: Up to 8 pari-mutuel tracks, Up to 6 casinos at destination location projects in urban areas, Up to 2 casinos at gulf island tourist locations and Indian tribal casinos.

HJR 113	King	Would authorize gaming by Kickapoo Traditional Tribe of Texas. Tribe would pay state 3 percent of revenue. No regulatory structure provisions.
HJR 119	Thompson	Would allow authorization of VLTs at bingo locations. Companion is SJR 35 by Van de Putte . Regulated by TLC. Would authorize video lottery terminals at bingo halls. Would provide a defense to prosecution for operation of VLTs by tribes.
HJR 133	Gonzalez	Would authorize gaming on tribal lands. Would authorize gaming by the Tigua Indian tribe in El Paso County. No regulatory structure provisions.
HJR 147	Hamilton	Related to authorizing gaming. Legislature will establish regulatory structure. Would authorize gaming at resort destinations, pari-mutuel tracks, and on tribal lands.
HJR 151	Thompson	Related to casino gaming by Indian tribes. TLC would regulate. Would authorize casino gaming on tribal lands or within five miles of tribal lands.
HJR 152	Thompson	Related to casino gaming at tracks and by tribes. TLC would regulate. Would authorize casino gaming on tribal lands or within five miles of tribal lands. Would authorize casino gaming at pari-mutuel tracks.
SB 780	West	Related to lottery ticket to Texas GRANT program. New game to be introduced not later than March 1, 2012. Net revenue would be used for five scholarships annually for tuition and fees.
SB 1118	Hinojosa	Companion to HB 2111 by Woolley.
SB 1212	Van de Putte	Companion to HB 2424 by Thompson.
SB 1344	Davis	Related to unclaimed lottery prize funds. Would amend State Lottery Act related to unclaimed prize funds. Would continue current dedication of funds. Would dedicate all remaining unclaimed prize funds to Foundation School Fund rather than general revenue.
SJR 33	Hinojosa	Companion to HJR 111 by Woolley.
SJR 34	Ellis	Companion to HJR 112 by Menendez.
SJR 35	Van de Putte	Companion to HJR 119 by Thompson.

IX. Policy Issues

None.

X. Other Contacts

A. Fill in the following chart with updated information on people with an interest in your agency, and be sure to include the most recent e-mail address.

Texas Lottery Commission Exhibit 15: Contacts			
INTEREST GROUPS (groups affected by agency actions or that represent others served by or affected by agency actions)			
Group or Association Name/ Contact Person	Address	Telephone	E-mail Address
American Legion/William West, State Adjutant	P.O. Box 140527 Austin, TX 78714	512-472-4138	txlegion@txlegion.org
American Legion Aux/Paula Raney, Department Secretary	P. O. Box 140407 Austin, TX 78714	512-476-7278	alatexas@txlegion.org
Amvets/Mr. Cecil Aultman	928 S. Buckner Blvd. Dallas ,TX 75217	214-309-1980	amvetsdept@sbcglobe.net
Bingo Business (publication)/Jennifer Schwegman, Editor	1300 Nicollet Mall, Suite 3003 Minneapolis, MN 55403	612-337-0003	
Bingo Gossip (publication)/Missy Mouser-Kemp, Editor	3205 N University Suite D Box 230 Nacogdoches, TX 75965	214-432-6599	missy@texasbingogossip.com
Bingo Interest Group/Steve Bresnen	806 W. 17 th , #6 Austin, TX 78701	512-481-1401	sbresnen@worldnet.att.net
Bingo Manager (publication)/Jennifer Reed, Editor	P. O. Box 14268 St. Paul, MN 55114	651-523-0666	rcmpub@orbis.net
Christian Life Commission/Suzii Paynter, Director	333 North Washington Dallas, TX 75246	214-828-5190	suzii.paynter@texasbaptists.org
Coalition for the Survival of Bingo/Steve Bresnen	P. O. Box 100967 Ft. Worth, TX 76185	512-917-0011	sbresnen@worldnet.att.net
Disabled American Veterans Dept. of Texas/Dennis Nixon, Mgr.	701 Clay Ave #200 Waco, TX 76706	254-299-9932	www.txlegion.org
Disability Rights Texas/ Mary Faithfull, Executive Director	7800 Shoal Creek Blvd. Ste 171-E Austin, TX 78757	512-454-4816	info@Advocacy-Inc.org

