

**Texas Lottery Commission**  
**Summary of Recommendations - Senate**

**Page VII-8**

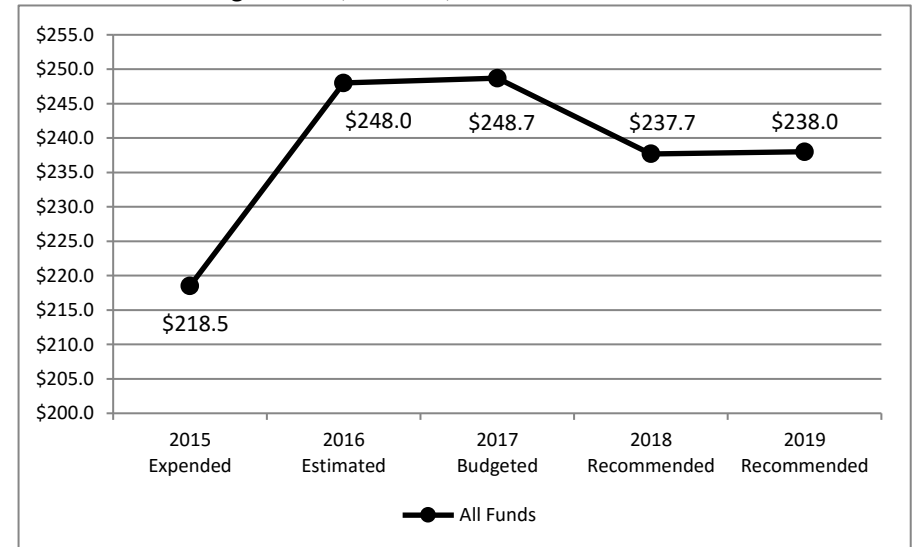
Gary Grief, Executive Director  
 Andrew Overmyer, LBB Analyst

Method of Financing	2016-17 Base	2018-19 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$30,909,677	\$30,684,130	(\$225,547)	(0.7%)
GR Dedicated Funds	\$465,786,305	\$445,034,822	(\$20,751,483)	(4.5%)
<i>Total GR-Related Funds</i>	<i>\$496,695,982</i>	<i>\$475,718,952</i>	<i>(\$20,977,030)</i>	<i>(4.2%)</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
<b>All Funds</b>	<b>\$496,695,982</b>	<b>\$475,718,952</b>	<b>(\$20,977,030)</b>	<b>(4.2%)</b>

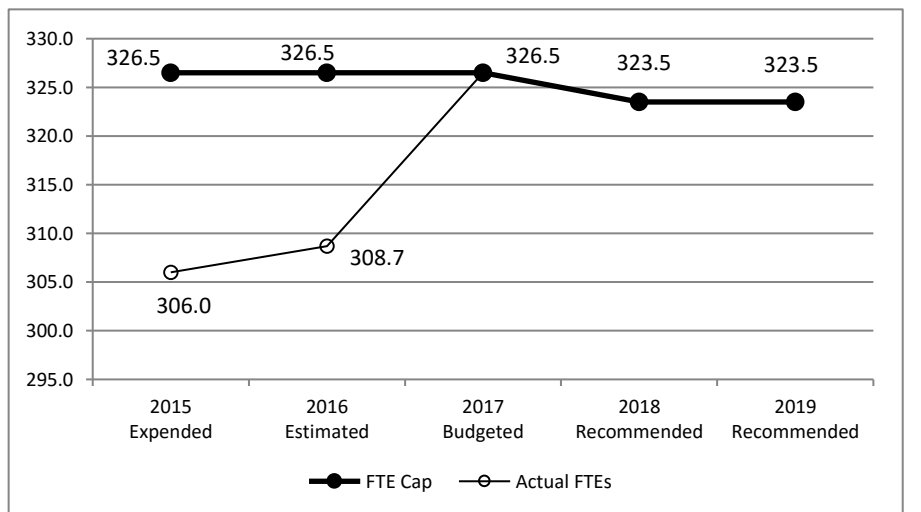
	FY 2017 Budgeted	FY 2019 Recommended	Biennial Change	Percent Change
FTEs	326.5	323.5	(3.0)	(0.9%)

The bill pattern for this agency (2018-19 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2018-19 biennium.

**Historical Funding Levels (Millions)**



**Historical Full-Time-Equivalent Employees (FTEs)**



**Texas Lottery Commission**  
**Summary of Funding Changes and Recommendations - Senate**

**Section 2**

Funding Changes and Recommendations for the 2018-19 Biennium compared to the 2016-17 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A	Detail in SFR Appendix 6
<b>Funding Changes and Recommendations</b>								
A)	Decrease of \$225,547 for 2.0 bingo auditing FTEs pursuant to the four percent reduction	(\$0.2)	\$0.0	\$0	\$0	(\$0.2)	B.1.1, B.1.2, B.1.3	Appendix 6j
B)	Decrease of \$14,733,104 for mass media advertising contracts as part of the four percent reduction	\$0.0	(\$14.7)	\$0	\$0	(\$14.7)	B.1.1, B.1.2, B.1.3	Appendix 6g
C)	Decrease of 1) \$918,558 for market research, including 1.0 FTE; 2) \$339,196 for building improvements, furnishings and equipment, and lease of draw machines and studio equipment; 3) \$450,000 for computer equipment and programming services; 4) \$340,000 for publications; and 5) \$837,091 for other operating expenses as part of the four percent reduction	\$0	(\$2.9)	\$0	\$0	(\$2.9)	A.1.1, A.1.3, A.1.4, A.1.5, A.1.8, A.1.10	Appendix 6a, Appendix 6e, Appendix 6f, Appendix 6h
D)	Decrease of \$116,600 for PC Replacements to fund a 6-year replacement cycle as part of the four percent reduction	\$0	(\$0.1)	\$0	\$0	(\$0.1)	A.1.5	Appendix 6h
E)	Decrease of \$896,903 for reimbursements received by the agency from the lottery operator for services rendered in the 2016-17 biennium as part of the four percent reduction	\$0	(\$0.9)	\$0	\$0	(\$0.9)	A.1.5	Appendix 6h
F)	Decrease of 1) \$1,922,696 for the lottery operator contract; and 2) \$197,335 for retailer incentives based on LBB estimates of fiscal years 2018 and 2019 gross lottery ticket proceeds.	\$0	(\$2.1)	\$0	\$0	(\$2.1)	A.1.6, A.1.12	Appendix 6b, Appendix 6d
<b>TOTAL Funding Changes and Recommendations (in millions)</b>		<b>(\$0.2)</b>	<b>(\$20.8)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$21.0)</b>	As Listed	As Listed
<i>Funding Increases</i>		\$0	\$0	\$0	\$0	\$0		
<i>Funding Decreases</i>		(\$0.2)	(\$20.8)	\$0	\$0	(\$21.0)	As Listed	As Listed

NOTE: Totals may not sum due to rounding.

**Texas Lottery Commission  
Selected Fiscal and Policy Issues - Senate**

1. **Strategic Fiscal Review.** The agency is included in the Strategic Fiscal Review, which informed the 2018-19 biennium recommendations. The following outlines main findings of the analysis. See the SFR Appendices for additional information.
  - Analysis was performed on thirteen programs and forty-two activities at the agency. All agency programs have strong mission centrality and authority.
  - An analysis of alternative funding options provided an alternate to the four percent reduction submitted in the agency's LAR that would have less impact on gross lottery ticket sales (see Item #2, below).
  - A detailed analysis of the agency's Lottery Operator contract was conducted. The contract comprises 42% of the agency's recommended 2018-19 appropriations, and outlines the operator's administration and management of all lottery operations in the state. The agency is exempted by statute from several state contracting regulations, which allows it to utilize non-competitive procurement methods, invoke emergency procurement authority, and in general gives the agency broad authority to operate outside of established contracting practices. The contract, while generally sound, contains components of potential risk to the state (see SFR Appendix 6b for a detailed analysis).
  - The agency currently distributes unclaimed prizes from veterans' games to the Fund for Veterans' Assistance; this may align with legislative intent, though statute provides that such funds are to be transferred to the Foundation School Fund.
  - The agency is provided increased appropriation authority through rider if lottery ticket sales exceed a specific threshold. Analysis determined a need for increased transparency on the use of these funds, and led to a rider recommendation to accomplish this purpose (see Rider Highlights #11).
  - Components of the agency's bingo operations are funded by appropriations from the State Lottery Account (GR-D Fund 5025) through the agency's operations, security, and central administration strategies. The agency's 2013 Sunset Commission report included a recommendation to ensure that bingo licensing fees cover the cost of bingo regulation to replace funding from GR-D Fund 5025; similar requests have been presented to the legislature by the agency. The legislature has not appropriated General Revenue funds for this purpose.

2. **Lottery four percent reduction.** Though GR-D Fund 5025 is not subject to certification by the Comptroller of Public Accounts, the agency was required by the Office of the Governor to include in their LAR submission a four percent reduction of \$18.6 million from the account's 2016-17 base amount of \$465.8 million.

Recommendations retain \$11.6 million of the reductions submitted in the agency's LAR for scratch ticket contracts (\$6.7 million) and retailer commissions (\$4.9 million). However, recommendations include other reductions not submitted in the agency's LAR and include a total decrease of \$18.6 million for the agency's non-estimated programs. Details outlining the funding reductions are included in the table below.

Program	Reduction (millions)	Items Reduced
Mass Media Advertising Contract	(\$14.7)	Contracted services for print, radio, television, and other advertising
Operations	(0.3)	Leasehold improvements, furnishings and equipment, and power supply leasing
Marketing and Promotions	(0.9)	Printing and reproduction, postage, promotional items, and 1.0 market research FTE
Security	(0.1)	Security officer contract with the Department of Public Safety
Central Administration	(1.8)	Reimbursements from the lottery operator for services (such as compliance monitoring) rendered by the agency in the 2016-17 biennium, technology improvements, programming services, publications, and funding for a six-year PC replacement cycle
Market Research Contract	(0.8)	Non-statutory market research
<b>Total</b>	<b>(18.6)</b>	

The agency estimates that the reductions of \$14.7 million from mass media advertising contracts and \$0.6 million from marketing and promotions will result in a reduction in sales of \$399.0 million and a reduction in revenue to the state of \$108.0 million. In estimating the sales impact of a reduction to its advertising expenditures, the agency cites a model from the 2014 Texas A&M University study 'The Impact of Advertising on Lottery Sales in the State of Texas' that suggested a 10 percent decrease in expenditures would result in a 17 percent decrease in sales. Included on page 35 is a table showing advertising expenditures and gross sales dating back to the 1998-99 biennium.

3. **Bingo four percent reduction.** The agency's bingo operations are funded through fee-generated General Revenue. The agency's submitted four percent reduction to its bingo operations totaled \$1.2 million. In addition to above-the-line strategies, this calculation included appropriations made by rider for the purpose of allocating bingo prize fees collected to counties and municipalities as required by Sec. 2001.503 of the Texas Occupations Code. The rider appropriation was \$25.3 million in General Revenue Funds in the 2016-17 biennium, and its corresponding reduction was \$1.0 million. Because the rider appropriation is estimated and nontransferable, recommendations retain these funds. The agency's four percent reduction of \$0.2 million to above-the-line bingo appropriations for 2.0 auditing FTEs is proportional to the above-the-line total, and is included in recommendations.
4. **Lottery Operator Contract and Retailer Commission strategies.** Per Rider 10 of the agency's bill pattern, recommendations set 2018-19 appropriations for the Lottery Operator contract at an amount equal to 2.2099% of projected gross lottery sales. Gross sales were \$5.0 billion in FY 2016; recommendations include LBB estimates that sales will be \$4.64 billion in FY 2018 and \$4.67 billion in FY 2019. These estimates led to a recommended decrease of \$1.9 million to the Lottery Operator strategy from 2016-17 levels. The Comptroller of Public Accounts' Biennial Revenue Estimate, 2018-19 (BRE) estimates sales to be \$4.95 billion in FY 2018 and \$5.02 billion in FY 2019.

Rider 9(b) of the agency's bill pattern sets sales performance-based retailer commissions at 0.5% of projected gross lottery sales. Based on the same sales figures, recommendations include a decrease of \$0.2 million to the Retailer Commission strategy from 2016-17 levels.



# LOTTERY REVENUE FUNDS

LOTTERY FUNDS TRANSFER TABLE (IN MILLIONS)

FISCAL YEAR	Total Sales	Total Deposit to the State =	Deposit to Foundation School Fund (FSF) <sup>1</sup> +	Deposit of Unclaimed Prizes to FSF <sup>2</sup> +	Deposit to Veterans' Assistance Fund <sup>1</sup> +	Deposit of Unclaimed Prizes to Veterans' Assistance Fund <sup>3</sup> +	Deposit of Unclaimed Prizes to Credit of GR <sup>2</sup> +	Deposit of Unclaimed Prizes to GR-D Fund #5049 <sup>4</sup>
2013	\$4,376.3	\$1,214.1	\$1,148.5	-	\$5.7	\$0.5	\$53.7	\$5.8
2014	\$4,384.6	\$1,220.7	\$1,131.8	\$72.0	\$10.6	\$1.0	-	\$5.4
2015	\$4,529.7	\$1,242.7	\$1,154.6	\$70.5	\$11.8	\$1.3	-	\$4.4
2016	\$5,067.5	\$1,398.3	\$1,304.0	\$75.8	\$12.5	\$1.2	-	\$4.9
2017 (est.)	\$4,872.1	\$1,297.7	\$1,215.1	\$64.6	\$12.0	\$1.2	-	\$4.9
2018 (est.)	\$4,945.2	\$1,317.2	\$1,233.3	\$65.6	\$12.2	\$1.2	-	\$4.9
2019 (est.)	\$5,019.4	\$1,337.0	\$1,251.8	\$66.7	\$12.3	\$1.2	-	\$4.9

NOTES

Fiscal year 2016-2019 amounts align with the Texas Comptroller of Public Accounts' 2017 Biennial Revenue Estimate

1) Amount does not include unclaimed prizes.

2) House Bill 2197, Eighty-third Legislature, Regular Session, 2013 revised statute dictating that funds previously deposited to GR would thereafter be deposited to the Foundation School Fund.

3) All unclaimed prizes from veterans' games are deposited to the Fund for Veterans' Assistance.

4) GR-D Fund 5049 receives deposits exclusively from unclaimed prizes in the amount equal to appropriations. Deposits to the fund in fiscal years 2018 and 2019 will depend on amounts appropriated.

In Fiscal Year 2016, Texas sold \$5,067.5 million in lottery games. From these sales, \$1,398.3 million was allocated according to statute and as set in the General Appropriations Act (GAA), to public K-12 education, veterans programs, and state hospitals.



KEY TERMS

**LOTTERY OPERATOR CONTRACTS**  
Contract with a third party to produce draw game tickets, provide and maintain Lottery terminals, and conduct marketing research. This percentage is set by rider in the GAA.

**RETAILERS**  
Individuals or businesses who sell lottery games. Grocery and convenience stores are the two largest retailer groups.

**RETAILER COMMISSIONS**  
Compensation to retailers for the sale of lottery games (no less than 5% of gross sales as set in statute).

**RETAILER SALES PERFORMANCE COMMISSIONS**  
Payments made to retailers, in addition to their commission, based on same-store sales growth or the sale of certain top prize tickets at their establishment. This percentage is set by rider in the GAA.

**UNCLAIMED PRIZES**  
Lottery prizes unredeemed by winners.

**FUND FOR VETERANS ASSISTANCE**  
Revenue from veteran-themed lottery games. The Veterans Commission uses these funds to write veterans' assistance grants.

**HHSC MULTICATEGORICAL TEACHING HOSPITAL ACCOUNT**  
Used by the Health and Human Services Commission (HHSC), formerly by the Department of State Health Services, to fund indigent health care.


**FOUNDATION SCHOOL FUND**  
The primary source of funding for Texas' public school districts.

**POOLED BOND FUND**  
Covers the potential loss of state revenue as a result of lottery retailer defaults.




# LEGISLATIVE BUDGET BOARD Lottery Revenue Funds

## WHERE DO TEXAS LOTTERY PROCEEDS GO?




Proceeds from the sale of lottery tickets are deposited to General Revenue Dedicated - Lottery Account No. 5025.



These proceeds are first used to pay winning ticket holders.



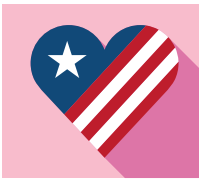
Prizes that aren't claimed by winning ticket holders are held for 180 days.<sup>1</sup>




After prizes are paid and unclaimed prizes are set aside, funds are first used to pay retailer commissions.<sup>2</sup>

The funds are then used to pay for retailer sales performance bonuses and incentives, lottery operation and administrative costs; these payments can be no greater than 7% of gross sales.<sup>3</sup>

- Retailer sales performance payments (up to 0.5% of gross sales)
- Lottery Operator contract (2.209% of gross sales)
- Advertising contract
- Other contracts (instant ticket production, drawing & broadcast, market research)
- TLC administrative expenses








All funds remaining from veterans' games proceeds are deposited into the Fund for Veterans' Assistance.



All funds remaining from non-veterans' games are deposited into the Foundation School Fund. The GAA appropriates these deposits as lottery proceeds to the Foundation School Program.

If prizes go unclaimed for 180 days:

-  Those from veterans' games are deposited into the Fund for Veterans' Assistance.
-  Those from non-veterans' games are deposited in the amount appropriated from the General Revenue - State Owned Multicategorical Teaching Hospital Account No. 5049 (GR-D Fund 5049).
-  Those from non-veterans' games are also eligible to be transferred in the amount appropriated to the Health and Human Services Commission to support inpatient hospitals along the Texas-Mexico border. No appropriations have been made for this purpose since FY 2005.
-  All funds remaining from non-veterans' games proceeds are deposited into the Foundation School Fund.



**SOURCES:** Texas Comptroller of Public Accounts Biennial Revenue Estimate; Texas Lottery Commission Annual Financial Report, General Appropriations Act for the 2016-17 Biennium, Eighty-fourth Texas Legislature Regular Session, 2015.

