

Texas Lottery Commission

H.B. 2197 Anchia (Huffman)

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The 83rd Legislature passed the first Lottery Commission Sunset bill since the agency's inception in 1993, but the path was anything but smooth. The controversial nature of the agency's business — administering the state lottery and regulating charitable bingo — contributed to the failure of Sunset bills in 2003 and 2005. While these failures did not threaten the agency's ability to continue operating the lottery, this time, concern about the lottery almost led to its abolishment. After initially voting down House Bill 2197, the House reconsidered, passed the bill, and required a legislative study regarding eliminating the lottery and the potential revenue impacts of doing so. The dramatic pendulum swings again demonstrate the tightrope the agency walks in balancing legislators' disdain for the lottery with a desire for the money it raises.

Besides continuing the agency, the lottery, and charitable bingo, the passage of House Bill 2197 enacts several changes that increase the agency's accountability and effectiveness and seek to increase the lottery's contribution to Texas schools. Among other provisions, the bill increases the size of the Commission to better oversee the business of the agency, especially the agency's major contracts and business processes to improve operating efficiency. The bill also eliminates the diversion of leftover unclaimed prize money currently going to General Revenue to ensure that more lottery money goes to the Foundation School Fund.

The Sunset review highlighted the deep budget cuts experienced by the agency's bingo program in recent years and identified strategies for improving regulation and recovering costs of this regulatory effort. House Bill 2197 gives the agency regulatory tools and fee flexibility to achieve more effective bingo regulation. The Legislature also enacted a Sunset Commission recommendation in Senate Bill 1 to help ensure that appropriations decisions regarding bingo regulation are based on the true cost of the program and not prize fee revenues passed through to local governments. Senate Bill 1 also expands on Sunset directives for the agency to seek to cover the full cost of bingo regulation by approving additional funding and staffing to restore the recent budget cuts, contingent on the agency increasing revenue from licensing fees. These changes will help ensure the agency can more effectively regulate the complex, cash-based bingo industry.

The following material describes the results of the Commission's Sunset review and notes which provisions are management directives not requiring statutory change and which are changes in appropriation. For additional information see the *Texas Lottery Commission Sunset Final Report with Legislative Action* available on the Sunset Commission website at www.sunset.state.tx.us.

Commission Size and Responsibility

- Increases the Texas Lottery Commission from three to five public members.
- Requires the Lottery Commission to approve major contracts.

Legislative Review Committee

- Establishes a 10-member legislative committee to study both the impact of eliminating the state lottery and aspects related to the distribution of revenue for charitable bingo.

Unclaimed Lottery Prizes

- Requires unclaimed lottery prize money that is currently going to General Revenue to be deposited in the Foundation School Fund.
- Specifies that if the Legislature appropriates general revenue for the three programs currently designated to receive unclaimed lottery prize money, then all unclaimed prize money must go to the Foundation School Fund.

Contracting

- The Commission should improve collection and dissemination of information about contract sanctions, outcomes of negotiations, and contract close-out results. (management action – nonstatutory)

Business Planning

- Requires the Lottery Commission to develop a comprehensive business plan including specific evaluations of, and goals tied to, efficiency and performance.

Foreign Language Disclosures

- Requires the Lottery Commission to adopt rules requiring any scratch-off game ticket that contains a number of words in another language to include disclosures in that language.

Bingo Regulation and Funding

- Removes the fixed license amendment fee from statute, and requires the Commission to adjust fees by rule to cover the costs of processing amendments.
- Authorizes the agency to charge a fee to cover the costs of adding bingo hall workers to the Registry of Approved Bingo Workers.
- Requires the agency to use risk analysis to select licensees for bingo inspections, and put its inspection policies in rule.
- Requires the Commission to develop a goal to audit all of the highest-risk bingo licensees within a certain timeframe, and put its audit policies in rule.
- The Commission should reassess the full cost of bingo regulation and seek to adjust license fees and its legislative appropriations request accordingly. (management action – nonstatutory)

Bingo Prize Fees

- Removes bingo prize fees from the Lottery Commission's bill pattern. (S.B. 1)

Bingo and Lottery Licensing Standards

- Requires the Commission to address felony and misdemeanor convictions in bingo regulation according to established standards in the Occupations Code.
- Requires the agency to create a standard bingo license renewal process, and removes the nonstandard provisions for two-year bingo license fees.
- Removes the statutory fee levels for bingo manufacturer and distributor licenses.
- Requires the Commission to develop procedures for the entire complaint process for both bingo and lottery, including an analysis to identify trends or issues relating to violations and provisions for reporting on and addressing the trends and issues.
- Conforms the Lottery Act and Bingo Act to the Commission's current practice of conducting hearings through the State Office of Administrative Hearings.
- Authorizes the Commission to place suspended bingo licensees and registered workers on probation.
- Requires the Commission to amend its current bingo penalty schedule to include a full range of sanctions.
- Expands the Lottery Commission's authority to temporarily suspend bingo licenses to prevent financial losses to the State.

Across-the-Board Recommendations and Reporting Requirements

- Updates and applies standard Sunset Across-the-Board recommendations to the Lottery Commission.
- Eliminates the Commission's report on lottery tickets sold and prizes awarded and continues the Commission's other reports.

Continuation

- Continues the Texas Lottery Commission for 12 years.

Fiscal Implication

House Bill 2197 will result in a gain to the General Revenue Fund of about \$290,000 biennially, based on the Lottery Commission's adjustments to bingo licensing fees. The bill will also result in a gain to the Foundation School Fund of \$43.7 million in fiscal year 2014 and \$43.9 million in fiscal year 2015, and a loss to General Revenue in equal amounts. These changes result from the deposit of unclaimed lottery prize money into the Foundation School Fund that was previously deposited to General Revenue.