Duggins Wren Mann & Romero, LLP/James F. McNally Jr., Attorney	P.O. Box 1149 Austin, TX 78767	512-744-9300	jmcnally@dwmrlaw.com
Elks Lodge/Jack M Jensen, COO	P.O. Box 20906 Waco, TX 76702	773-755-4700	jackj@elks.org
Elks Lodge (IBPOEW)/Donald P. Wilson	P.O. Box 159 Winton, NC 27986	252-358-7661	
Grand Aerie Fraternal Order of Eagles/Terry Mason, Grand Worthy President	1623 Gateway Circle Grove City, OH 43123	614-883-2200	www.foe.com
Great Council of the United State Improved Order of Red Men/Donald Route, Great Keeper of the Wampum	4521 Speight Ave. Waco, TX 76711	254-756-1221	redman@texasinternet.com
Greater Austin Merchants Cooperative Assoc (GAMA)/Amir Karovaliya	8801 Research Blvd, Ste 102 Austin, TX 78758	512-374-1413	corporate@gamaus.com
Greater Houston Retailers Cooperative Assoc.(GHRA)/Shouket Karowadia, Sr. Vice President	12790 S. Kirkwood Rd Stafford, TX 77477	281-295-5399	Skarowadia@ghraonline.com
Independent Buyers' Co-Op (IBC)/Lee Highsmith, President	1840 Norwood Plaza, Ste 101 Hurst, TX 76054	817-282-7613	lee@ibcco-op.com
International Headquarters of B'nai B'rith ó Texas/ Barbara Pittman	9660 Hillcroft Ste 240 Houston, TX 77096	713-726-0923	texarkoma@alo.com
Knights of Columbus/Michael L. McLaughlin	6633 E. Highway 290 Ste. 204 Austin, TX 78723	512-442-149	mikem@tkofc.org
League of the United Latin American Citizens/Joey Cardenas III, State Director	P. O. Box 29 Louise, TX 77455- 0029	512-477-7910	e-mail: txlulac@swbell.net
Lions Club International/Patricia Nations	P.O. Box 294508 Kerrville, TX 78029	830-257-6557	md2lions@ktc.com
National Association of Convenience Stores (NACS)/Pamm Chaney, Director of Retail Membership	1600 Duke St, 7th Floor Alexandria, VA	703-684-3600 703-518-4244	Pchaney@nacsonline.com
National Association of Fundraising Ticket Manufacturers/Mary Magnuson General Counsel	335 Atrium Office Building 1295 Bandana Blvd. St. Paul, MN 55108	651-644-4710	naftm@aol.com
Southwest Car Wash Association (SWCA)/Chuck Space, Executive Director	4600 Spicewood Springs Rd., Ste. 103 Austin, TX 78759	512-343-9023	space@ecpi.com
Steve Fenoglio, Attorney	508 West 12 th Street Austin, TX 78701	512-347-9944	