1) Texas Government Code § 466.408 (b)(1) & (3)

2) Texas Government Code § 466.358 (a)

3) Texas Government Code § 466.355 (b)(2)

Texas Lottery Commission  
Contracting Highlights - Senate

Summary of Contracts Awarded 09/01/2014 to 01/17/2017 and Reported to LBB Contracts Database\*

(Dollar values rounded to the nearest tenth of a million)

	Number	Total Value	Average Value	% of total
Procurement Contracts	49	\$ 29.4	\$ 0.6	100%

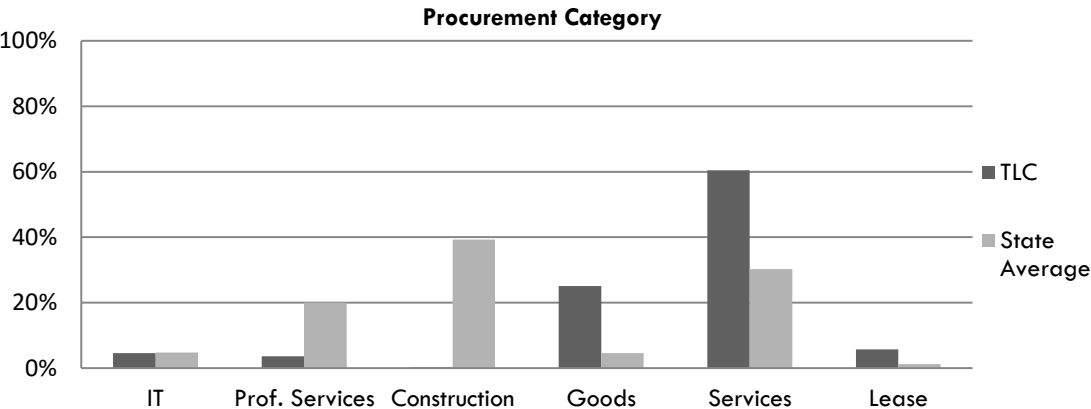
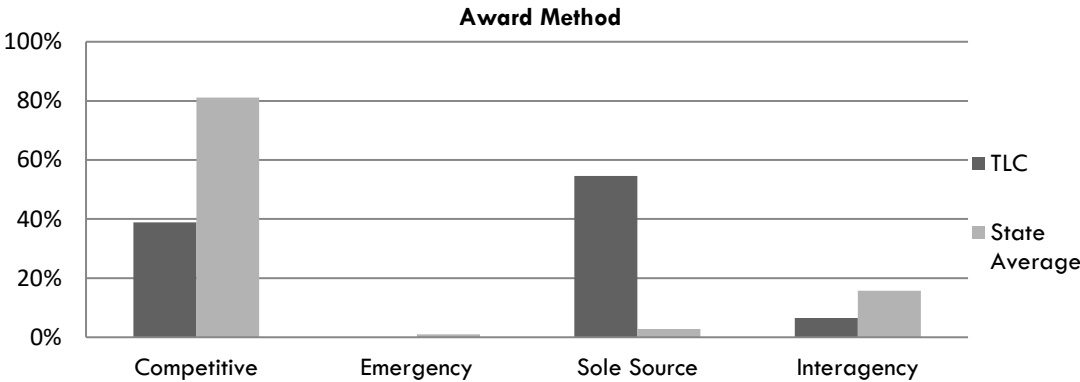
Award Method

Total Competitive Contracts	26	\$ 11.4	\$ 0.4	38.9%
Total Non-Competitive	23	\$ 18.0	\$ 0.8	61.1%
Emergency	0	\$ -	\$ -	0.0%
Sole Source	12	\$ 16.1	\$ 1.3	54.6%
Interagency Agreement	11	\$ 1.9	\$ 0.2	6.5%

Procurement Category

Information Technology	7	\$ 1.3	\$ 0.2	4.6%
Professional Services	2	\$ 1.1	\$ 0.5	3.6%
Construction	1	\$ 0.1	\$ 0.1	0.3%
Goods	8	\$ 7.4	\$ 0.9	25.1%
Other Services	28	\$ 17.8	\$ 0.6	60.4%
Lease/Rental	3	\$ 1.7	\$ 0.6	5.7%

Comparisons with State Averages



\*Note: These figures reflect the total value of contracts awarded 09/01/2014 to 01/17/2017 and reported to the LBB contracts database. Values can include planned expenditures for subsequent years and represent the amounts contracted which may include funds from sources other than appropriated or General Revenue Funds.

**Texas Lottery Commission**  
Contracting Highlights - Senate

(Dollar values rounded to the nearest tenth of a million)

<b>Largest Active Contracts from Previous Fiscal Years</b>	<b>Award Method</b>	<b>Total Value</b>	<b>% Change<sup>1</sup></b>	<b>Award Date</b>	<b>Length</b>	<b>Renewals</b>	<b>Vendor</b>
1 Lottery Operations	Competitive	\$ 1614.5	100.0%	08/30/10	16 years	2	IGT Global Solutions Corp.
2 Advertising Services	Competitive	\$ 197.7	48.1%	05/21/12	6 years	1	Latinworks Marketing LLC
3 Instant Ticket Manufacturing and Services	Competitive	\$ 51.5	-	08/07/12	6 years	2	IGT Global Solutions Corp.
4 Instant Ticket Manufacturing and Services	Competitive	\$ 50.1	-	07/21/12	2 years	1	Scientific Games International Inc.
5 Lease - Austin Headquarters 611 East 6th Street <sup>2</sup>	Emergency	\$ 48.7	1146.0%	01/07/97	23 years	5	Lynx Grant LLC
5a Parking - Austin Headquarters	Sole Source	\$ 1.1	-	11/18/15	5 years		City of Austin

**Largest Competitive Contracts Awarded in FY 15-16**

1 Promotional Products	Competitive	\$ 4.6	-	09/25/14	3 years	0	Beehive Specialty
2 Security Management System & Monitoring Services	Competitive	\$ 1.8	-	09/24/15	4 years	0	Keystone US Management Inc.
3 Market Research Services	Competitive	\$ 0.8	-	09/24/15	1 year	0	Strategic Research Partners
4 Website Hosting Services	Competitive	\$ 0.5	-	07/15/15	3 years	0	Agencies of Change LLC
5 IT Staff Augmentation Svcs, DIR-SSD-2351	Competitive	\$ 0.4	-	09/15/15	1 year	0	RFD & Associates Inc.

**Largest Non-Competitive Contracts Awarded in FY 15-16**

1 Trademark License & Promotional Agreement	Sole Source	\$ 7.5	-	06/15/15	3 years	0	Pro Silver Star LTD
2 Trademark License & Promotional Support Agreement	Sole Source	\$ 2.5	-	06/22/15	3 years	0	Frisco Management LP
3 Trademark Sublicense Agreement	Sole Source	\$ 1.5	-	10/30/15	2 years	0	Alchemy3 LLC
4 Trademark Sublicense Agreement -Houston Texans	Sole Source	\$ 1.5	-	05/26/16	1 year	0	Houston Holdings LP
5 Rental of parking spaces for Austin Headquarters	Sole Source	\$ 1.1	-	11/18/15	5 years	0	City of Austin

<sup>1</sup>Note: The percent change in contract value between initial award amount and the current contract value. Includes contract amendments and renewals.

<sup>2</sup>Note: The agency is statutorily exempt from most statewide contracting regulations, which has allowed this emergency procurement to continue for 19 years. For more information, see SFR program summaries for the Lottery Operator contract and Central Administration.

**Texas Lottery Commission  
Rider Highlights - Senate**

**Modification of Existing Riders**

2. **Capital Budget.** Recommendations add PC replacement as a capital budget item and provide capital budget authority of \$251,280 for this purpose to fund a 6-year replacement cycle. Recommendations retain \$300,000 in capital budget authority for Capitalized Lottery Drawing Equipment.
6. **Appropriations Limited to Revenue Collection.** Recommendations modify the rider to clarify the revenue requirements of the agency for enforcing Bingo laws.
11. **Appropriation of Increased Revenue.** This rider provides the agency increased appropriation authority at an amount equal to 1.49 percent of the amount by which gross lottery proceeds exceed sales estimates for fulfilling contractual obligations and other administrative costs associated with administration of the lottery.

Recommendations include adding new subsections to the rider that perform the following functions:

- 1) Require agency to notify the Legislative Budget Board, in a manner prescribed by the Legislative Budget Board, on the planned use of these funds.
- 2) Require agency to report to the Legislative Budget Board on the amounts and use of these funds in the previous fiscal year.

**New Riders**

15. **Limitations on Transfers.** Recommendations include a new rider that prohibits transfers from the Scratch Ticket Production Contract(s) strategy to other strategies in the agency's bill pattern without prior written approval from the Legislative Budget Board. Given its impact on sales, this rider ensures that appropriations to this strategy are expended for their intended purpose.

**Texas Lottery Commission**  
**Items Not Included in Recommendations - Senate**

		2018-19 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2020-21
		GR & GR-D	All Funds	FTEs			
Agency Exceptional Items - In Agency Priority Order							
1)	Advertising services contracts (\$14,733,104), products and promotional events (\$627,092), and market research services (\$761,800) reduced in recommendations.	\$16,121,996	\$16,121,996	0.0	No	Yes	\$16,121,996
2)	Rider to set appropriations to Strategy A.1.7, Scratch Ticket Production and Services Contract(s) in fiscal years 2018 and 2019 at an amount equal to 1.1 percent of scratch ticket sales in fiscal years 2018 and 2019, respectively. The agency requests that Strategy A.1.7 be modified to an estimated strategy.	\$0	\$0	0.0	No	Yes	\$0
TOTAL Items Not Included in Recommendations		\$16,121,996	\$16,121,996	0.0	\$16,121,996		

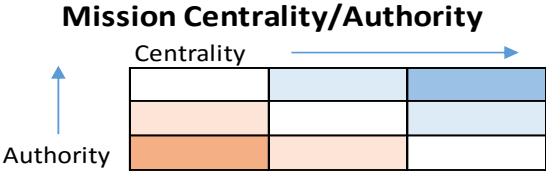
**Texas Lottery Commission**  
**Appendices - Senate**

SFR Table of Contents		
SFR Appendix	Appendix Title	Page
1	SFR Program Funding	12
2	SFR Program Listing – Services and Administration	13
3	SFR Program Listing – Fiscal	14
4	SFR Mission Centrality/Authority	15
5	SFR Constitutional, General Revenue-Dedicated and Funds Outside the Treasury	16
6	SFR Program Summaries	19

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 1: Program Funding**

**Texas Lottery Commission**

The Lottery Commission's mission 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, integrity and responsible gaming principles, set and achieve challenging goals, provide quality customer service, and utilize a TEAM approach.



<b>Total Budget</b>		<b>2018-19 Recommendations</b>			<b>2018-19 Agency Total Request</b>	
<b>100%</b>	<b>Strategy</b>	<b>Budget, Ordered by Mission Centrality and Authority</b>	<b>Agency Ranking</b>	<b>\$475,718,952</b>		<b>\$491,840,948</b>
	<i>1.1.5 Central Administration</i>	<i>Central Administration</i>	8	\$24,186,974		\$24,186,974
	2.1.4 Bingo Prize Fee Collection & Acct	Bingo Prize Fee Allocation	13	\$25,271,000		\$25,271,000
	2.1.2 Bingo Education And Development	Bingo Education and Training	12	\$285,408		\$285,408
	2.1.4 Bingo Prize Fee Collection & Acct	Bingo Accounting Services	11	\$633,688		\$633,688
	2.1.3 Bingo Law Compliance Field Oper	Bingo Auditors	10	\$3,075,120		\$3,075,120
	2.1.1 Bingo Licensing	Bingo Licensing Services	9	\$1,418,914		\$1,418,914
	1.1.8 Mass Media Advertising Contract(s)	Advertising Services Contract	7	\$49,266,896	Agency requests restoration of \$14,733,104 for advertising services contracts.	\$64,000,000
	1.1.1 Lottery Operations					
<b>72%</b>	1.1.2 Lottery Field Operations	Operations	6	\$20,736,945		\$20,736,945
	1.1.7 Scratch Ticket Product. Contract(s)				Agency requests restoration of \$1,388,892 for marketing products, market research and promotional events.	
	1.1.10 Market Research Contract(s)	Marketing and Promotions	5	\$73,520,996		\$74,909,888
	1.1.11 Retailer Bonus					
<b>46%</b>	1.1.12 Retailer Commissions	Retailer Commissions, Bonuses and Incentives	4	\$54,957,115		\$54,957,115
	1.1.6 Lottery Operator Contract(s)	Lottery Operator Contract	2	\$205,773,137		\$205,773,137
	1.1.9 Drawing & Broadcast Contract(s)					
<b>0%</b>	1.1.4 Security	Security	1	\$16,592,759		\$16,592,759

*Note: Indirect administration program names are italicized.*

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 2: Program Listing -- Services and Administration**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Agency Submission		LBB Staff Review and Analysis								
Agency Ranking	Program Name	Year Implemented	State Authority	Federal Authority	Authority	Mission Centrality	State Service	Service Area	Significant Audit and/or Report Findings	Contracts for Outsourced Services
1	Security	1992	Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	Partial
2	Lottery Operator Contract	1992	Constitution, Agency Rider, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Yes
3	Lottery Prize Payment and Pooled Bond Fund	1992	Constitution, Agency Rider, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
4	Retailer Commissions, Bonuses and Incentives	1992	Constitution, Agency Rider, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
5	Marketing and Promotions	1992	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Partial
6	Operations	1992	Constitution, Statute	No Federal Requirement	Strong	Strong	State Government Administration & Support	Statewide	No	No
7	Advertising Services Contract	1992	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Yes
9	Bingo Licensing Services	1982	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Partial
10	Bingo Auditors	1982	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	Partial
11	Bingo Accounting Services	1982	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
12	Bingo Education and Training	1982	Constitution, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
13	Bingo Prize Fee Allocation	1982	Constitution, Agency Rider, Statute	No Federal Requirement	Strong	Strong	Business & Workforce Development & Regulation	Statewide	No	No
Indirect Administration Programs										
8	Central Administration	1992	Statute	No Federal Requirement	N/A	N/A	State Government Administration & Support	Statewide	No	Partial

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 3: Program Listing -- Fiscal**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

Agency Submission				LBB Staff Review and Analysis							
Agency Ranking	Program Name	2012-13 Expended	2014-15 Expended	2016-17 Est / Budg	2017 FTEs Budg	2018-19 Recommended	2019 FTEs Rec.	Percent Change from Base	FTEs Change from Base	Revenue Supported?	Appropriate Use of Constitutional and GR-Dedicated Funds?
1	Security	\$ 13,092,424	\$ 14,846,229	\$ 16,546,669	38.0	\$ 16,592,759	38.0	0.3%	0.0	Yes	Qualified
2	Lottery Operator Contract	\$ 178,035,560	\$ 189,097,269	\$ 207,695,833	0.0	\$ 205,773,137	0.0	-0.9%	0.0	Yes	Compliant
3	Lottery Prize Payment and Pooled Bond Fund *	\$ 5,399,983,334	\$ 5,599,504,229	\$ 6,299,035,153	0.0	\$ 6,005,867,836	0.0	-4.7%	0.0	Yes	Qualified
4	Retailer Commissions, Bonuses and Incentives *	\$ 462,687,165	\$ 486,066,209	\$ 548,371,062	0.0	\$ 520,528,265	0.0	-5.1%	0.0	Yes	Compliant
5	Marketing and Promotions	\$ 47,724,013	\$ 55,071,099	\$ 75,262,373	38.5	\$ 73,520,996	37.5	-2.3%	-1.0	Yes	Compliant
6	Operations	\$ 18,324,120	\$ 19,546,337	\$ 20,622,708	105.2	\$ 20,736,945	105.2	0.6%	0.0	Yes	Qualified
7	Advertising Services Contract	\$ 68,186,407	\$ 63,384,896	\$ 65,500,000	0.0	\$ 49,266,896	0.0	-24.8%	0.0	Yes	Compliant
9	Bingo Licensing Services	\$ 1,646,178	\$ 4,005,114	\$ 1,610,977	8.0	\$ 1,418,914	8.0	-11.9%	0.0	Yes	Compliant
10	Bingo Auditors **	\$ 1,962,027	\$ 2,515,922	\$ 3,153,621	29.0	\$ 3,075,120	27.0	-2.5%	-2.0	Yes	Compliant
11	Bingo Accounting Services **	\$ 330,831	\$ 275,032	\$ 577,725	6.0	\$ 633,688	6.0	9.7%	0.0	Yes	Compliant
12	Bingo Education and Training **	\$ 238,424	\$ 231,649	\$ 296,354	2.0	\$ 285,408	2.0	-3.7%	0.0	Yes	Compliant
13	Bingo Prize Fee Allocation **	\$ 25,882,978	\$ 26,898,163	\$ 25,271,000	0.0	\$ 25,271,000	0.0	0.0%	0.0	Yes	Compliant
<b>Indirect Administration Programs</b>											
8	Central Administration	\$ 22,993,594	\$ 20,895,133	\$ 25,259,097	99.8	\$ 24,186,974	99.8	-4.2%	0.0	Yes	Qualified
<b>Total</b>		<b>\$ 6,241,087,055</b>	<b>\$ 6,482,337,281</b>	<b>\$ 7,289,202,572</b>	<b>326.5</b>	<b>\$ 6,947,157,938</b>	<b>323.5</b>	<b>-4.7%</b>	<b>-3.0</b>		

	2016-17 Est/Budg	2018-19 Recommended
Inside the Treasury	\$ 7,289,202,572	\$ 6,947,157,938
Inside the Bill Pattern	\$ 496,695,982	\$ 475,718,952
Outside the Bill Pattern	\$ 6,792,506,590	\$ 6,471,438,986
Outside the Treasury	\$ -	\$ -
<b>Total</b>	<b>\$ 7,289,202,572</b>	<b>\$ 6,947,157,938</b>

\* Program has funds Outside the Treasury and / or Outside the Bill Pattern.

\*\* Bingo strategy appropriations are limited to revenue collections and funded from fees on the agency's licensing populations deposited into the state's General Revenue Fund.

**Notes:** **Qualified** indicates that the agency may be using the funds for the purpose(s) intended or for similar purposes which are not specifically authorized by the constitution or statute, or that there may be conflicts within authorizing laws.

**Revenue Supported** includes licensee fees and lottery ticket proceeds.

Texas Lottery Commission  
Strategic Fiscal Review - Senate: Appendix 4: Assessments of Mission Centrality and Authority  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

**Mission centrality** is a judgment of how directly connected a program is to the core mission and goals of the agency, as identified in statute, agency strategic plans, or other documents.  
**Authority** is an assessment of how strong and explicit the legal basis is for the existence of the program and the way in which the agency is administering it.

MISSION CENTRALITY

		Weak	Moderate	Strong
A U T H O R I T Y	Strong			Security(1) Lottery Operator Contract(2) Lottery Prize Payment and Pooled Bond Fund(3) Retailer Commissions, Bonuses and Incentives(4) Marketing and Promotions(5) Operations(6) Advertising Services Contract(7) Bingo Licensing Services(9) Bingo Auditors(10) Bingo Accounting Services(11) Bingo Education and Training(12) Bingo Prize Fee Allocation(13)
	Moderate			
	Weak			

Notes: Agency program rankings included after the program name. The matrix does not include Indirect Administration programs.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 5: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

1	<b>Account No:</b> 5025	<b>Account Type:</b> GR DEDICATED
	<b>Account Name:</b> Lottery Account	
	<b>Legal Cite(s):</b> Texas Government Code Sec. 434.017 and 466.355	
	<b>Authorized Use:</b> Funds in the Lottery Account may be used for the following: 1) payment of prizes to holders of winning tickets (see Lottery Prize Payment Fund, below); 2) costs, not to exceed twelve percent of gross lottery proceeds, incurred in the operation and administration of the lottery; 3) the establishment and maintenance of a pooled bond fund (see Pooled Bond Fund, below); 4) transfer of revenue generated from veterans' games to the Fund for Veterans' Assistance; and 5) transfer of the remainder to the Foundation School Fund.	
	<b>Revenue Source:</b> The Lottery Account consists of all revenue received from the sale of tickets, license and application fees associated with the lottery operations, and all money credited to the account from any other fund or source under law. Interest earned by the state lottery account shall be deposited in the unobligated portion of the General Revenue Fund.	