Texas Association for the Advancement of Charitable Bingo/Jeffrey L. Minch	2501 N. Lamar Blvd. Austin, TX 78705	512-476-5141	jminch@littlefield.com
Texas Bingo Association/Ed Plodzik	3211 Honey Tree Ln. Austin, TX 78746	512-327-2880	
Texas Charitable Bingo Association Mr. Bill Pewitt	807 Brazos, Suite 804 Austin, TX 78701	512-469-0451	pewitt@texas.net
Texas Charity Advocates/Melissa Young, Executive Director	26414 Oakridge Dr. The Woodlands, TX 77380	800-957-2735	info@texascharityadvocates.org
Texas Grocery & Convenience Association (TGCA)/ Dana Fuller, CEM, Director of Meetings and Expo	7719 Wood Hollow Dr., Ste. 150 Austin, TX 78731	512-926-9285	dana@txgca.org
Texas Package Stores Association (TPSA)/Lance Lively, Executive Director	1122 Colorado St, Suite 313 Austin, TX 78701	512-472-3232	llively@texaspackage.com
Texas Petroleum Marketers & Convenience Store Assoc (TPCA)/Doug Dubois, Director Membership & Govt. Affairs	401 West 15th St, Suite 510 Austin, TX 78701	512-476-9547	dedubois@tpca.org
Texas Petroleum Marketers & Convenience Store Assoc (TPCA)/Annette Hicks, CMP, Director of Meetings & Expositions	401 West 15th St, Suite 510 Austin, TX 78701	512-476-9547	ahicks@tpca.org
The Lotto Report/Dawn Nettles, Editor	P. O. Box 495033 Garland, Texas 75049-5033	972- 686-0660	lottoreport@lottoreport.com
Veterans of Foreign Wars/Roy J. Grona, State Adjutant	P.O. Box 14468 Austin, TX 78761	512-834-8535	roy@texasvfw.org
Veterans of Foreign Wars Aux./Juanita Workman, Treasurer	P.O. Box 15285 Austin, TX 78761	512-834-9190	lavfwtx@jump.net

INTERAGENCY, STATE, OR NATIONAL ASSOCIATIONS
(that serve as an information clearinghouse or regularly interact with your agency)

Group or Association Name/ Contact Person	Address	Telephone	E-mail Address
La Fleur's Magazine/Terry La Fleur, Co-Publisher	14424 Chrisman Hill Dr. Boyd's, MD 20481	301-916-4478	terri@lafleurs.com
Mid-size Agency Coordinating Council/Brian White, Chair	N/A	512-804-4186	brian.white@oiec.state.tx.us

Multi-State Lottery Association (MUSL)/Charles Strutt, Executive Director	4400 N.W. Urbandale Dr. Urbandale, IA 50322	515-453-1400	chuck@musl.com
Multi-State Lottery Association (MUSL)/Wayne Dolezal, General Counsel	4400 N.W. Urbandale Dr. Urbandale, IA 50322	515-453-1400	wayne@musl.com
National Institute of Governmental Purchasing, Inc. (NIGP)/Carrie Rawn, CMP, Executive Director, Conferences and Meetings	151 Spring St. Herndon, VA 20170	703-736-8900	crawn@ngip
North American Assoc. of State & Provincial Lotteries (NASPL)/David Gale, Executive Director	One South Broadway Geneva, OH 44041	440-466-5630	dgale@nasplhg.org
North American Gaming Regulators Association/Ms. Terri Hutchison, President	1000 Westgate Drive, Ste. 252, St. Paul, MN 55114	651/203-7244	terri.hutchison@mgc.dps.mo.gov
Public Gaming Research Inst./Paul Jason	218 Main St. #203 Kirkland, WA 98033	425-449-3000	pjason@publicgaming.com
Texas Association of African-American Chambers of Commerce	P.O. Box 13064 Austin, TX 78711	512-535-5610	info@taaacc.org
Texas Association of Mexican American Chambers of Commerce	3000 S. I35, Ste. 305 Austin, TX 78704	512-444-5727	www.tamacc.org
Texas Association of Public Purchasers/Weaver Johnson, President	P.O. Box 513 Austin, TX 78767	512-374-5432	weaver.jackson@txdot.gov
Texas State Human Resources Association/Kate Oehlers	P.O. Box 1602 Austin, TX 78767	512-936-1611	kate.oehlers@courts.state.tx.us

LIAISONS AT OTHER STATE AGENCIES

(with which your agency maintains an ongoing relationship, e.g., the agency=s assigned analyst at the Legislative Budget Board, or attorney at the Attorney General=s office)