Ranking:	Program Name	2016-17 Est/Budg	2018-19 Recommended	In Compliance with Authorized Use?
1	Security	\$ 16,546,669	\$ 16,592,759	Qualified
2	Lottery Operator Contract	\$ 207,695,833	\$ 205,773,137	Yes
4	Retailer Commissions, Bonuses and Incentives	\$ 54,899,625	\$ 54,957,115	Yes
5	Marketing and Promotions	\$ 75,262,373	\$ 73,520,996	Yes
6	Operations	\$ 20,622,708	\$ 20,736,945	Qualified
7	Advertising Services Contract	\$ 65,500,000	\$ 49,266,896	Yes
8	Central Administration	\$ 25,259,097	\$ 24,186,974	Qualified
<b>Total</b>		<b>\$ 465,786,305</b>	<b>\$ 445,034,822</b>	

<b>Notes/Comments:</b>	<p>Pursuant to Government Code Sec. 466.357, the Lottery Account is not subject to certification by the Comptroller of Public Accounts.</p> <p>Security, operations, and central administration programs contain components of the agency's bingo operations funded by appropriations from the State Lottery Account (GR-D Fund 5025). This is not an allowable use of GR-D Fund 5025 as required under Government Code, Sec. 466.355.</p>
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**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 5: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

2	<b>Account No:</b> 9201	<b>Account Type:</b> GR DEDICATED
	<b>Account Name:</b> SFR GR-D - Lottery Prize Payment Fund	
	<b>Legal Cite(s):</b> Texas Government Code Sec. 466.355; Rider 4, Appropriation: Payment of Prizes.	
	<b>Authorized Use:</b> Money in the state lottery account may be used for the payment of prizes to the holders of winning tickets. Rider 4, Payment of Prizes of the General Appropriations Act appropriates sufficient funds for the payment of prizes to the holders of winning tickets.	
	<b>Revenue Source:</b> Lottery revenues are primarily composed of scratch and draw game ticket sales and retailer fees.	

<b>Ranking:</b>	<b>Program Name</b>	<b>2016-17 Est/Budg</b>	<b>2018-19 Recommended</b>	<b>In Compliance with Authorized Use?</b>
3	Lottery Prize Payment and Pooled Bond Fund	\$ 6,299,035,153	\$ 6,005,867,836	Qualified
<b>Total</b>		<b>\$ 6,299,035,153</b>	<b>\$ 6,005,867,836</b>	

<b>Notes/Comments:</b>	<p>This funding only includes prizes paid to the holders of winning tickets. Unclaimed prizes that are ultimately deposited to the General Revenue Dedicated - State Owned Multicategorical Teaching Hospital Account No. 5049, Fund for Veterans' Assistance, and the Foundation School Fund are not included in these totals.</p> <p>Lottery Prize Payments are listed as qualified as the agency currently deposits all unclaimed prizes from veterans' assistance games into the Fund for Veterans Assistance, regardless of the balance of the fund. However, Government Code Sec. 466.408 (b)(3) provides that if the balance of the Fund for Veterans Assistance is at or above \$5 million, all unclaimed prizes from veterans' assistance games are to be deposited to the Foundation School Fund.</p>
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3	<b>Account No:</b> 9202	<b>Account Type:</b> GR DEDICATED
	<b>Account Name:</b> SFR GR-D - Pooled Bond Fund	
	<b>Legal Cite(s):</b> Texas Government Code Sec. 466.156; Rider 5, Limitation: Pooled Reserve Fund.	
	<b>Authorized Use:</b> Pursuant to Government Code, Chapter 466, the Executive Director shall maintain balances in a pooled reserve fund to cover the potential loss of state revenue as a result of lottery retailer defaults. The Executive Director shall transfer all pooled reserve fund revenues and balances that exceed \$5 million to the Foundation School Fund monthly.	
	<b>Revenue Source:</b> A cash bond, surety bond, letter of credit, certificate of deposit or other security approved by the Lottery Director shall be posted by lottery ticket sales agents to protect the State from possible losses resulting from the agent operations. Amount of the security determined by the Lottery Director.	

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 5: Constitutional, General Revenue Dedicated Accounts, and Funds Outside the Treasury**  
(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

Ranking:	Program Name	2016-17 Est/Budg	2018-19 Recommended	In Compliance with Authorized Use?
3	Lottery Prize Payment and Pooled Bond Fund	\$ -	\$ -	Yes
<b>Total</b>		<b>\$ -</b>	<b>\$ -</b>	

<b>Notes/Comments:</b>	The balance of the fund has been at its maximum level for several biennia, as there have been no extraordinary circumstances that have warranted its use.
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4	<b>Account No:</b> 9203	<b>Account Type:</b> GR DEDICATED
	<b>Account Name:</b> SFR GR-D - Retailer Commissions	
	<b>Legal Cite(s):</b> Texas Government Code Sec. 466.358; Rider 9, Retailer Commissions.	
	<b>Authorized Use:</b> Compensation paid to a sales agent may not be an amount less than five percent of the retail price of the tickets sold. Rider 9(a), Retailer Commissions of the General Appropriations Act appropriates an amount equal to five percent of gross sales for the purpose of paying retailer commissions.	
	<b>Revenue Source:</b> Gross lottery ticket sales are composed of scratch and draw game ticket sales.	

Ranking:	Program Name	2016-17 Est/Budg	2018-19 Recommended	In Compliance with Authorized Use?
4	Retailer Commissions, Bonuses, and Incentives	\$ 493,471,437	\$ 465,571,150	Yes
<b>Total</b>		<b>\$ 493,471,437</b>	<b>\$ 465,571,150</b>	

<b>Notes/Comments:</b>	Amounts listed in this account do not include retailer incentives or bonuses given for meeting specific sales goals that are appropriated inside the agency's bill pattern as
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	2016-17 Est/Budg	2018-19 Recommended
Inside the Treasury	\$ 7,289,202,572	\$ 6,947,157,938
<i>Inside the Bill Pattern</i>	\$ 496,695,982	\$ 475,718,952
<i>Outside the Bill Pattern</i>	\$ 6,792,506,590	\$ 6,471,438,986
Outside the Treasury	\$ -	\$ -
<b>Total</b>	<b>\$ 7,289,202,572</b>	<b>\$ 6,947,157,938</b>

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6a: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Security**

**Agency Ranking** 1 out of 13

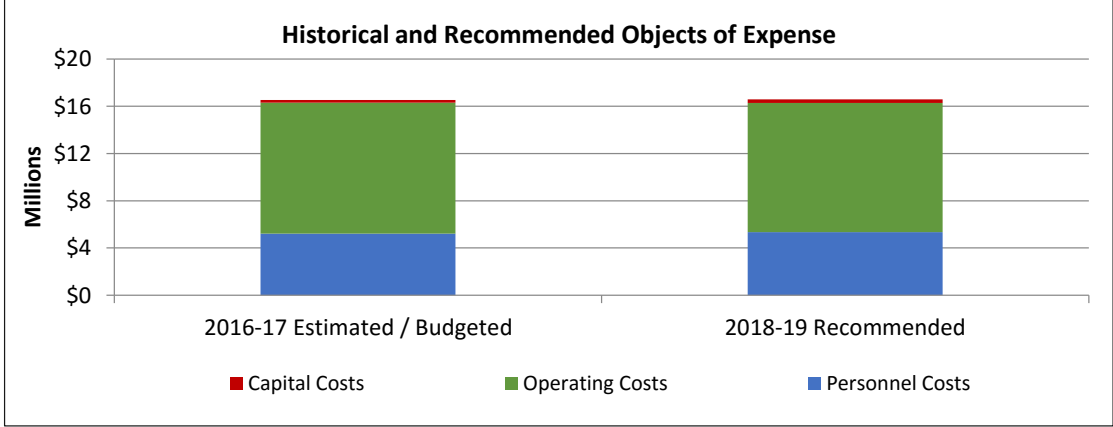
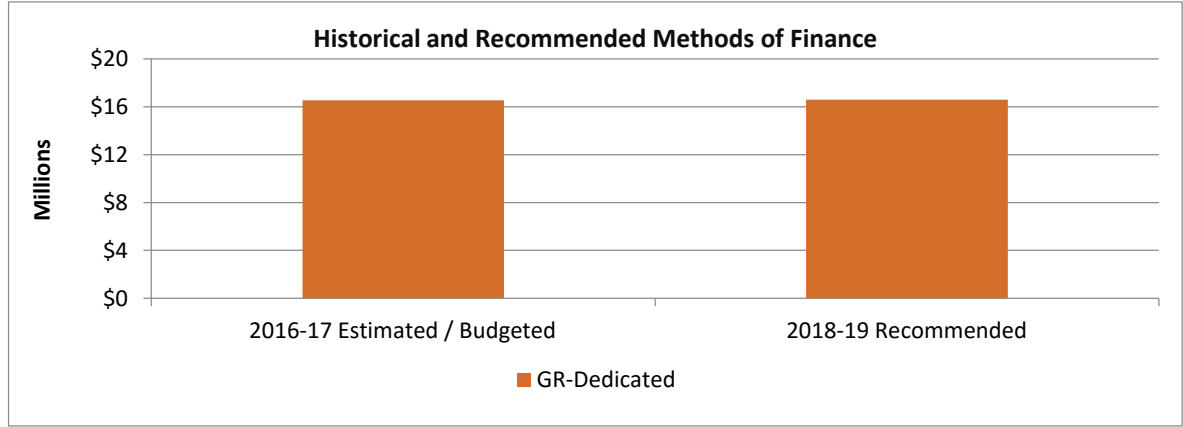
Ensures the security and integrity of lottery games, systems and drawings, assures the physical security of all commission operating sites, and investigates possible criminal and regulatory violations. Oversees contracted vendor services for broadcast and production of drawings for lottery games.

**Legal Authority:** Government Code, Ch. 466 & 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47 (b), (c), & (e)

<b>Year Implemented</b>	1992	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Qualified
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	State Government Administration & Support		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Drawing Studio and Production Services	\$ 5,269,711	0.0	\$ 5,270,356	0.0	31.8%
Drawings	\$ 4,277,688	12.8	\$ 4,499,834	12.8	27.1%
Enforcement	\$ 3,360,058	19.3	\$ 3,503,894	19.3	21.1%
Security Contracts	\$ 2,111,791	0.0	\$ 1,631,360	0.0	9.8%
All Other Activities	\$ 1,527,421	5.9	\$ 1,687,315	5.9	10.2%
<b>TOTAL</b>	<b>\$ 16,546,669</b>	<b>38.0</b>	<b>\$ 16,592,759</b>	<b>38.0</b>	<b>100.0%</b>

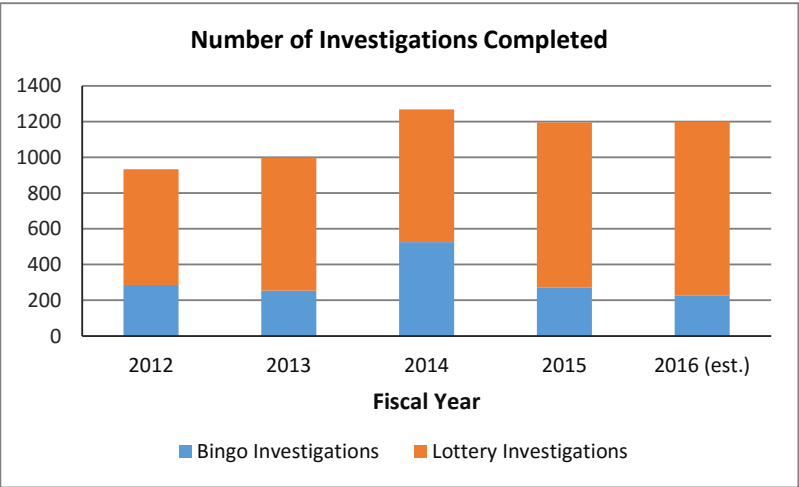
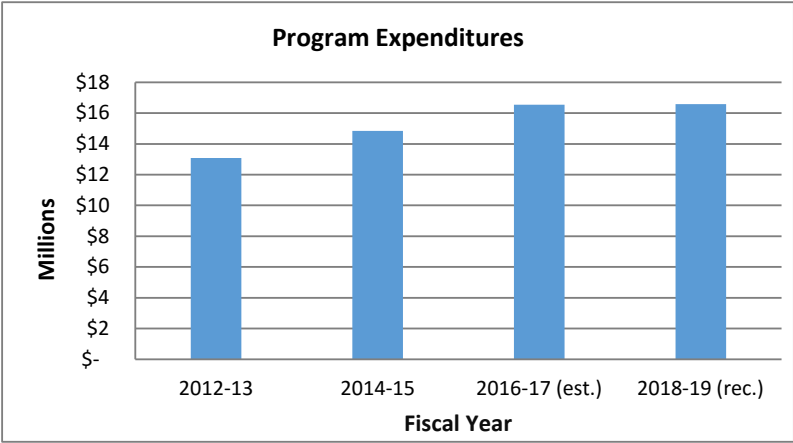
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 16,592,759	100.0%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 16,592,759</b>	<b>100.0%</b>



Program: Security

Agency  
Ranking

1 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 Security activities include investigation of allegations of fraudulent activity and statutory violations among agency licensees, and ensuring that lottery drawings are securely conducted in compliance with applicable regulations and procedures.
- 2 Recommendations include a net increase to the security program of \$46,090, due to an increase of \$106,090 for various operating expenses and a decrease of \$60,000 for a security officer contract with the Department of Public Safety.
- 3 Background investigations of bingo operators and workers are funded by appropriations from the State Lottery Account (GR-D Fund 5025) to the agency's security strategy. The agency's 2013 Sunset Commission report included a recommendation to ensure that bingo licensing fees cover the cost of bingo regulation to replace funding from GR-D Fund 5025; similar requests have been presented to the Legislature by the agency. The Legislature has not appropriated General Revenue funds for this purpose.
- 4 Statute requires the biennial assessment by an independent firm of the agency's security, including computer security, protection against fraud, and physical security of lottery products. Assessments in 2012, 2014, and 2016 found the agency is effective in ensuring the security and integrity of lottery operations.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 According to the agency, the potential for security violations and breaches has increased as the volume of lottery transactions has grown over time, which has required an increasing level of security.
- 2 The agency also notes that drawings have expanded from twice weekly drawings at the Texas Lottery's inception to over 90 weekly drawings, necessitating more security to ensure the integrity of the drawings.

Funding Alternatives

- 1 None.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6b: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Lottery Operator Contract**

**Agency  
Ranking**

**2 out of 13**

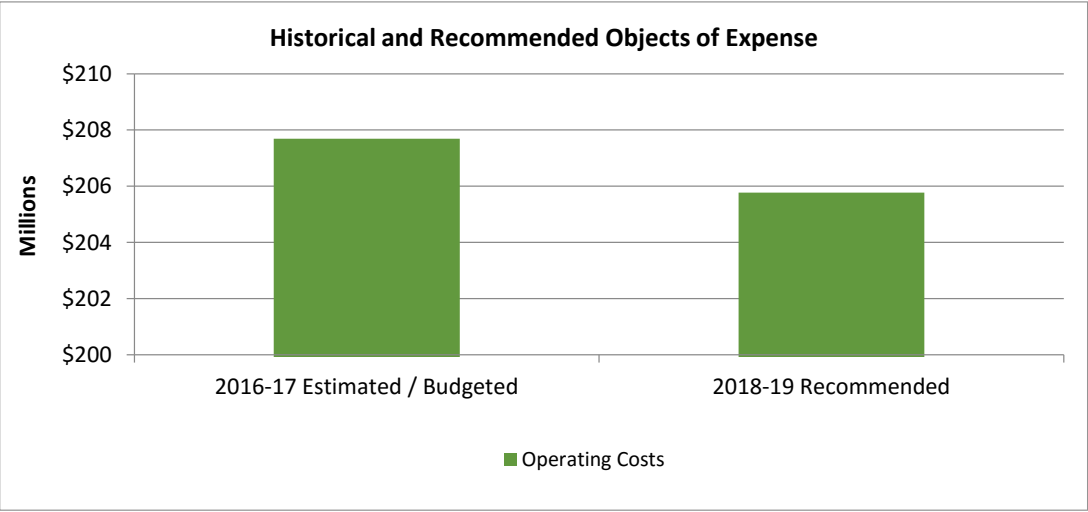
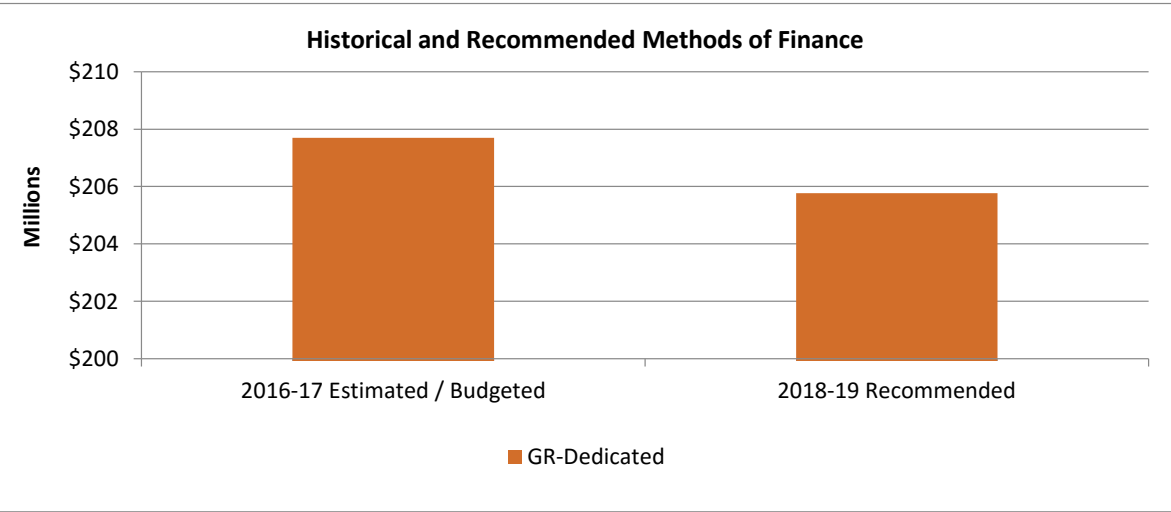
Contracted services for lottery gaming and management system operations, telecommunications and terminal/hardware network, field sales and business development staff, market research and promotion, scratch ticket warehousing, ordering and distribution and retailer hotline technical support.