Agency Name/Relationship/ Contact Person	Address	Telephone	E-mail Address
Business Enterprises of Texas (BET), TX Department of Assistive and Rehabilitative Services/ Michael Hooks, Director	Division of Blind Services 4800 N. Lamar Blvd., Ste 260 Austin, TX 78756	512-377-0560	michael.hooks@dars.state.tx.us
Comptroller of Public Accounts, State Property Accounting/Lynn Gunn	P.O. Box 13528 Austin, TX 78711	512-463-6593	lynn.gunn@cpa.state.tx.us
Comptroller of Public Accounts/Gary	LBJ Bld.	512-463-4227	gary.preuss@cpa.state.tx.us

Preuss, Economist	111 E. 17 th St. Austin, TX 78711		
Comptroller of Public Accounts/Kristalle Erwin, Accounting Control Officer	LBJ Bld. 111 E. 17 th St. Austin, TX 78711	512-463-3301	kristalle.erwin@cpa.state.tx.us
Comptroller of Public Accounts, TPASS/Paul Gibson, Program manager, Statewide HUB program.	1711 San Jacinto Blvd. Austin, TX 78701	512-305-9071	paul.gibson@cpa.state.tx.us
Comptroller of Public Accounts, TPASS/Pamela Sorell, Open Records Coordinator	P.O. Box 13186 Austin, TX 78711	512-475-0209	open.records@cpa.state.tx.us
Governor's Office of Budget and Planning/Mike Schofield, Analyst	Old State Insurance Bld., 4 th Floor Austin, TX 78701	512-463-8904	michael.schofield@governor.state.tx.us
Legislative Budget Board/Rachel Niven, Budget Analyst	P.O. Box 12666 Austin, TX 78711	512-463-3250	rachel.niven@lbb.state.tx.us
Office of the Attorney General/Gaston Broyles, Assistant Attorney General	P.O. Box 12548 Austin, TX 78711-2548	512-475-4075	gaston.broyles@oag.state.tx.us
Office of the Attorney General/Jeff Graham, Division Chief, Financial Litigation	P.O. Box 12548 Austin, TX 78711-2548	512-475-4393	jeff.graham@oag.state.tx.us
Office of the Attorney General/Ann Hartley, Asst. AG, Financial Litigation	P.O. Box 12548 Austin, TX 78711	512-936-1313	ann.hartley@oag.state.tx.us
Office of the Attorney General/Mr. David Mattax, Director, Legal Defense	P.O. Box 12548 Austin, TX 78711-2548	512-463-0150	david.mattax@oag.state.tx.us
Office of the Attorney General Open Records Division	P.O. Box 12548 Austin, TX 78711	512-936-6736	publicrecords@oag.state.tx.us
Office of the Attorney General/ Ernest Rivera, Investigator Cyber Crimes	300 W. 15 th Street Austin, TX 78701	512-463-2100	ernest.rivera@oag.state.tx.us
Office of the Governor/Allison Castle, Special Assistant for Communications	Office of the Governor Press Office P.O. Box 12428 Austin, TX 78711	512-463-1826	allison.castle@governor.state.tx.us
Office of the Governor/Katherine Cesinger, Press Secretary	Office of the Governor Press Office P.O. Box 12428 Austin, TX 78711	512-463-1826	katherine.cesinger@governor.state.tx.us
Secretary of State Texas Register/Dan Proctor Director, TX Register	1100 Congress Ave Capitol Bldg Rm. 1E.8 Austin, TX 78701	512-463-5562	dprocter@sos.state.tx.us
State Auditor's Office- State	1501 N. Congress	512- 936-9632	smclure@sao.state.tx.us