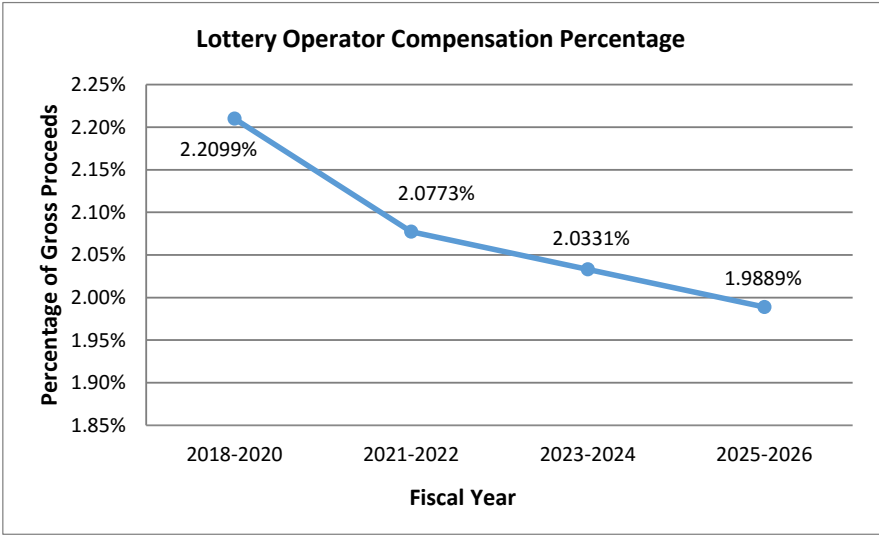
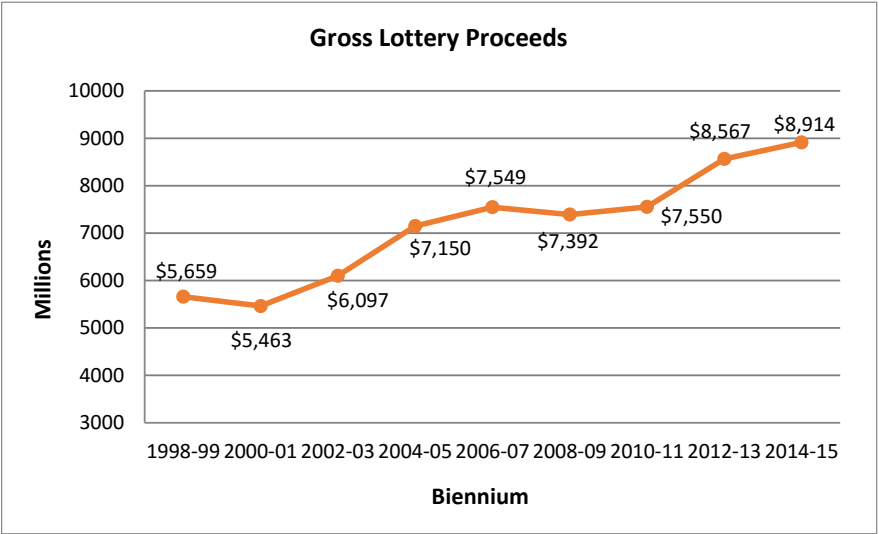
**Legal Authority:** Government Code, Ch. 466 and 467, and Tex. Constitution Art. III, Sec. 47(e)

<b>Year Implemented</b>	1992	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Yes	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Lottery Operator Contract	\$ 207,695,833	0.0	\$ 205,773,137	0.0	100.0%
<b>TOTAL</b>	<b>\$ 207,695,833</b>	<b>0.0</b>	<b>\$ 205,773,137</b>	<b>0.0</b>	<b>100.0%</b>

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 205,773,137	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 205,773,137</b>	<b>100.0%</b>





Summary of Recommendations and Fiscal and Policy Issues

- 1 This program reflects the agency's contract with IGT (formerly GTECH) for operation of the state lottery. IGT is one of three major companies worldwide that provide lottery related goods and services. This function has been outsourced to IGT since the Texas Lottery's inception in 1992, though the contract has undergone competitive bidding since that time.
- 2 Per Rider 10 of the agency's bill pattern, recommendations set 2018-19 appropriations at 2.2099% of projected gross lottery sales. This currently amounts to a reduction of \$1,922,696 from 2016-17 levels, but will be rightsized to reflect sales estimates in the Biennial Revenue Estimate. The amount appropriated is estimated and will fluctuate due to sales.

Contract Overview

- 1 Government Code, Sec. 466.105 exempts the agency from most statewide contracting regulations, including State Purchasing and General Services requirements (Government Code, Subtitle D, Title 10), the Information Resources Management Act (Government Code, Ch. 2054), and the Professional Services Procurement Act (Government Code, Ch. 2254). This allows the agency to utilize non-competitive procurement methods for many of its projects, and gives the agency broad authority to award and manage its largest contracts outside of established contracting practices.
- 2 The agency recently executed three optional renewals to extend the operator contract for an additional six years through August 31, 2026. As shown in the graph to the left, the new contract will set the rate at 2.0733% in FY 2021 and will gradually decrease over the course of the contract to a rate of 1.9889% in FY 2026; the agency estimates that this will result in savings of \$65 million over the current rate over the renewed contract's duration. The agency is assuming an increase in gross sales over the new contract period; payments to the Operator are therefore also projected to increase, though at a lower rate than transfers to the state, all else being equal (e.g., percentage of sales paid to prizewinners).
- 3 The agency includes provisions in the original contract establishing performance measures and penalties for non-performance. These provisions have allowed the agency to assess \$10.3 million in sanctions and liquidated damages against the vendor, IGT, between fiscal years 2012 and 2015. Furthermore, the contract adequately delineates responsibilities between both parties. However, subsequent modifications have introduced non-traditional practices into the management of this contract, which will be covered in more detail on the next page.

Contract Risk Factors

- 1 An amendment to the operator contract was executed in FY 2012 that allows the agency to accept goods or services of equal value from the operator in lieu of monetary performance sanctions or liquidated damages. The agency has since used this amendment to secure \$3.5 million in additional goods and services from the operator. Statute generally requires penalties and damages paid by the vendor to be sent to the treasury, which are then appropriated back to the agency for use within the fiscal year in which they are collected. The amendment allows the agency to instead convert penalty funds into additional services without those funds passing through the treasury or being subject to the fiscal year limitation.
- 2 In negotiating the renewal of the lottery operator contract, the agency was not required to seek open bids when setting the rate of compensation to the operator. As such, it is undetermined whether this rate is competitive with other lottery operators in the market.

Recommended Statutory Changes for Program Improvement

- 1 Repeal the agency's procurement exemptions contained in Government Code, Sec. 466.105. These exemptions, granted when the lottery was created under the Comptroller of Public Accounts in 1991, originally had a planned expiration of September 1, 1993 (Acts 1991, 72nd Leg., 1st Called Session, ch. 6, Sec. 2.04(i)), but were subsequently made permanent. Since the agency was created, the state has gained more experience with contracting for lottery operations. The ongoing presence of these broad exemptions in statute has given the Lottery Commission wide authority to conduct procurements outside of established best practices.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 None.

Funding Alternatives

- 1 Inclusion of a rider in the agency's bill pattern requiring the agency to notify the Legislative Budget Board at least 30 calendar days before any amendment or change order is executed on the Lottery Operator contract. It is anticipated that such notification would include unexecuted copies of the proposed amendment or change order, as well as summaries of any vendor performance issues observed in the previous fiscal quarter. The ten-year Lottery Operator contract has been non-competitively renewed for an additional six years, after undergoing several amendments and change orders. This notification would allow the Legislature to monitor any potential cost growth in this contract.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6c: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Lottery Prize Payment and Pooled Bond Fund**

**Agency Ranking** 3 out of 13

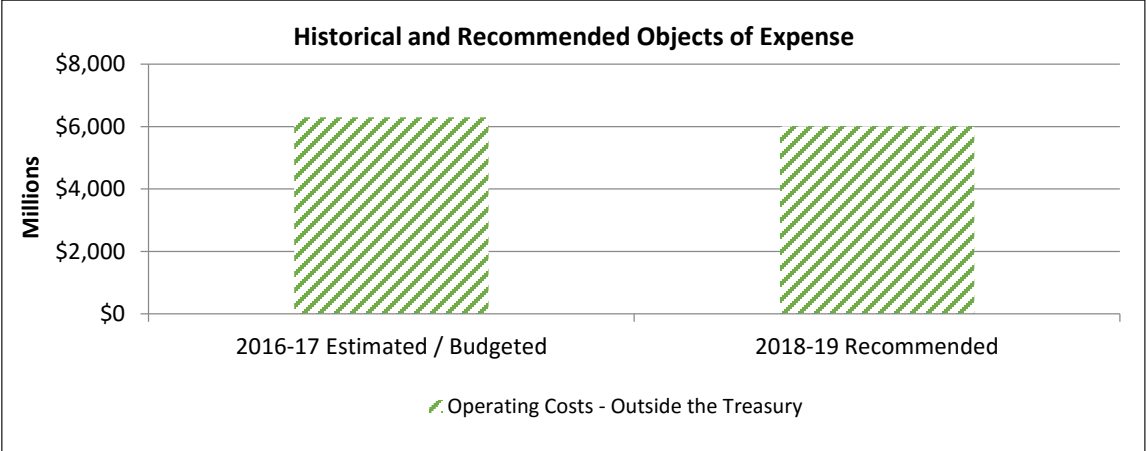
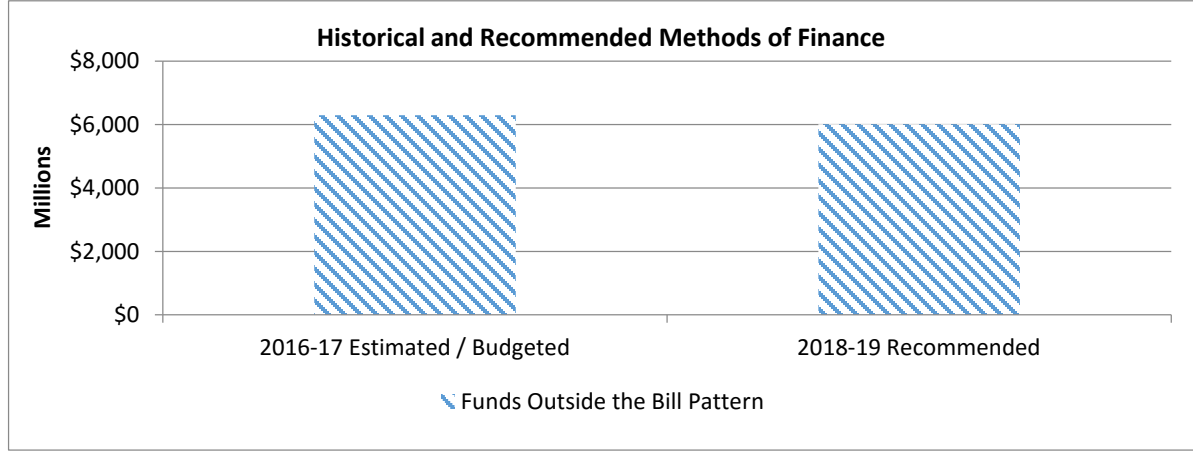
Payment of lottery prizes claimed through the Texas Lottery Commission at a Texas Lottery Claim Center, and payment of annuity prizes, as well as management of the Pooled Bond Fund, which is a fund designed to protect the state from possible losses resulting from agent operations.

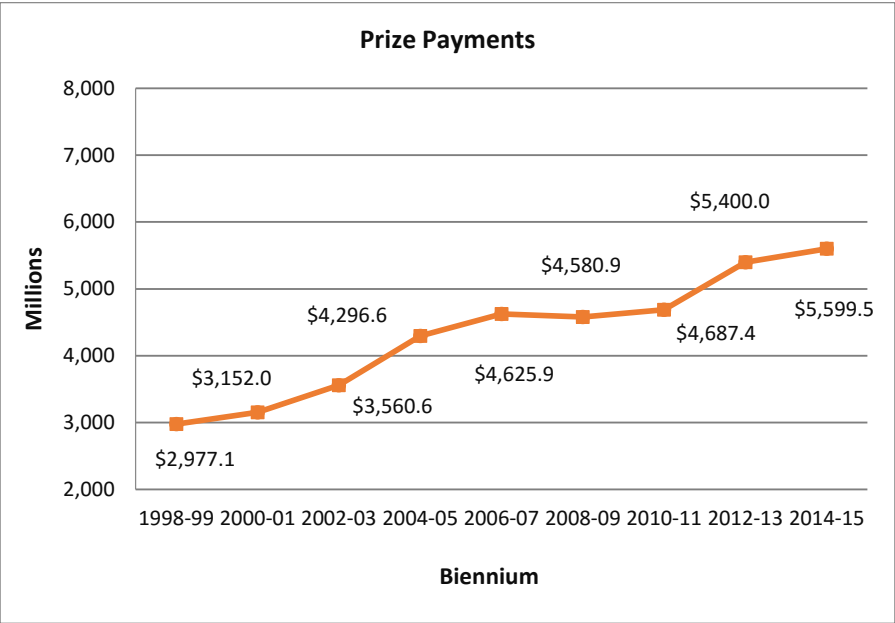
**Legal Authority:** Government Code, Ch. 466 and 467; Tex. Constitution Art. III, Sec. 47(e); Rider 4, Rider 5

<b>Year Implemented</b>	1992	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	No	<b>General Revenue-Dedicated Funds</b>	Qualified
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
<b>Rider 4, Appropriation: Payment of Prizes</b>	\$ 6,299,035,153	0.0	\$ 6,005,867,836	0.0	100.0%
<b>Pooled Bond Fund</b>	\$ -	0.0	\$ -	0.0	0.0%
<b>TOTAL</b>	<b>\$ 6,299,035,153</b>	<b>0.0</b>	<b>\$ 6,005,867,836</b>	<b>0.0</b>	<b>100.0%</b>

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 6,005,867,836	100%
<i>Inside the Bill Pattern</i>	\$ -	0.0%
<i>Outside the Bill Pattern</i>	\$ 6,005,867,836	100.0%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 6,005,867,836</b>	<b>100.0%</b>





Summary of Recommendations and Fiscal and Policy Issues

- Prize Payments are estimated based on lottery ticket sales projections. The decrease in funding from the 2016-17 biennium to the 2018-19 biennium reflects a decrease in estimated sales projections.
- Retailers may pay prizes up to and including \$599. By statute, all lottery prizes of \$600 or more must be claimed through the agency at an agency claim center. Prizes of \$2.5 million or less may be claimed at any of the agency's sixteen claim centers. Prizes of more than \$2.5 million, all Lotto Texas, Powerball and Mega Millions jackpots, and all prizes involving installment payments must be claimed at the headquarters claim center in Austin.
- Pursuant to the Government Code Sec. 466.407, the agency deducts from the winnings of a prize winner any delinquent payments owed to the state before payment of the prize. These deductions totaled \$4.7 million in the 2014-15 biennium.
- The Pooled Bond Fund contains \$5.0 million in funding that is available to reimburse the State for possible losses from the operation of lottery retailers.
- The agency currently deposits all unclaimed prizes from veterans' assistance games into the Fund for Veterans' Assistance, regardless of the balance of the fund. While this may align with legislative intent, Government Code Sec. 466.408 (b)(3) provides that if the balance of the Fund for Veterans' Assistance is at or above \$5.0 million, all unclaimed prizes from veterans' assistance games are to be deposited to the Foundation School Fund.
- The agency deposits prizes to be paid in annuities in the Texas Treasury Safekeeping Trust Company to accrue interest before being paid out to prizewinners; funds are deposited in an amount such that the deposit plus interest gained will equal the prize amount owed at the time it is to be paid.

Recommended Statutory Changes for Program Improvement

- None.

Enhancement Opportunities

- None.

Challenges to Operation of Program

- None.

Funding Alternatives

- None.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6d: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Retailer Commissions, Bonuses and Incentives**

Agency  
 Ranking

4 out of 13

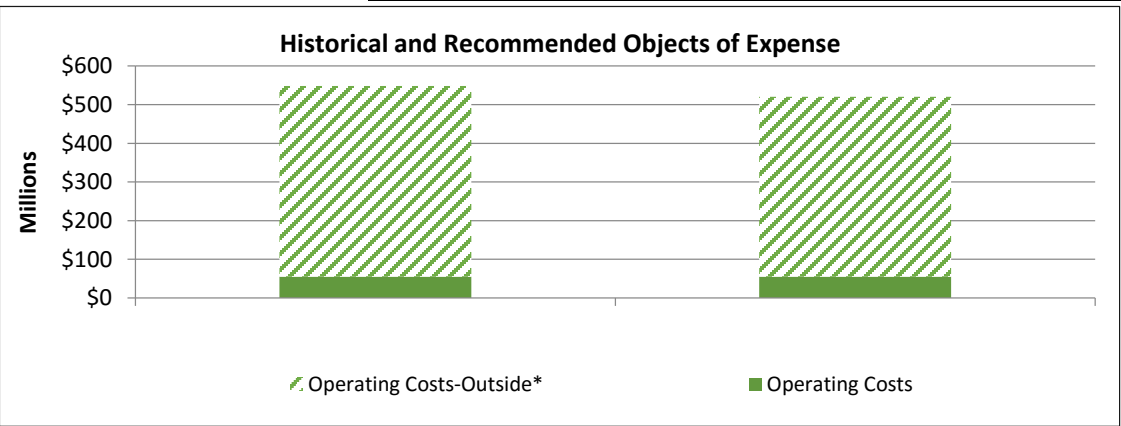
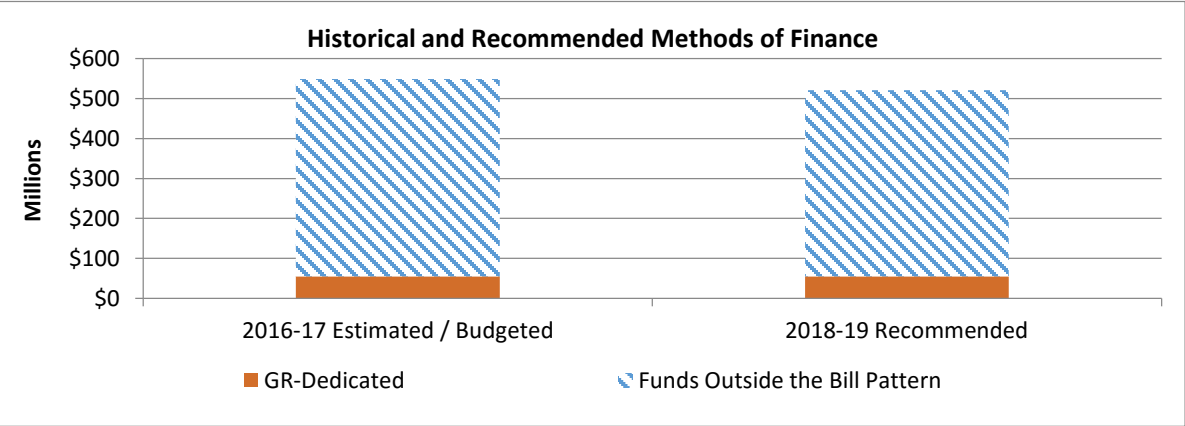
Licensed retailers receive five percent of gross sales as commissions. The program includes sales bonuses and incentives for retailers: bonuses are tied to the sale of certain top prize tickets and the incentive program rewards same-store sales growth.

**Legal Authority:** Government Code Ch., 466 and 467, and Tex. Constitution Art. III, Sec. 47(e); Rider 9, Retailer Commissions

<b>Year Implemented</b>	1992	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	No	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
<b>Retailer Commissions</b>	\$ 493,471,437	0.0	\$ 465,571,150	0.0	89.4%
<b>Retailer Incentive</b>	\$ 46,754,450	0.0	\$ 46,557,115	0.0	8.9%
<b>Retailer Bonuses</b>	\$ 8,145,175	0.0	\$ 8,400,000	0.0	1.6%
<b>TOTAL</b>	<b>\$ 548,371,062</b>	<b>0.0</b>	<b>\$ 520,528,265</b>	<b>0.0</b>	<b>100.0%</b>

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 520,528,265	100%
<i>Inside the Bill Pattern</i>	\$ 54,957,115	10.6%
<i>Outside the Bill Pattern</i>	\$ 465,571,150	89.4%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 520,528,265</b>	<b>100.0%</b>

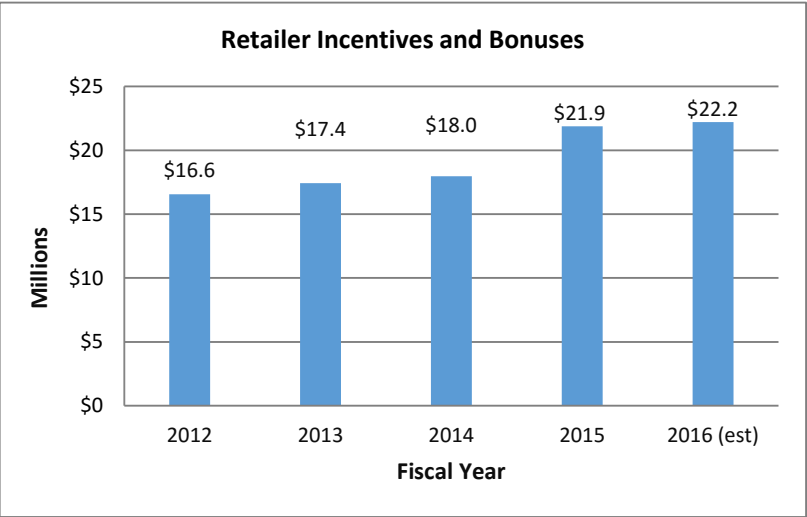
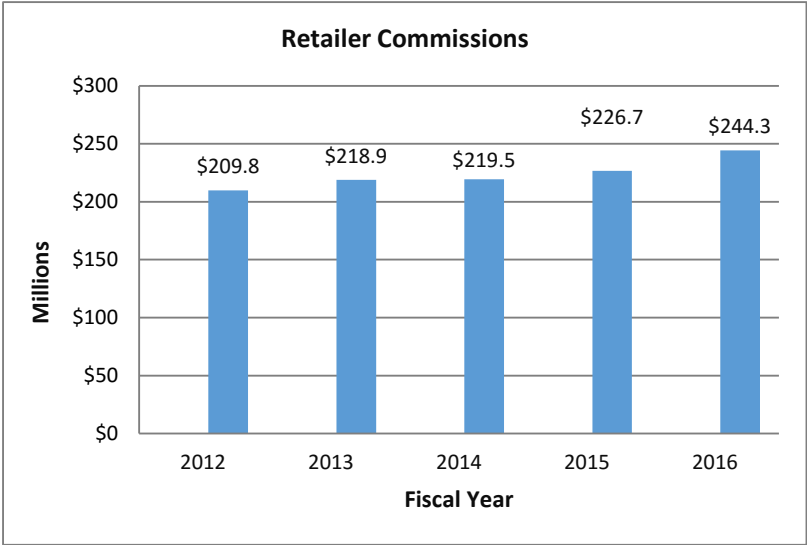


\*Indicates Funds Outside the Bill Pattern/Outside the State Treasury.

Program: Retailer Commissions, Bonuses and Incentives

Agency  
Ranking

4 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 As of FY 2016, there were approximately 17,400 licensed retailers selling lottery products in the state.
- 2 Statute dictates that compensation paid to retailers may not be less than five percent of gross lottery ticket proceeds. This rate of compensation has remained constant since the introduction of the Texas Lottery in 1992. FY 2016 retailer commissions totaled \$244.3 million.
- 3 Beginning in the 2010-11 biennium, in addition to the five percent commission, statute allows retailer compensation of up to one-half of one percent of gross lottery ticket proceeds through an incentive program for meeting certain sales goals. Any unexpended amounts for this purpose in the first year of the biennium are authorized to be used for the same purpose in the second year of the biennium. Prior to providing any such compensation, the agency must report to the Governor and the LBB outlining its plans to implement performance incentive programs and the projected benefits of the program to ticket sales and state revenues. FY 2016 retailer incentive payments totaled \$18.2 million.

The agency also awards bonuses to retailers for the sale of certain prizewinning tickets, which totaled \$3.9 million in FY 2016.

- 4 In its report to the Eighty-Fourth Legislature, the Legislative Committee to Review the Texas Lottery and Charitable Bingo in Texas cited a study which estimated that in 2014, the Texas Lottery created an average of \$130,200 in non-lottery purchases made by lottery players per retailer location.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 The agency reports that compared to many other retail products, lottery products typically produce lower profit margins to the retailer and tend to be more labor intensive to sell. The agency speculates that taken together, these factors may prevent potential retailers from selling lottery products.
- 2 According to the agency, lottery retailer compensation in Texas is among the lowest of state-run lotteries in the United States, and is the lowest among the top ten sales-generating state-run lotteries.

Funding Alternatives

- 1 As part of the SFR analysis, the agency was asked to estimate the impact to lottery sales and revenue of both increasing and decreasing retailer commissions to 5.25 percent and 4.75 percent of gross lottery sales, respectively. As there has been no formal study conducted on the impact of retailer commissions on lottery sales, the agency was not able to quantify with certainty the impact of the proposed changes. However, the agency anticipates that an increase in retailer commission rate to 5.25 percent would increase lottery sales and revenue to the state, and that decreasing retailer commissions to 4.75 percent would have an opposite effect.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6e: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Marketing and Promotions**

**Agency  
Ranking**

**5 out of 13**

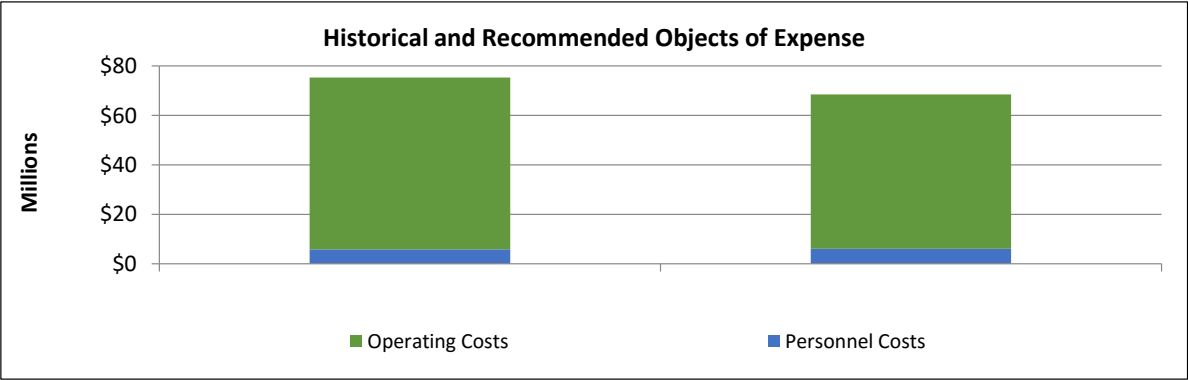
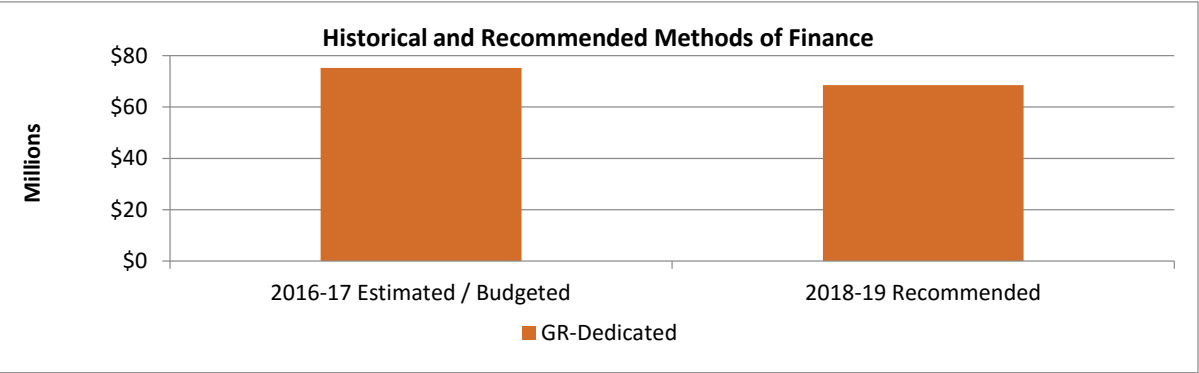
Promotes lottery product development, research, sales/promotion activities to plan and implement effective products. Manages and oversees all aspects of contracted vendor services for product development, manufacturing, research services and sales organization support.

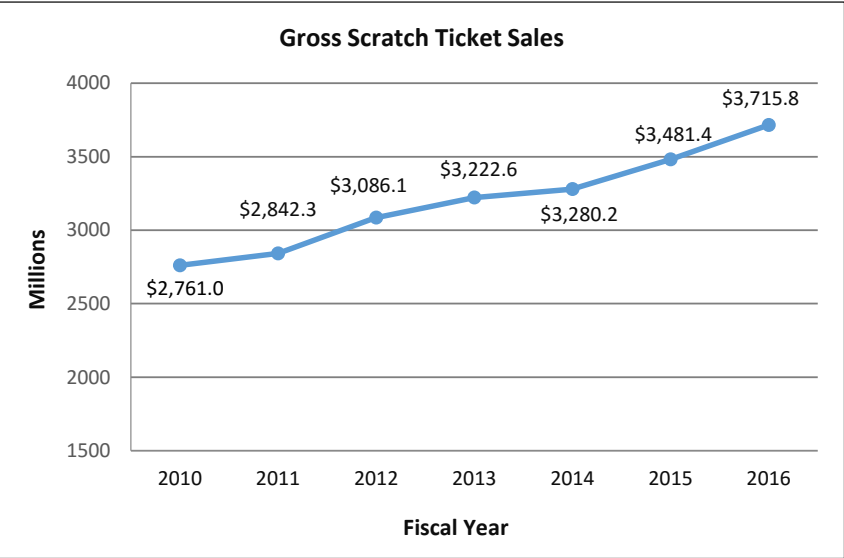
**Legal Authority:** Government Code, Ch. 466 & 467, and Tex. Constitution Art. III, Sec. 47(e)

<b>Year Implemented</b>	1992	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Scratch Ticket Contract	\$ 60,300,000	0.0	\$ 60,300,000	0.0	82.0%
Promotions and Advertising	\$ 7,590,052	10.9	\$ 7,079,053	10.9	9.6%
Lottery Products	\$ 2,601,334	12.7	\$ 2,263,826	12.7	3.1%
Graphics	\$ 1,217,534	3.0	\$ 1,033,246	3.0	1.4%
All Other Activities	\$ 3,553,453	11.9	\$ 2,844,871	10.9	3.9%
<b>TOTAL</b>	<b>\$ 75,262,373</b>	<b>38.5</b>	<b>\$ 73,520,996</b>	<b>37.5</b>	<b>100.0%</b>

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 73,520,996	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 73,520,996</b>	<b>100.0%</b>





Summary of Recommendations and Fiscal and Policy Issues

- The majority of this program is comprised of the agency's scratch ticket production and services, which is entirely outsourced. Scratch ticket sales accounted for 74% of all lottery ticket sales in FY 2016.
- The agency's LAR submission included a decrease of \$6.7 million from the Scratch Ticket Production Contracts strategy's 2016-17 base amount. According to the agency, this reduction would directly lead to a decrease in the production of scratch tickets, resulting in a decrease in scratch ticket sales of \$905.0 million in the 2018-19 biennium. Recommendations retain funding to the strategy at 2016-17 levels.
- After working with the agency to identify non-revenue impacting activities, recommendations include a decrease of \$1.7 million to the Marketing and Promotions program, including: 1) \$0.7 million for non-statutory market research activities; 2) \$0.5 million for postage for mailers; 3) \$0.2 million for promotional items; 4) \$0.2 million for 1.0 market research FTE; and 5) \$0.1 million for printing and reproduction.  
  
The agency estimates that this reduction would decrease revenue to the state by \$1.2 million in the 2018-19 biennium. The agency requests restoration of \$1.4 million of these reductions.
- Recommendations include a new rider that prohibits transfers from the Scratch Ticket Production Contract(s) strategy to other strategies in the agency's bill pattern without prior written approval from the Legislative Budget Board.

Recommended Statutory Changes for Program Improvement

- None.

Enhancement Opportunities

- None.

Challenges to Operation of Program

- According to the agency, the current fixed budget funding structure of the Scratch Ticket Production Contracts strategy does not provide the agency flexibility in production should increased scratch ticket sales require funding in excess of appropriations to the strategy. Additionally, the agency indicates it is challenging to determine requested appropriation levels under a fixed budget funding structure as it is difficult to forecast product sales growth for scratch tickets, which is their fastest growing category.  
  
Rider 11 in the agency's bill pattern increases the agency's appropriation authority by an amount equal to 1.49 percent of the amount by which gross lottery ticket sales exceed lottery ticket sales estimates, and the agency has recently used these funds to supplement the Scratch Ticket Production Contract strategy. However, the agency cannot access these funds until such time as it is known that sales will exceed the sales estimate.
- According to the agency, as a mature lottery offering a full scratch and draw product portfolio, there are limited opportunities for further portfolio expansion, and continuing to provide unique and innovative products is an ongoing challenge.

Funding Alternatives

1 The agency requests a new rider that would change the funding mechanism to the Scratch Ticket Production Contracts strategy from a fixed budget to estimated, and would set the strategy appropriation at an amount equal to 1.1 percent of gross scratch ticket sales from the same fiscal year. The table below outlines historical scratch ticket sales and appropriations to and expenditures from the strategy; the table also calculates hypothetical historical strategy appropriation amounts using the funding mechanism requested in the rider, demonstrating that appropriations would have been substantially higher than either actual appropriations or expenditures during the fiscal year.

In Millions	2010	2011	2012	2013	2014	2015	Est. 2016	Budg. 2017	Rec. 2018	Rec. 2019
Appropriations	\$18.0	\$18.0	\$18.0	\$19.5	\$22.5	\$22.5	\$26.0	\$26.0	\$30.2	\$30.2
Expenditures	\$16.0	\$16.4	\$18.1	\$19.5	\$24.6	\$19.7	\$28.3	\$32.0	N/A	N/A
Hypothetical Appropriation at 1.1 percent of gross scratch ticket sales	\$30.4	\$31.3	\$33.9	\$35.4	\$36.1	\$38.3	\$40.9	\$42.3	\$44.0	\$45.7
Over/Under Expended Amounts	\$14.4	\$14.9	\$15.8	\$16.0	\$11.5	\$18.6	\$12.6	\$10.3	\$13.8	\$15.6

Note: Scratch ticket sales estimates for fiscal years 2017-19 use agency projections.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6f: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Operations**

**Agency Ranking** 6 out of 13

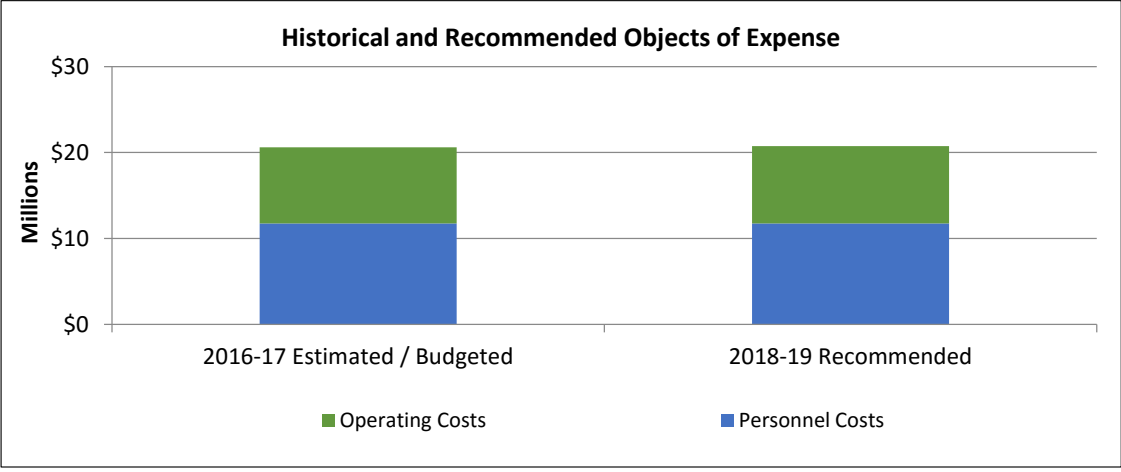
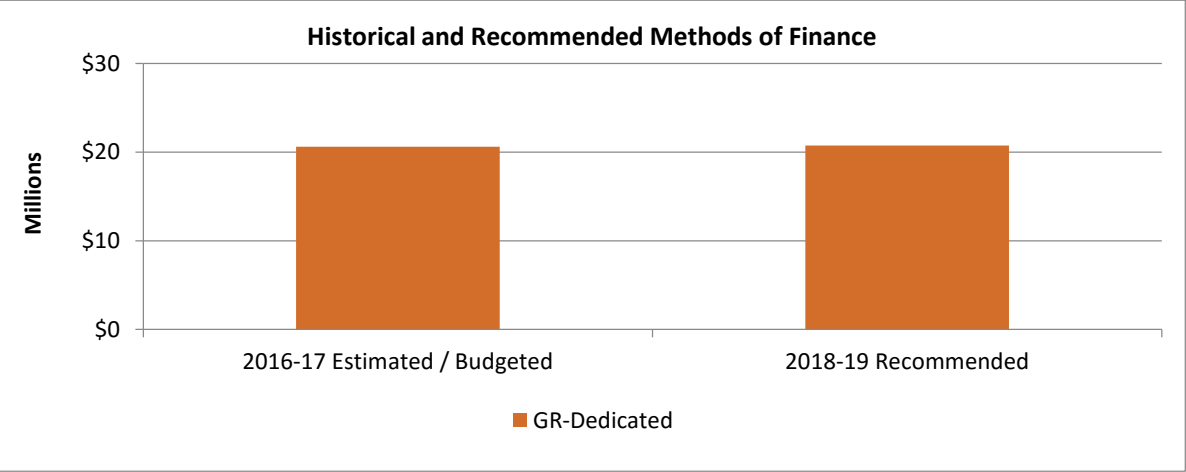
Provides operations management, technical, administrative, and customer service support to all players and retailers via claim centers and state office locations. Serves as the regulatory arm of the agency and contributes to the agency's revenue collection function and retailer development.