Classification Office/Stacey McClure, CCP, PHR	Ave. Austin, TX 78701		
State Auditor's Office/Sandra Vice, Contact Manager	1501 N. Congress P.O. Box 12067 Austin, TX 78711-2067	512-936-9500	svice@sao.state.tx.us
State Office of Administrative Hearings/Cathleen Parsley	William P. Clements Bldg 300 W. 15 th Street Austin, TX 78701	512-475-1184	
State Office of Risk Management/Lisa Bell, Risk management Specialist	300 W. 15 th St., 6 th Flr. Austin, TX 78701	512-475-1140	lisa.bell@sorm.state.tx.us
Texas Alcoholic Beverage Commission/Robert Saenz, Enforcement Division	5806 Mesa Drive Austin, TX 78711	512-424-5046	robert.saenz@tabc.state.tx.us
Texas Commission on Law Enforcement Officer Standards and Education	6330 E. Hwy 290, #200 Austin, TX 78723	512-936-7700	www.tcleose.state.tx.us
Texas Department of Agriculture Metrology Laboratory/Harvey Fischer, Coordinator	1258 CR 226 Giddings, TX 78942	979-542-3231	harvey.fischer@texasagriculture.com
Texas Department of Information Resources (DIR)/Incident Reporting	300 W. 15 th St., Suite 1300 Austin, TX 78701	512-475-4700	dirinfo@dir.texas.gov
Texas Department of Public Safety/Major John Bateman , Gang Section	6100 Guadalupe, Bldg E Austin, TX 78752	512-424-5046	john.bateman@dps.texas.gov
Texas Department of Public Safety/Patricia Malloy, Supervisor Fingerprint Services	5805 N Lamar Austin, TX 78752	512-424-5248	patricia.malloy@dps.texas.gov
Texas Department of Public Safety/Lt. Wynn Reynolds	5805 N. Lamar Blvd. Austin, TX 78752	512-424-5929	wynn.reynolds@txdps.state.tx.us
Texas Department of Public Safety/Thomas Ruocco, Assistant Director Criminal Investigations Division	6100 Guadalupe Austin, TX 78752	512-424-2130	thomas.ruocco@dps.texas.gov
Texas Ethics Commission, Becky Levy	201 E. 14 th Street Austin, TX 78701	512-463-5800	becky.levy@ethics.state.tx.us
Texas State Library/Araan Sheperd	P.O. Box 12927 Austin, TX 78711	512-463-5455	asheperd@tsl.state.tx.us

XI. Additional Information

- A. Fill in the following chart detailing information on complaints regarding your agency. Do not include complaints received against people or entities you regulate. The chart headings may be changed if needed to better reflect your agency's practices.

Different divisions of the agency have varying responsibilities in regard to the agency's response to complaints made against the agency. The Human Resources Division is ultimately responsible for receiving and processing internal complaints, generally raised by employees of the agency.

Complaints filed against the agency with TCHR and/or EEOC are tracked and shown in Exhibit 16 below. The Human Resources Division is generally responsible for receiving and investigating complaints made by employees and others regarding a variety of workplace issues. After conducting its investigation, Human Resources provides a report with recommendations to the specific manager or director responsible for taking corrective action. The Internal Audit Division also receives complaints and makes referrals to the appropriate division.

Texas Lottery Commission		
Exhibit 16: Complaints Against the Agency Fiscal Years 2009 and 2010		
	FY 2009	FY 2010
Number of complaints received	1	0
Number of complaints resolved	1	NA
Number of complaints dropped/found to be without merit	1	NA
Number of complaints pending from prior years	0	0
Average time period for resolution of a complaint	six months	NA

B. Fill in the following chart detailing your agency's Historically Underutilized Business (HUB) purchases.

Texas Lottery Commission Exhibit 17: Purchases from HUBs				
FISCAL YEAR 2008				
Category	Total \$ Spent	Total HUB \$ Spent	Percent	Statewide Goal
Heavy Construction	N/A	N/A	N/A	11.9%
Building Construction	N/A	N/A	N/A	26.1%
Special Trade	\$140,531	\$33,022	23.4%	57.2%
Professional Services	\$597,325	\$531,885	89.0%	20.0%
Other Services	\$145,766,460	\$38,482,261	26.3%	33.0%
Commodities	\$4,662,388	\$1,619,546	34.7%	12.6%
TOTAL	\$151,166,706	\$40,666,715	26.9%	
FISCAL YEAR 2009				
Category	Total \$ Spent	Total HUB \$ Spent	Percent	Statewide Goal
Heavy Construction	N/A	N/A	N/A	11.9%
Building Construction	N/A	N/A	N/A	26.1%
Special Trade	\$95,156	\$22,058	23.1%	57.2%
Professional Services	\$956,267	\$878,352	91.8%	20.0%
Other Services	\$149,021,286	\$32,670,936	21.9%	33.0%
Commodities	\$3,969,838	\$2,009,658	50.6%	12.6%
TOTAL	\$154,042,549	\$35,581,005	23.0%	
FISCAL YEAR 2010				
Category	Total \$ Spent	Total HUB \$ Spent	Percent	Statewide Goal
Heavy Construction	N/A	N/A	N/A	11.9%
Building Construction	N/A	N/A	N/A	26.1%
Special Trade	\$73,440	\$44,533	60.6%	57.2%
Professional Services	\$755,850	\$661,910	87.5%	20.0%
Other Services	\$152,896,503	\$32,314,293	21.1%	33.0%
Commodities	\$3,380,916	\$1,851,177	54.7%	12.6%
TOTAL	\$157,106,709	\$34,871,913	22.1%	

C. Does your agency have a HUB policy? How does your agency address performance shortfalls related to the policy?

Yes, the agency's policy on its HUB/Minority Program is included in the Purchasing Manual found on the agency's intranet. The Texas Lottery Commission has adopted the HUB rules promulgated by the Comptroller of Public Accounts. The agency and its contractors make a good faith effort to meet or exceed the HUB goals established by the state of Texas Disparity Study. To promote its goals, the Texas Lottery Commission performs outreach activities, conducts an annual agency HUB forum, requires HUB subcontracting plan determinations for all contracts valued at \$100,000 or more, and coordinates a mentor protégé program. Prime vendors are encouraged to attend the agency's annual HUB forum and to participate as mentors in the agency's mentor protégé program. Twice yearly, the HUB Coordinator prepares reports that summarize the agency's HUB performance which are made available to Commissioners and upper management. Agency policy requires that HUBs be solicited for all procurements valued at \$5,000 or more, and purchasers are encouraged to select HUBs for purchases that do not require competitive bids. The HUB Coordinator assists purchasing staff and/or agency divisions in identifying HUBs who may be able to provide requested goods or services. Purchasing staff also attend HUB outreach events and provide bid opportunities for spot bid fairs. The agency analyzes reports of both direct and subcontracting expenditures, and monitors its subcontracting reports on a monthly basis.

D. For agencies with contracts valued at \$100,000 or more: Does your agency follow a HUB subcontracting plan to solicit bids, proposals, offers, or other applicable expressions of interest for subcontracting opportunities available for contracts of \$100,000 or more? (Tex. Government Code, Sec. 2161.252; TAC 111.14)

Yes, the agency analyzes all contracts valued at \$100,000 or more to make a HUB subcontracting plan determination prior to solicitation. When the Texas Lottery Commission determines that subcontracting is probable, all respondents must submit a HUB Subcontracting Plan (HSP) that is completed in accordance with the Comptroller's HUB rules. To determine whether a good faith effort has been performed, the agency may request clarification from respondents. If a good faith effort was not demonstrated or the HSP was done incorrectly, the bid/proposal is disqualified. The agency has made a variety of assistance available to respondents including: An HSP checklist, a presentation that reviews HSP requirements at its Pre-Bid/Pre-Proposal Conferences, a booklet that provides HSP instructions, samples and resources, the opportunity to submit HSP questions and to submit draft HSP documents for review prior to the solicitation deadline, and the opportunity to request one-on-one workshops.