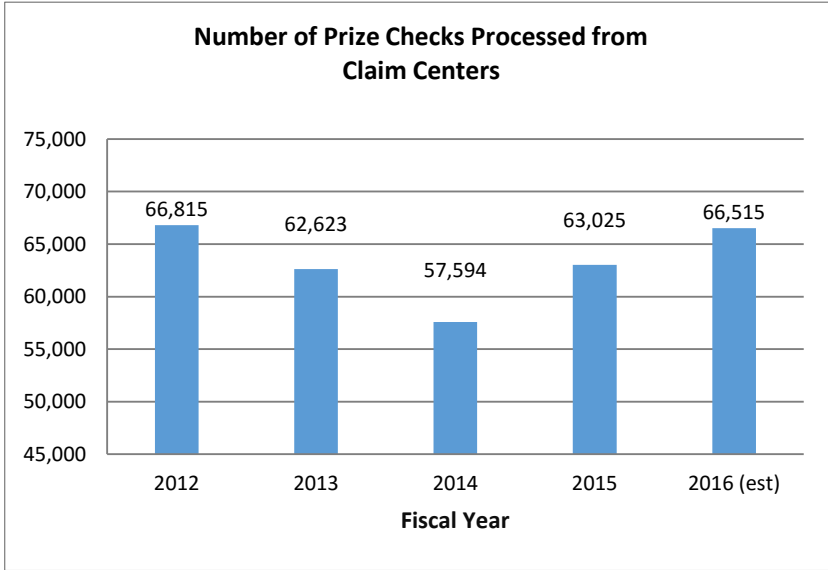
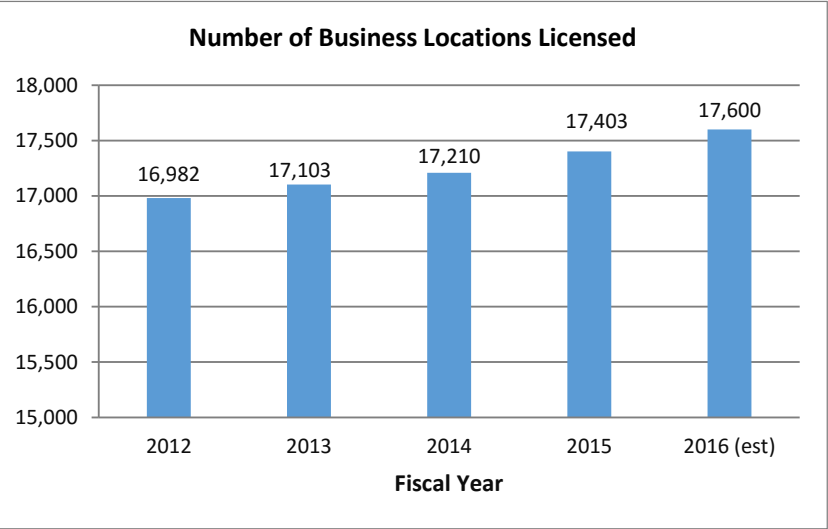
**Legal Authority:** Government Code, Ch. 466 & 467, Tex. Constitution, Art. III, Sec. 47

<b>Year Implemented</b>	1992	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	No	<b>General Revenue-Dedicated Funds</b>	Qualified
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	State Government Administration & Support		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Facilities	\$ 10,091,630	16.3	\$ 10,031,096	16.3	48.4%
Claim Centers	\$ 5,691,777	50.4	\$ 5,865,219	50.4	28.3%
Retailer Services	\$ 4,839,301	38.5	\$ 4,840,630	38.5	23.3%
<b>TOTAL</b>	<b>\$ 20,622,708</b>	<b>105.2</b>	<b>\$ 20,736,945</b>	<b>105.2</b>	<b>100.0%</b>

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 20,736,945	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 20,736,945</b>	<b>100.0%</b>





**Summary of Recommendations and Fiscal and Policy Issues**

- Recommendations include a net increase of \$114,237 due to: 1) a decrease of \$339,196 for building improvements, furnishings and equipment, and lease of draw machines and studio equipment; and 2) an increase of \$453,433 for other operating expenses.
- Facilities that house the agency's bingo division are funded by appropriations from the State Lottery Account (GR-D Fund 5025) instead of General Revenue. The agency's 2013 Sunset Commission report included a recommendation to ensure that bingo licensing fees cover the cost of bingo regulation to replace funding from GR-D Fund 5025; similar requests have been presented to the Legislature by the agency. The Legislature has not appropriated General Revenue funds for this purpose.
- The agency has consolidated its field claim center operations over time, reducing the number of offices from 24 in 1992 to 16 in 2016.

**Recommended Statutory Changes for Program Improvement**

- None.

**Enhancement Opportunities**

- None.

**Challenges to Operation of Program**

- According to the agency, as technology and other innovations change how it interacts with retailers and players, it must continue to leverage technology resources and best practices in customer relationship management to provide customer service, retailer regulation, and accounting support. The agency reports that this is especially true as a mature lottery, and that it must remain responsive to industry trends along with retailer and player interests.

**Funding Alternatives**

- None.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6g: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Advertising Services Contract**

**Agency Ranking** 7 out of 13

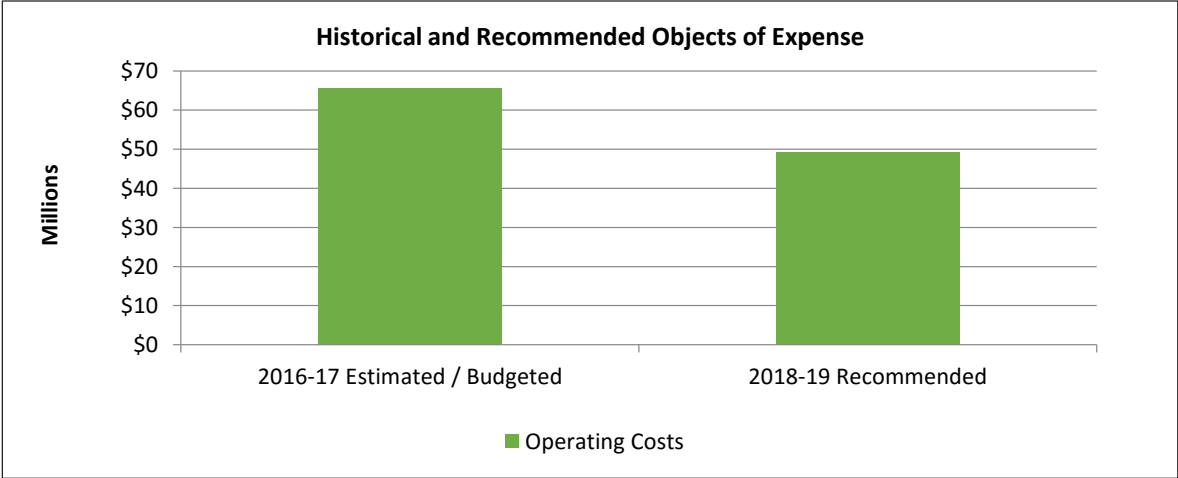
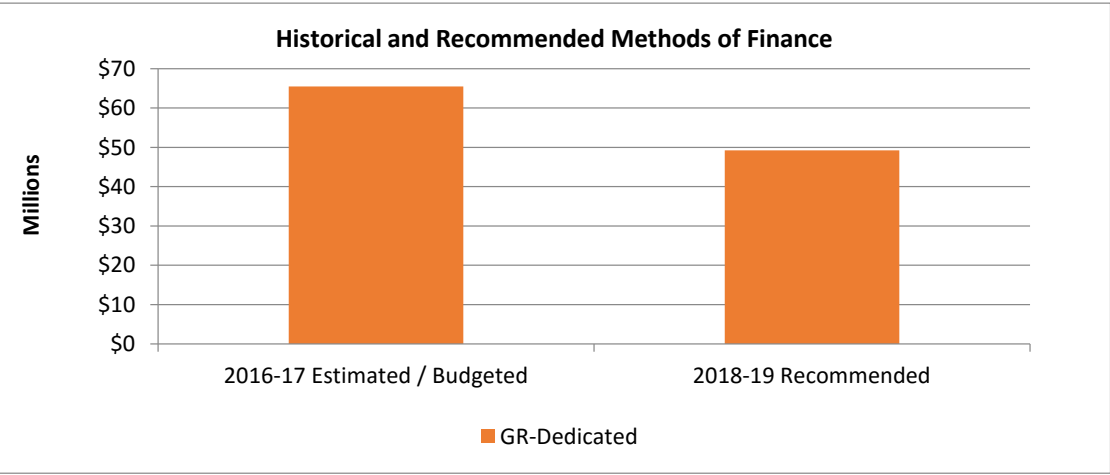
Contracted advertising services including the planning, development, and implementation of lottery advertising including creative conceping, production, planning, buying and placement of broadcast, print, digital, experiential and out of home media.

**Legal Authority:** Government Code, Ch. 466 and 467, and Tex. Constitution Art. III, Sec. 47(e)

<b>Year Implemented</b>	1992	<b>Performance and/or</b>	<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation	

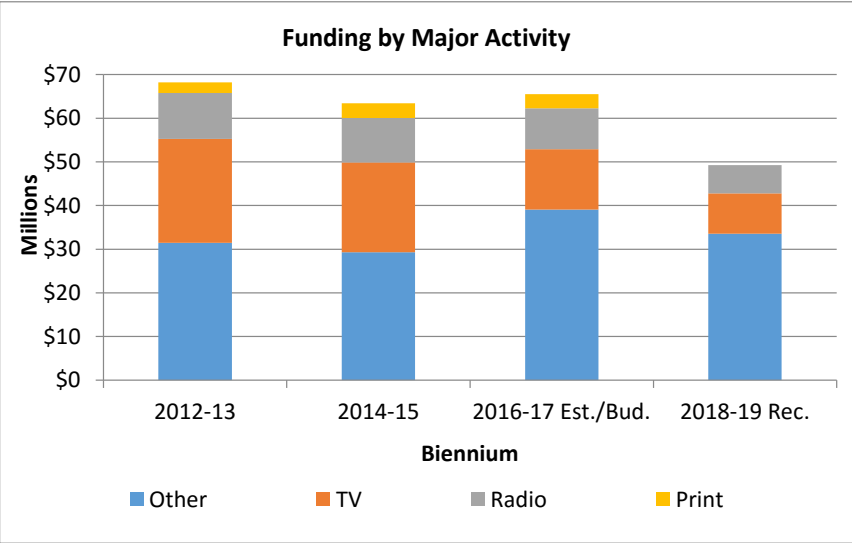
Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Other Advertising	\$ 39,100,000	0.0	\$ 33,531,277	0.0	68.1%
TV Advertising	\$ 13,770,000	0.0	\$ 9,244,027	0.0	18.8%
Radio Advertising	\$ 9,410,000	0.0	\$ 6,491,592	0.0	13.2%
Print Advertising	\$ 3,220,000	0.0	\$ -	0.0	0.0%
<b>TOTAL</b>	<b>\$ 65,500,000</b>	<b>0.0</b>	<b>\$ 49,266,896</b>	<b>0.0</b>	<b>100.0%</b>

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 49,266,896	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 49,266,896</b>	<b>100.0%</b>



Biennium	Advertising Expenditures	Change over Previous Biennium	Lottery Gross Ticket Sales	Change over Previous Biennium
1998-99	\$ 73.1	-	\$ 5,658.5	-
2000-01	\$ 77.0	5.3%	\$ 5,462.9	-3.5%
2002-03	\$ 61.5	-20.1%	\$ 6,097.3	11.6%
2004-05	\$ 65.8	7.0%	\$ 7,150.3	17.3%
2006-07	\$ 62.3	-5.4%	\$ 7,548.9	5.6%
2008-09	\$ 60.2	-3.3%	\$ 7,391.6	-2.1%
2010-11	\$ 63.4	5.3%	\$ 7,549.6	2.1%
2012-13	\$ 68.2	7.5%	\$ 8,567.1	13.5%
2014-15	\$ 63.4	-7.0%	\$ 8,914.3	4.1%

\* dollar amounts are in millions



Summary of Recommendations and Fiscal and Policy Issues

- The agency's advertising program includes contracted services for print, radio, television, and other advertising. 'Other advertising' includes digital, social, experiential, and billboard advertisements.
- In submitting its four percent reduction, the agency included a decrease of \$7.1 million from its Advertising Services Contract. Using a model from the Texas A&M University study 'The Impact of Advertising on Lottery Sales in the State of Texas,' the agency estimated that this reduction would result in a decrease of \$206.6 million in gross lottery sales. Recommendations include a reduction of \$14.7 million to the Advertising Services Contract from the four percent submission. This is in addition to recommendations for a \$1.5 million reduction for one-time expenses not anticipated in the 2018-19 biennium, for a total decrease of \$16.2 million to the program. The agency estimates that a \$14.7 million reduction to its advertising budget would result in a decrease of \$106.5 million in revenue to the state, and is requesting restoration of the funds.
- The table outlines historical trends in agency advertising expenditures and gross ticket sales and has been included for informational purposes. Advertising expenditures in the 2014-15 biennium were \$13.6 million lower than those in the 2000-01 biennium, while sales increased by \$3.45 billion over that duration; however, it is unknown what 2014-15 sales would have been had advertising expenditures stayed constant with 2000-01 levels.
- In its report to the Eighty-Fourth Legislature, the Legislative Committee to Review the Texas Lottery and Charitable Bingo in Texas recommended that the legislature instruct the agency to discontinue its promotion of lottery games via print advertising. The Committee found that other forms of advertising are more efficient use of lottery advertising funds, and that print media is more susceptible to targeted advertisements than other mediums. Recommendations include a full reduction of the agency's print advertising budget of \$3.2 million as a portion of the overall \$16.2 million reduction noted above.
- In FY 2000-01 the agency's advertising strategy was appropriated \$40.0 million each year. Statute was amended by the 77th Legislature, Regular Session, 2001 to require that the agency's advertising budget be reduced by \$1.0 million from a base budget of \$40.0 million for each full percentage by which prize payouts exceeded 52%. Statute was amended by the Eighty-First Legislature, Regular Session, 2009, to remove this requirement.

Recommended Statutory Changes for Program Improvement

- None.

Enhancement Opportunities

- The agency reports that a 10 percent increase to its biennial advertising budget would result in an increase of \$166.1 million in sales and \$42.7 million in state revenue. See Funding Alternatives for more detail.

Challenges to Operation of Program

- According to the agency, when compared to its inception in 1993, effective advertising has become increasingly difficult for the following reasons: 1) the population of Texas over the age of 18 has increased from 12.6 million to 19.3 million; 2) the agency's product portfolio has increased from three unique games to ninety-nine; and 3) the number of media vehicles has expanded, requiring a more diverse and varied advertising approach.

2 The agency reports that the decline in its advertising budget from \$40.0 million in FY 1993 to \$32.0 million in FY 2016 is further enhanced by a decline in purchasing power due to inflation; the agency estimates that a budget of \$40.0 million in 1993 equates to a budget of \$65.4 million in 2015. The agency also reports that its per capita advertising budget is among the lowest among state lotteries (39 out of 44), and is the lowest among the top ten performing state lotteries.

Funding Alternatives

1 As part of the SFR analysis, the agency was asked to estimate the impact to lottery sales and state revenue were its biennial advertising budget to be increased or decreased by 10 percent. Referencing the aforementioned Texas A&M University study, the agency assumed that a change in its budget would have the same impact on sales regardless of the budget's starting value. As such, the agency reported that the funding increase would result in an increase of \$166.1 million in sales and \$42.7 million in state revenue over the biennium, and that a corresponding funding decrease would have an equal and opposite impact on sales and revenue.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6h: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Central Administration**

**Agency Ranking** 8 out of 13

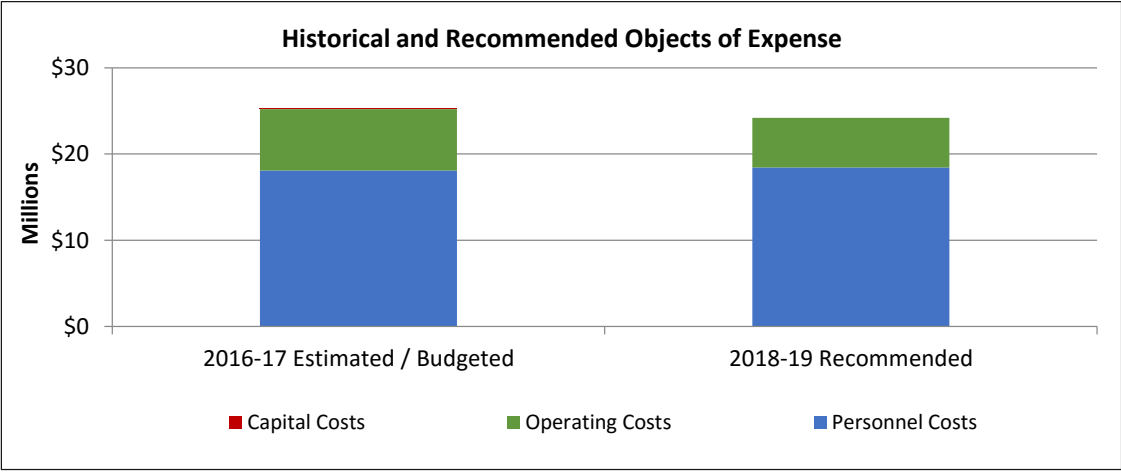
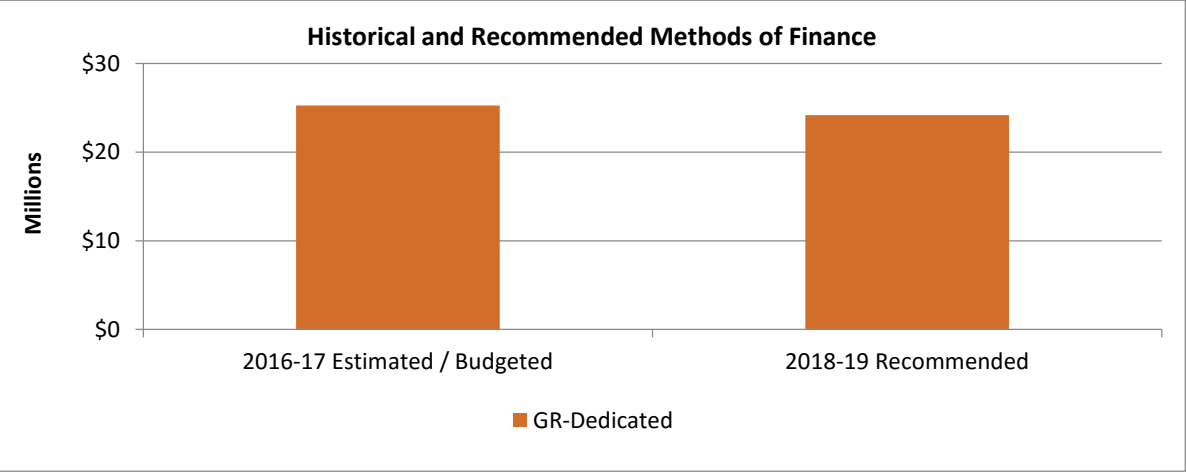
Provides administrative support to executive management, financial services, information technology services, legal services, governmental affairs, human resources, and houses the internal audit division.