E. For agencies with biennial appropriations exceeding \$10 million, answer the following HUB questions.

	Response / Agency Contact
1. Do you have a HUB coordinator? (Tex. Government Code, Sec. 2161.062; TAC 111.126)	Yes. Joyce Bertolacini (512) 344-5293 or joyce.bertolacini@lottery.state.tx.us
2. Has your agency designed a program of HUB forums in which businesses are invited to deliver presentations that demonstrate their capability to do business with your agency? (Tex. Government Code, Sec. 2161.066; TAC 111.127)	Yes. The agency holds an annual onsite HUB forum that allows HUBs the opportunity to network with both key Lottery staff and prime vendors. Information about the agency's procurement processes and mentor protégé program is presented at the forum.
3. Has your agency developed a mentor-protégé program to foster long-term relationships between prime contractors and HUBs and to increase the ability of HUBs to contract with the state or to receive subcontracts under a state contract? (Tex. Government Code, Sec. 2161.065; TAC 111.128)	Yes. The agency holds an annual onsite HUB forum that allows HUBs the opportunity to network with both key Lottery staff and prime vendors. Information about the agency's procurement processes and mentor protégé program is presented at the forum.

F. Fill in the chart below detailing your agency's Equal Employment Opportunity (EEO) statistics.

Texas Lottery Commission Exhibit 18: Equal Employment Opportunity Statistics							
FISCAL YEAR 2008							
Job Category	Total Positions	Minority Workforce Percentages					
		Black		Hispanic		Female	
		Agency	Civilian Labor Force %	Agency	Civilian Labor Force %	Agency	Civilian Labor Force %
Officials/Administration	13	15.38	6.6	15.38	14.2	46.15	37.3

Professional	111	10.81	8.3	18.92	13.4	53.15	53.2
Technical	29	3.45	12.4	24.14	20.2	41.38	53.8
Administrative Support	60	15.00	11.2	43.33	24.1	83.33	64.7
Service Maintenance	116	11.21	13.8	35.34	40.7	68.10	39.0
Skilled Craft	0	NA	11.2	NA	24.1	NA	4.8

FISCAL YEAR 2009							
Job Category	Total Positions	Minority Workforce Percentages					
		Black		Hispanic		Female	
		Agency	Civilian Labor Force %	Agency	Civilian Labor Force %	Agency	Civilian Labor Force %
Officials/Administration	13	15.38	6.6	15.38	14.2	46.15	38.8
Professional	112	9.82	8.3	17.86	13.4	55.35	54.5
Technical	26	3.85	12.4	26.92	20.2	34.62	55.6
Administrative Support	52	15.38	11.2	46.15	24.1	80.77	66.2
Service Maintenance	136	11.76	13.8	35.29	40.7	68.38	39.7
Skilled Craft	0	NA	11.2	NA	24.1	NA	5.1
FISCAL YEAR 2010							
Job Category	Total Positions	Minority Workforce Percentages					
		Black		Hispanic		Female	
		Agency	Civilian Labor Force %	Agency	Civilian Labor Force %	Agency	Civilian Labor Force %
Officials/Administration	12	8.30	6.6	16.60	14.2	50.00	38.8
Professional	102	9.80	8.3	15.69	13.4	52.94	54.5
Technical	29	6.90	12.4	24.13	20.2	37.93	55.6
Administrative Support	53	15.09	11.2	43.40	24.1	81.13	66.2
Service Maintenance	135	12.59	13.8	37.03	40.7	68.75	39.7
Skilled Craft	0	NA	11.2	NA	24.1	NA	5.1

G. Does your agency have an equal employment opportunity policy? How does your agency address performance shortfalls related to the policy?

- See TLC procedure HR-053 EEO and Sexual Harassment
- See most recent Agency Workforce Plan

XII. Agency Comments

The Texas Lottery Commission's Unique Role as a Texas State Agency

The Texas Lottery Commission is unique among other Texas state agencies in that its ongoing operations combine for-profit performance expectations with the fiscal accountability and regulatory oversight of a government entity. Through its operation and administration of Texas Lottery games, and the regulation and administration of all Texas charitable bingo-related activities, the Texas Lottery Commission has a significant state fiscal impact. Accordingly, the Commission is extremely respectful of its role and responsibilities as a careful steward of the resources entrusted to it.

The Texas Lottery Commission has two main functions which are inherently different:

- Under the State Lottery Act, the Commission is charged with operating, administering and closely supervising all lottery games conducted in Texas to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery.
- Under the Bingo Enabling Act, the Commission is charged with administering and closely supervising all bingo conducted in Texas to ensure that bingo is fairly conducted and the proceeds derived from bingo are used for an authorized purpose.

Though all of the activities and functions of the Texas Lottery Commission are guided by the same vision and core values, there are significant inherent differences between lottery and charitable bingo operations. For the Texas Lottery, the Commission is charged with generating revenue for the state of Texas and acting in an entrepreneurial role, while regulating those locations licensed to sell lottery games. The Texas Lottery is fully self-supporting, operating on a statutorily determined percentage of lottery sales. On the other hand, the CBOD is appropriated a fixed amount of general revenue and is charged with licensing and regulating an industry that generates revenues for nonprofit organizations in Texas. This disparate funding of its two main functions presents significant budgetary challenges for the Commission.

The "Texas Model"

Since the inception of the Texas Lottery, the agency has effectively utilized the expertise of private sector companies to perform certain lottery and ancillary functions and provide related equipment and services required for the operation and advertisement of the Texas Lottery. The agency maintains contractual arrangements with five primary vendors representing more than 80 percent of the agency's annual operating budget. See Exhibit 19 for a listing of these vendors and

the associated services provided. This outsourcing approach allows the agency to develop a competitive business strategy, focus on core competencies and limit the size of its workforce.

The unique public-private contractual arrangement with GTECH, the Lottery Operator, for goods and services necessary to operate the lottery, is known in the industry as the "Texas Model." Under this business model, the agency maintains management control of critical functions while utilizing private enterprises' inherent efficiency and profit motive to the agency's advantage. This allows the agency to shift the burden of performance to the private sector while the agency enforces accountability and performance standards under parameters strictly defined by contract. The concept further provides an overall savings to the state resulting in additional revenue generation for the Foundation School Fund.

The new lottery operator contract, executed in December 2010, involves a comprehensive update and refresh of the equipment and infrastructure that supports the operation of the lottery. GTECH will provide retailers and players with state-of-the-art technology including upgraded sales terminal equipment and a more reliable telecommunications network. New technology will provide even greater system security features while allowing the Texas Lottery to introduce new lottery games and promotions more quickly. The contract is structured such that all elements required to meet performance objectives are specifically outlined and the vendor has limited discretion related to implementation strategies. The agency will have real-time access to industry best practices due to GTECH's world-wide presence and management team informed by that experience.

Furthermore, the Texas Model provides the agency flexibility to respond to an ever changing market and allows the agency to generally bypass the need for capital investments in staffing, facilities, equipment, communication networks, and all manner of business functions and infrastructure.

The new nine-year contract with GTECH has an estimated value of approximately \$83 million annually and includes options for three two-year extensions. The negotiated contract terms include potential savings to the state of more than \$18 million annually beginning September 1, 2011. Total savings over the initial nine-year term will exceed \$160 million based on current sales levels. A schedule of rebates at various higher sales tiers could yield additional cost savings to the state as well.

Maintaining assurance that each partnership with private sector companies closely aligns with the business goals and objectives of the Texas Lottery is paramount to ensuring maximum revenue generation for the state's Foundation School Fund.

**Texas Lottery Commission
Exhibit 19: Primary Vendors**

OVERVIEW OF TEXAS LOTTERY PRIMARY VENDORS

COMMISSION MEMBERS

EXECUTIVE DIRECTOR

LOTTERY COMMISSION STAFF

<p>Develop and approve Texas Lottery games Recruit, license and regulate Texas Lottery retailers Redeem prizes of \$600 or more Conduct Texas Lottery drawings</p>	<p>Enforce statutes Establish and enforce rules, policies and procedures Provide information to the public Approve all advertising</p>
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