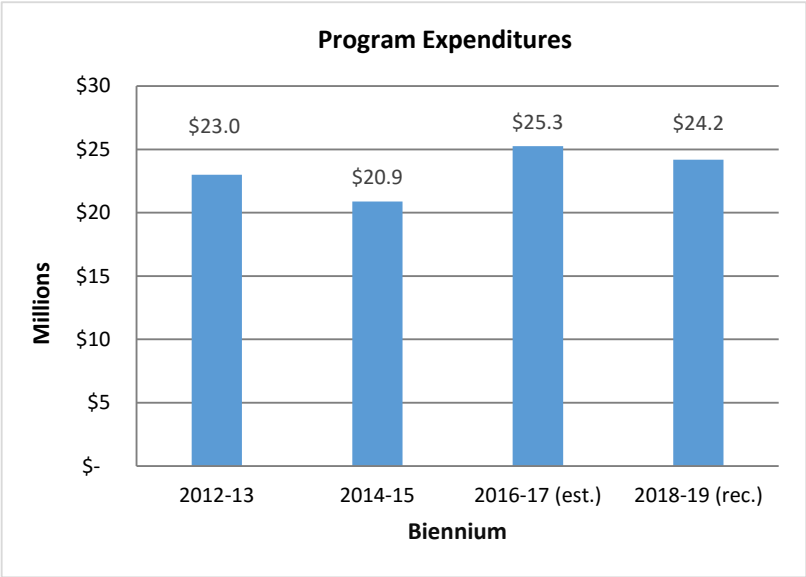
**Legal Authority:** Government Code, Ch. 466 & 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47 (b), (c), & (e)

<b>Year Implemented</b>	1992	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	N/A	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	N/A	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Qualified
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	State Government Administration & Support		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Information Resources	\$ 11,003,491	40.5	\$ 10,556,542	40.5	43.6%
Office of the Controller	\$ 4,053,653	22.6	\$ 4,094,469	22.6	16.9%
Legal Services	\$ 2,747,594	11.9	\$ 2,846,544	11.9	11.8%
Purchasing/Contracts	\$ 1,585,039	7.9	\$ 1,622,183	7.9	6.7%
All Other Activities	\$ 5,869,320	16.9	\$ 5,067,236	16.9	21.0%
<b>TOTAL</b>	<b>\$ 25,259,097</b>	<b>99.8</b>	<b>\$ 24,186,974</b>	<b>99.8</b>	<b>100.0%</b>

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 24,186,974	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 24,186,974</b>	<b>100.0%</b>





**Summary of Recommendations and Fiscal and Policy Issues**

- Recommendations include a net decrease of \$1,072,123 due to: 1) a decrease of \$896,903 for reimbursements from the lottery operator for services rendered by the agency in the 2016-17 biennium; 2) a decrease of \$790,000 for technology improvements, programming services, and publications; 3) a decrease of \$116,600 for funding a six-year PC replacement cycle; and 4) an increase of \$731,380 in other operating expenses.
- 'All Other Activities' includes the the director's office, governmental affairs, human resources, internal audit, administrative staff, and third party reimbursements for services rendered by the agency.
- All administrative functions of the agency's bingo division are funded by appropriations from the State Lottery Account (GR-D Fund 5025). The agency's 2013 Sunset Commission report included a recommendation to ensure that bingo licensing fees cover the cost of bingo regulation to replace funding from GR-D Fund 5025; similar requests have been presented to the Legislature by the agency. The Legislature has not appropriated General Revenue funds for this purpose.
- The agency entered into a three-year lease agreement for Grant Plaza (611 East 6th Street) beginning on May 8th, 1997. Because the agency is exempt from most procurement regulations, the original lease was executed under emergency procurement rules. This lease has been subsequently renewed five times through the year 2020, for a total contract life cycle of 23 years. The agency's lease for this space is \$2.81 per square foot, compared to an average of \$1.51 per square foot among other state agency that lease office space greater than 75,000 square feet in the Austin area. To support operations at Grant Plaza, the agency was required to lease additional parking spaces from the City of Austin beginning in 2005, and running through 2020. The combined value of the Grant Plaza and parking leases is \$51.7 million since its inception in 1997. The agency renewed the lease agreement in 2015 through 2020 for \$11.7 million.

**Recommended Statutory Changes for Program Improvement**

- None.

**Enhancement Opportunities**

- None.

**Challenges to Operation of Program**

- None.

**Funding Alternatives**

- None.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6i: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Bingo Licensing Services**

**Agency Ranking** 9 out of 13

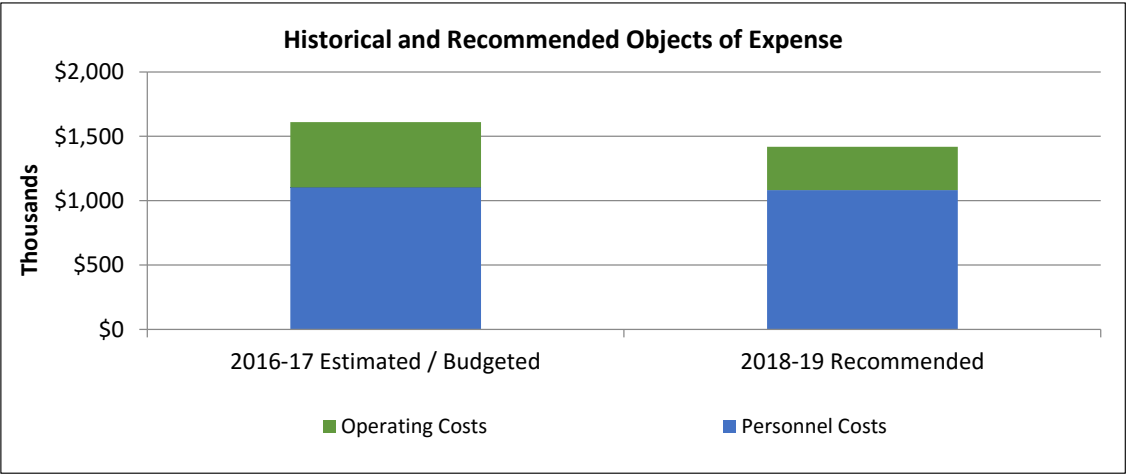
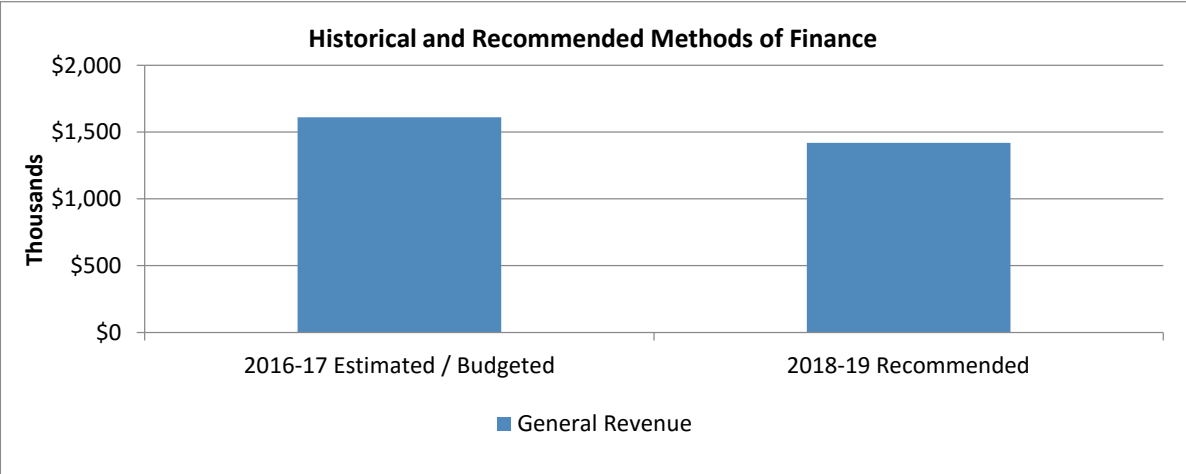
Reviews license applications and worker registrations to determine the eligibility of applicants by providing current and prospective licensees applications, instructions, and the option to complete multiple applications electronically.

**Legal Authority:** Government Code, Ch. 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47

<b>Year Implemented</b>	1982	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	Partial	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Licensing	\$ 1,610,977	8.0	\$ 1,418,914	8.0	100.0%
<b>TOTAL</b>	<b>\$ 1,610,977</b>	<b>8.0</b>	<b>\$ 1,418,914</b>	<b>8.0</b>	<b>100.0%</b>

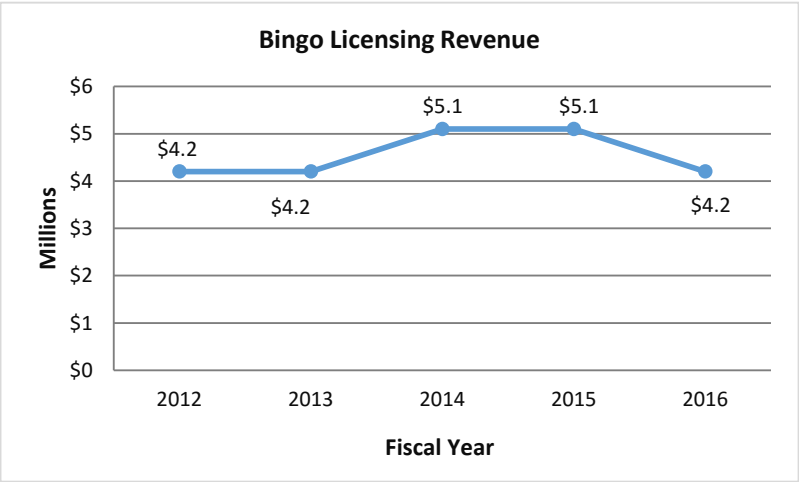
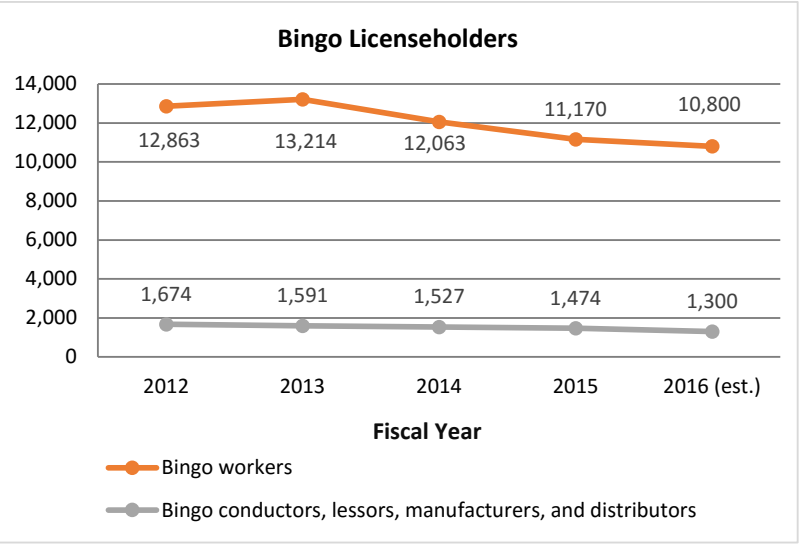
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 1,418,914	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 1,418,914</b>	<b>100.0%</b>



Program: Bingo Licensing Services

Agency  
Ranking

9 out of 13



\* The decrease in FY16 is primarily due to the repeal of the Bingo Rental Tax by House Bill 1905, Eighty-fourth Legislature, 2015.

Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations include a decrease of \$225,547 to the agency's bingo strategies for 2.0 auditing FTEs, of which \$192,063 was allocated to the bingo licensing program.
- 2 The agency's bingo division licenses individual bingo workers, entities that operate bingo games on behalf of charities and lease bingo halls, and manufacturers and distributors of bingo equipment. Bingo operators are statutorily required to generate positive net proceeds to retain licensure.
- 3 In fiscal year 2016, the agency licensed 9,741 bingo organizations and individual workers.
- 4 Appropriations to the agency's bingo division are limited to the revenue collected by its licensing activities. See chart on the left for licensing revenue collected over the past five fiscal years.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 According to the agency, requiring licensees to submit applications electronically using the division's bingo services portal and online payment feature would improve timeliness, eliminate mathematical reporting errors, and increase processing efficiencies.

Challenges to Operation of Program

- 1 According to the agency, challenges arise when licensees do not accurately or punctually submit all information with their application, causing delays in application processing and requiring administrative processes to deny applications.

Funding Alternatives

- 1 None.

# Texas Lottery Commission

## Strategic Fiscal Review - Senate: Appendix 6j: Program Summary

(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)

**Program: Bingo Auditors**

**Agency Ranking** 10 out of 13

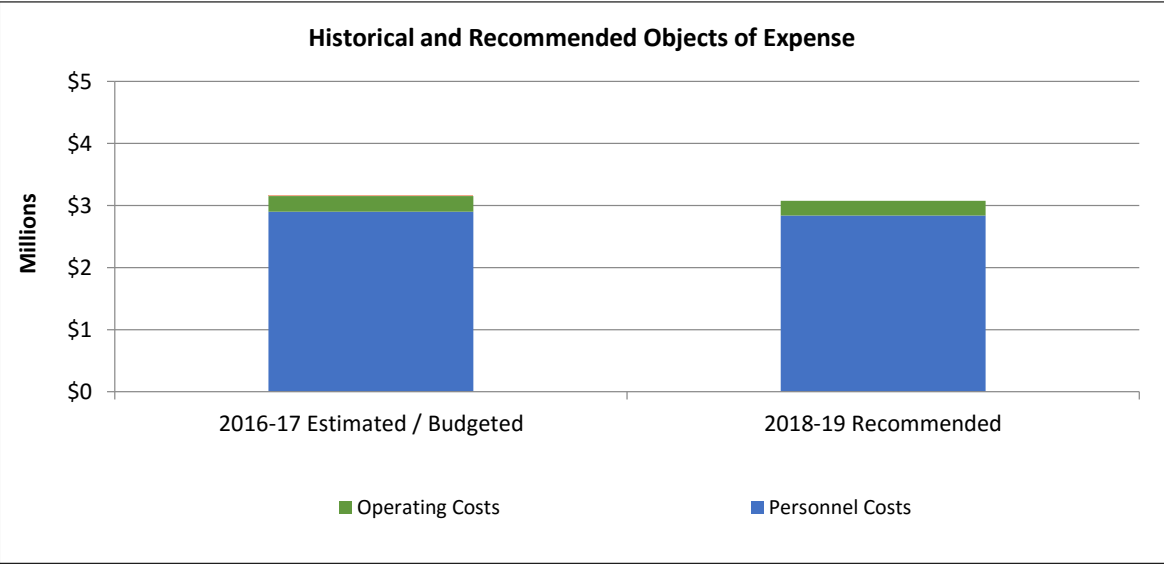
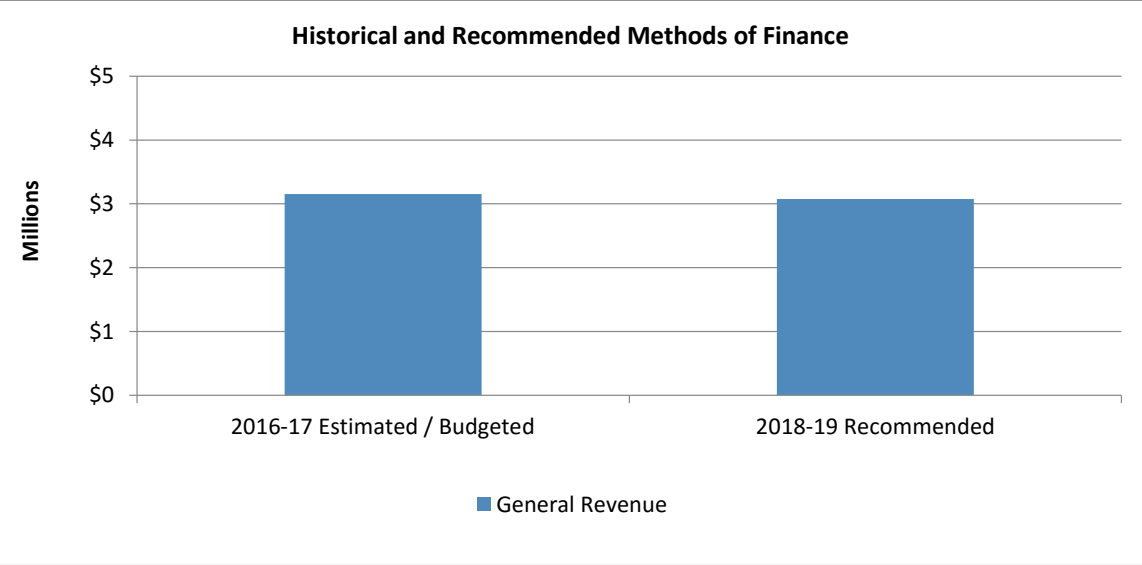
Regulates licensees' compliance with the Bingo Enabling Act and the Charitable Bingo Administrative Rules. Audits determine whether licensees have adequate records of financial operations, effective accounting and internal controls, receives funds for authorized purposes, and adequately remits net proceeds as required by statute.

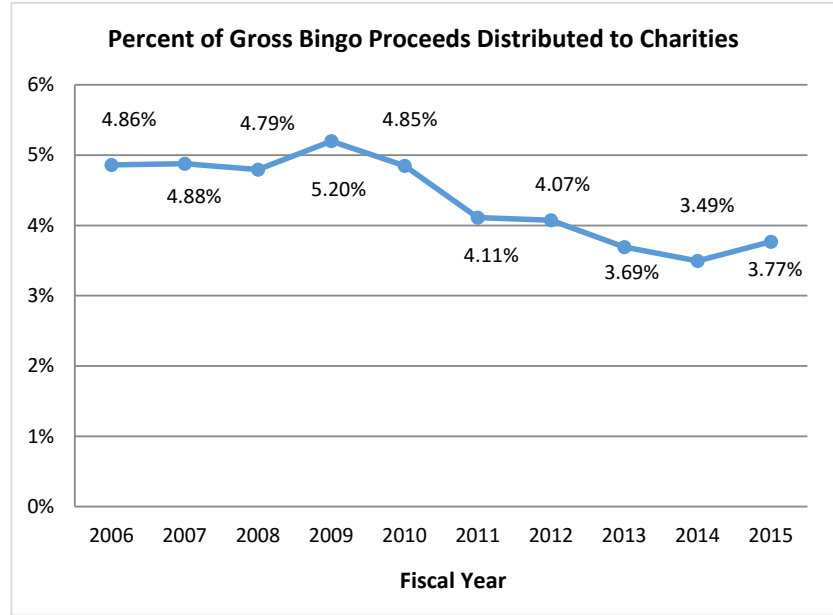
**Legal Authority:** Occupations Code, Ch. 2001, and Tex. Constitution Art. III, Sec. 47(b)

<b>Year Implemented</b>	1982	<b>Performance and/or</b>	<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation	

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Auditors	\$ 3,153,621	29.0	\$ 3,075,120	27.0	100.0%
<b>TOTAL</b>	<b>\$ 3,153,621</b>	<b>29.0</b>	<b>\$ 3,075,120</b>	<b>27.0</b>	<b>100.0%</b>

	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 3,075,120	100.0%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 3,075,120</b>	<b>100.0%</b>





	FY2012	FY2013	FY2014	FY2015
Number of audits conducted	63	35	62	132
Average cost per audit	\$ 6,292	\$ 5,621	\$ 3,844	\$ 2,958
Total cost of audits	\$ 396,366	\$ 196,729	\$ 238,337	\$ 390,493
Adjustment to charities	\$ 2,747	\$ 37,769	\$ 24,967	\$ 5,459
Total charitable distributions	\$ 29,464,079	\$ 26,574,139	\$ 25,849,321	\$ 28,521,047
Adjustments as a percent of total distributions	0.01%	0.14%	0.1%	0.02%

Summary of Recommendations and Fiscal and Policy Issues

- 1 The agency's bingo division performs audits on operators that conduct bingo on behalf of charities and manufacturers, lessors, and distributors of equipment used in the conduct of bingo. Audits determine whether the auditee has records and accounts that accurately reflect its financial operations, maintains effective account and internal controls, and receives funds for authorized purposes. The division also performs inspections of locations at which bingo is conducted to determine whether a current bingo license is displayed, an authorized operator is present during the conduct of bingo, and makes the Bingo Enabling Act and bingo hall rules available to any individual upon request.
- 2 Occupations Code, Sec. 2001.454 requires that organizations authorized to conduct bingo shall devote all net proceeds to charitable purposes. The Occupations Code defines net proceeds as gross proceeds less the amounts of payment of prizes and expenses reasonable and necessary to conduct bingo. Distributions to charities in FY 2016 totaled \$28.7 million.
- 3 Licensed bingo operators and bingo locations are selected for audit and inspection, respectively, based on a risk assessment that includes gross receipts, net proceeds, and charitable distributions for the former and gross receipts, duration since last inspection, and compliance history for the latter. The agency implemented a risk-assessment process as directed by the Sunset Commission in its review of the agency in FY 2013. Audits of bingo lessors, manufacturers, and distributors are generally complaint driven.
- 4 Recommendations include a decrease of \$225,547 in General Revenue for 2.0 auditing FTEs pursuant to the four percent reduction. This reduction was allocated across all strategies under the agency's bingo operations.
- 5 The agency estimates that 100 audits and 469 inspections will be conducted each year from FY 2016 to FY 2019. The agency did not revise its 2018-19 projections in response to the program's loss of 2.0 FTEs pursuant to the four percent reduction.

Recommended Statutory Changes for Program Improvement

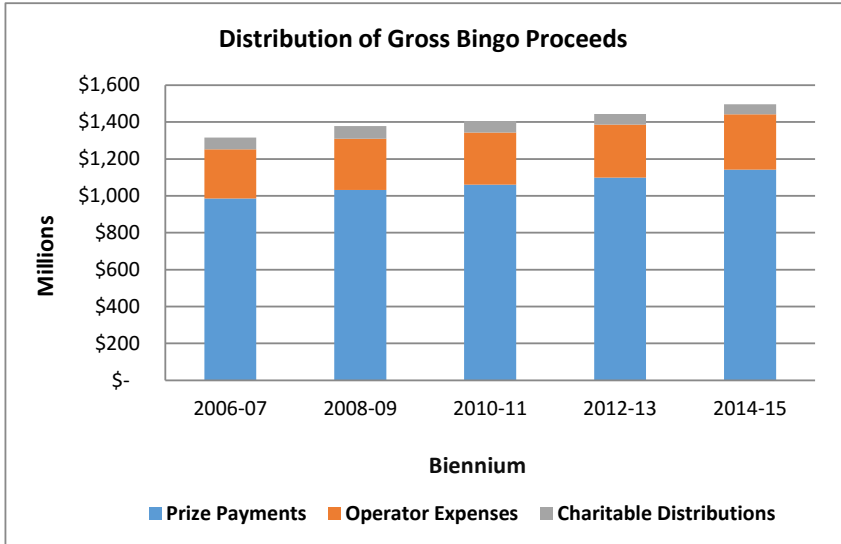
- 1 None.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 Challenges identified by the agency include: 1) the willingness of auditees to cooperate during audits; 2) the timeliness, accuracy, and completeness of information provided by the auditee; and 3) the experience and knowledge of the licensee and the complexity of their bingo operation.
- 2 As shown in the table, the cost of conducting audits alone is significantly higher than the additional transfers to charities that result from audits and inspections combined, and that the adjustments to charities constitute a small percentage of total transfers to charities. Data is not available, however, on the extent to which audits and inspections act as a deterrent to prevent violations that would reduce transfers to charities.



Funding Alternatives

- The agency reported an increase of \$0.5 million would provide for the addition of five auditor positions, resulting in an increase in the number of audits and investigations conducted, allow audits to be conducted on a three year schedule instead of the current four year schedule, and increase staff presence at bingo games. The agency did not request these FTEs as an exceptional item in its LAR, nor did it request reinstatement of the 2.0 FTEs reduced pursuant to the four percent reduction.

Previous Related Funding Alternatives

The following list outlines funding alternatives that reflect revisions made or considered by the legislature to the formula by which bingo proceeds are distributed to charities, using some variation of gross proceeds, gross proceeds less prizes paid (adjusted gross proceeds, this amount is retained by the bingo operator for expenses and excludes prize fees collected from players for distribution to counties, municipalities and General Revenue), and adjusted gross proceeds less operating expenses (net proceeds). Net proceeds are the amount distributed to charitable organizations. The graph to the left shows historical data on these categories.

- House Bill 1474, Eighty-First Legislature, Regular Session, 2009 set the current structure where net proceeds from the operation of bingo are distributed to charities. Prior to this, bingo operators were required to distribute 35 percent of adjusted gross proceeds to charities.
- House Bill 2197, Eighty-Third Legislature, Regular Session, 2013 included a provision requiring bingo operators to distribute a minimum of five percent of gross proceeds to charities. The provision passed the House Committee on Licensing and Administrative Procedures, but was not included in the enrolled version of the bill.
- House Bill 2642, Eighty-Fourth Legislature, Regular Session, 2015, included a provision that established minimum net proceeds of ten percent of gross gaming revenue (defined as gross proceeds less prizes paid) for bingo operations with annual gross gaming revenue equal to or greater than \$500,000 and five percent for bingo operations with annual gross gaming revenue less than \$500,000. The bill included several instances where the mandatory minimum of net proceeds could be waived or revised. This provision was not included in the enrolled version of the bill.

A separate provision in HB 2642 would have redirected the state's share of prize fee revenue (collected through fees on prizes greater than \$5 at a rate of five percent of the value of the prize) to charities. The agency estimated that this would result in a loss of \$74.6 million to General Revenue over a five-year period. This provision was also not included in the enrolled version of the bill.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6k: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Bingo Accounting Services**

Agency  
Ranking **11 out of 13**

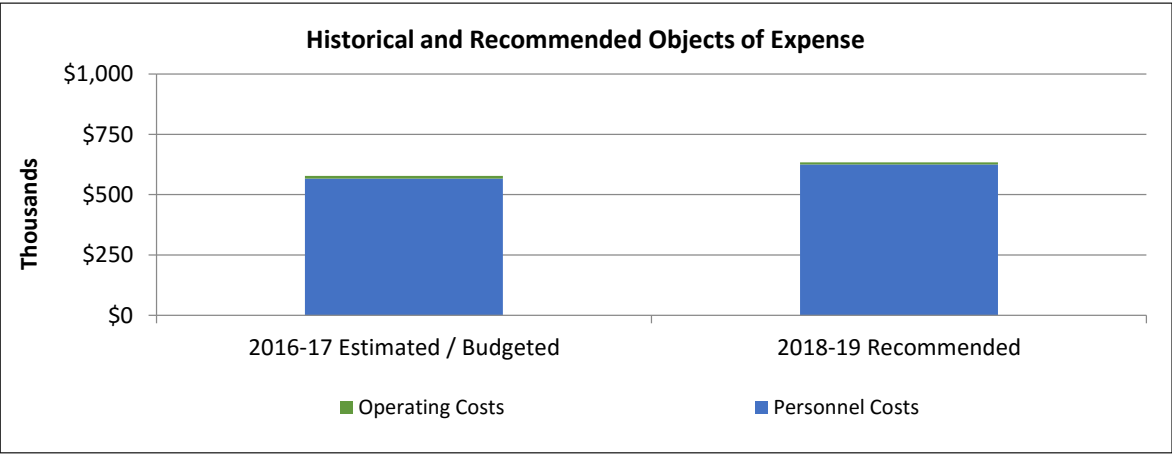
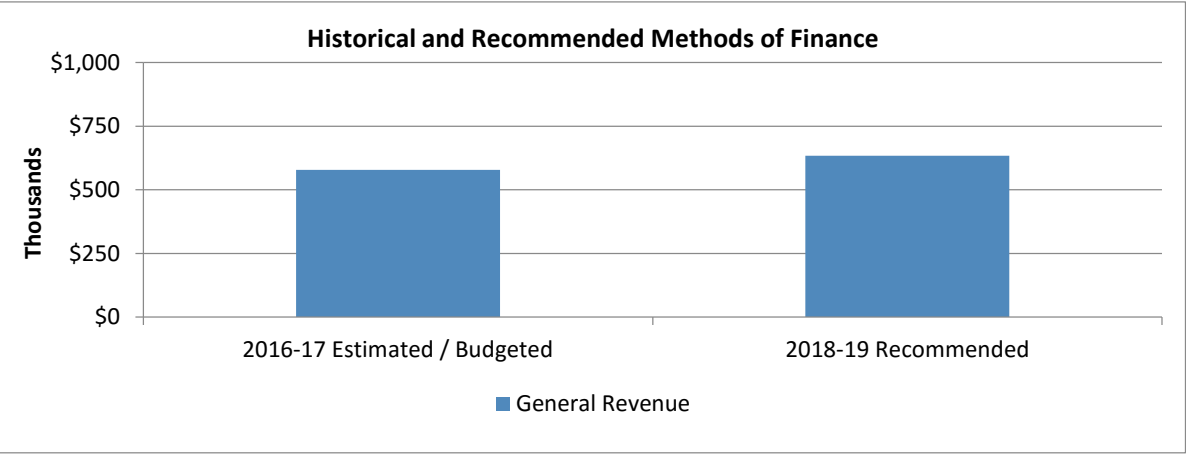
Assists licensees with filing of quarterly reports, reviews filed reports for completeness and manages their financial data. Analyzes data reported by licensed bingo conductors that fail to have positive net proceeds on their quarterly reports to help improve charitable bingo operations.

**Legal Authority:** Government Code, Ch. 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47

<b>Year Implemented</b>	1982	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	No	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Accounting Services	\$ 577,725	6.0	\$ 633,688	6.0	100.0%
<b>TOTAL</b>	<b>\$ 577,725</b>	<b>6.0</b>	<b>\$ 633,688</b>	<b>6.0</b>	<b>100.0%</b>

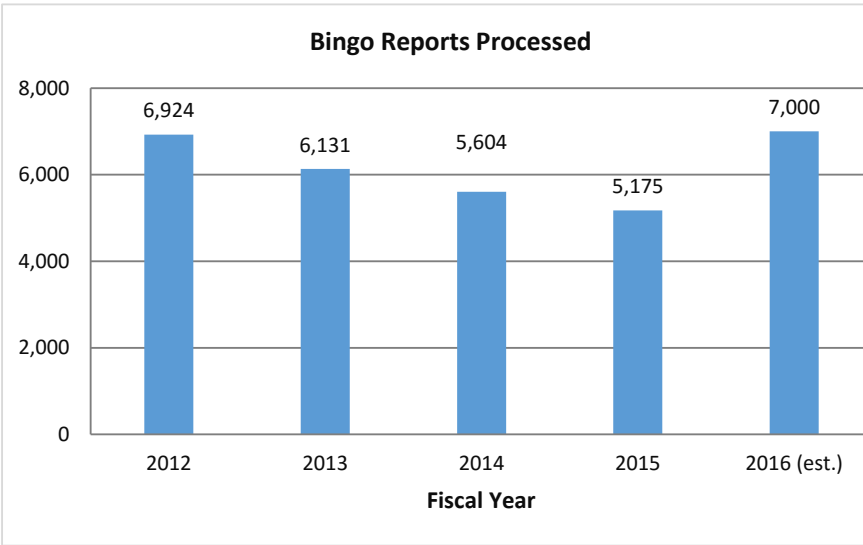
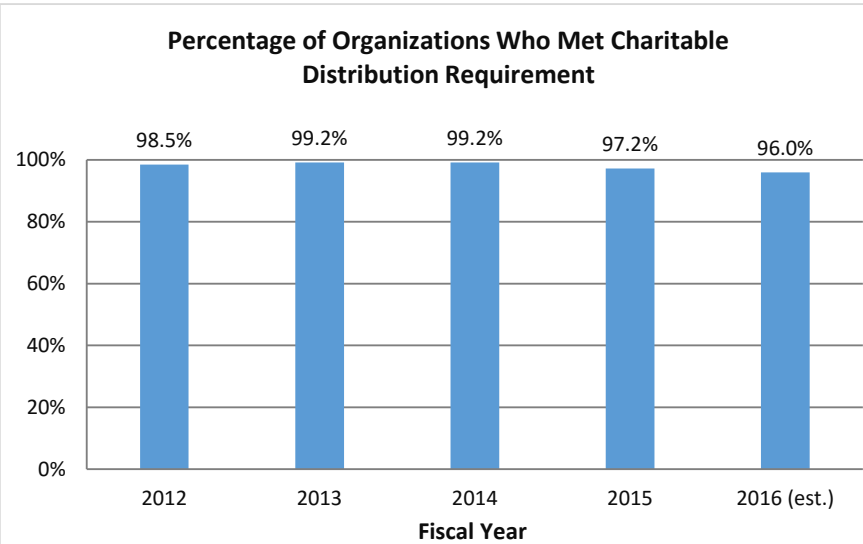
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 633,688	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 633,688</b>	<b>100.0%</b>



Program: Bingo Accounting Services

Agency  
Ranking

11 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations include an increase of \$55,963 in funding allocated from other bingo programs.
- 2 The agency provides accounting services and reviews the financial records of all licensed bingo manufacturers, distributors, lessors, and operators.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 According to the agency, requiring licensees to submit reports electronically using the division’s bingo services portal and online payment feature would improve timeliness, eliminate mathematical reporting errors, and increase processing efficiencies.

Challenges to Operation of Program

- 1 According to the agency, challenges arise when licensees do not accurately or punctually submit required financial reports or remit payments for prize fee allocations.

Funding Alternatives

- 1 None.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6I: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Bingo Education and Training**

Agency  
Ranking 12 out of 13

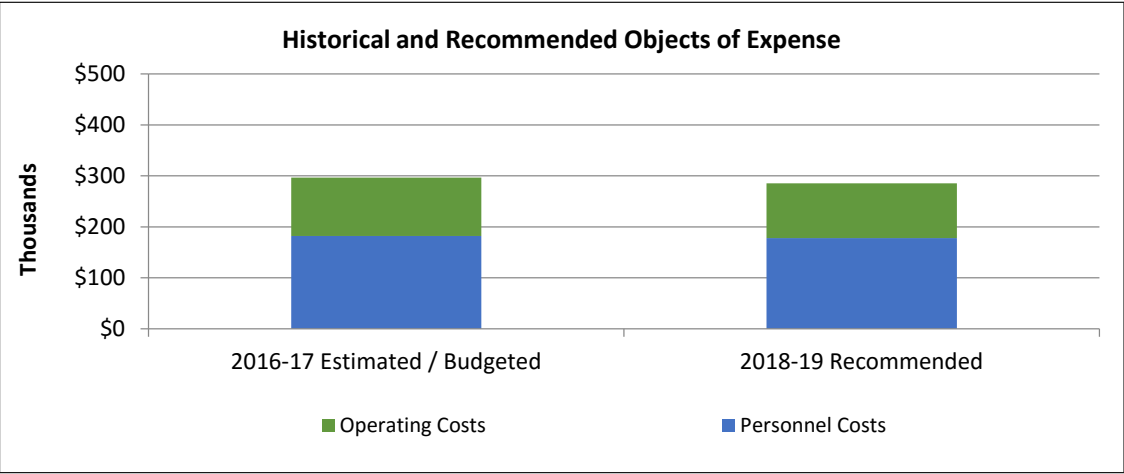
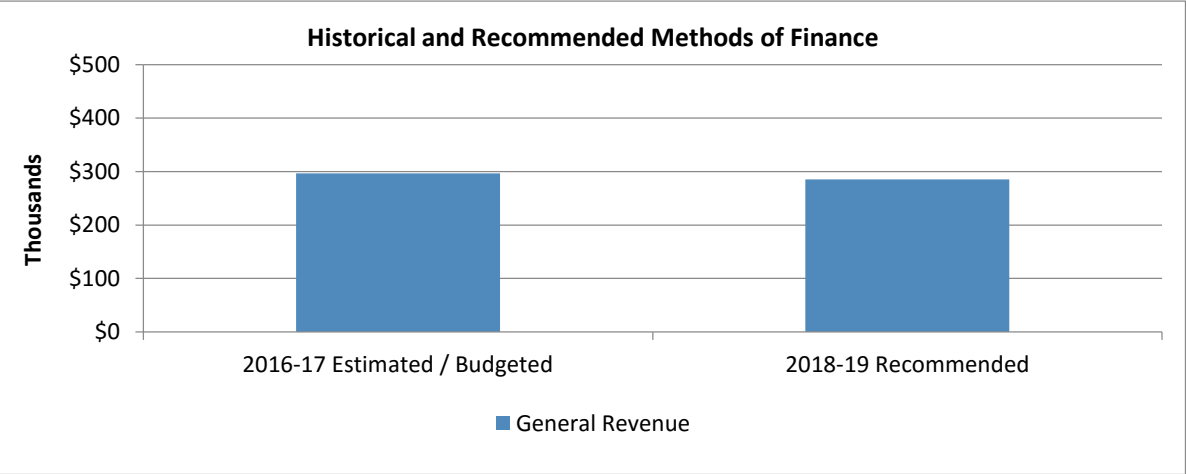
Manages the education and development of all licensed organizations that conduct Charitable Bingo activities by educating applicants and licensees on the requirements of the Bingo Enabling Act and the Charitable Bingo Administrative Rules.

**Legal Authority:** Government Code, Ch. 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47

<b>Year Implemented</b>	1982	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	No	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Education and Training	\$ 296,354	2.0	\$ 285,408	2.0	100.0%
<b>TOTAL</b>	<b>\$ 296,354</b>	<b>2.0</b>	<b>\$ 285,408</b>	<b>2.0</b>	<b>100.0%</b>

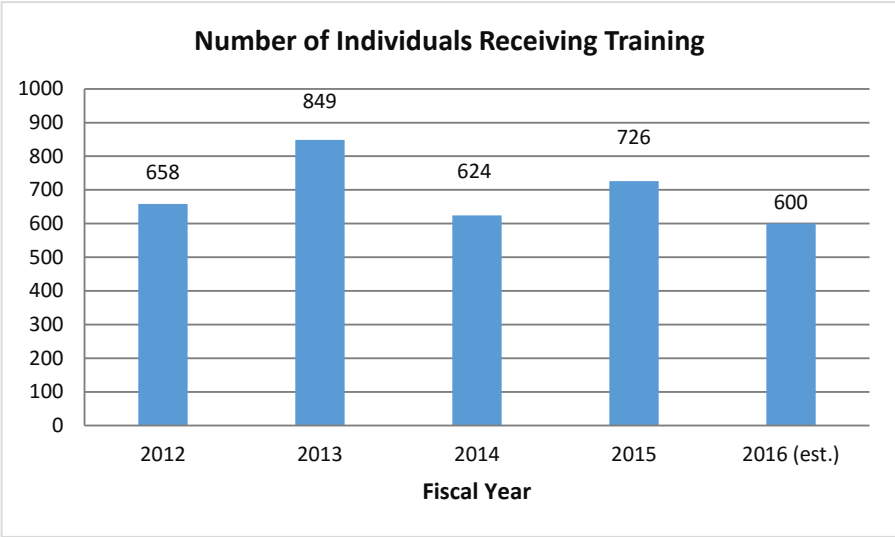
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 285,408	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 285,408</b>	<b>100.0%</b>



Program: Bingo Education and Training

Agency  
Ranking

12 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 Recommendations include a decrease of \$225,547 in General Revenue for 2.0 auditing FTEs pursuant to the four percent reduction, of which \$10,946 was allocated to the Education and Training program.
- 2 Education and training is provided for all licensed bingo operators, worker registrants, and licensed charity officers and directors; it is conducted online, in person, and via email or telephone, and is required for licensure and every three years thereafter.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 None.

Challenges to Operation of Program

- 1 The agency cites challenges to modernizing the current online bingo training system, and to the continuation of statewide training efforts due to unpredictable demand.

Funding Alternatives

- 1 None.

**Texas Lottery Commission**  
**Strategic Fiscal Review - Senate: Appendix 6m: Program Summary**  
**(Includes Programs from All Funding Sources - Both Inside and Outside the State Treasury)**

**Program: Bingo Prize Fee Allocation**

Agency Ranking

13 out of 13

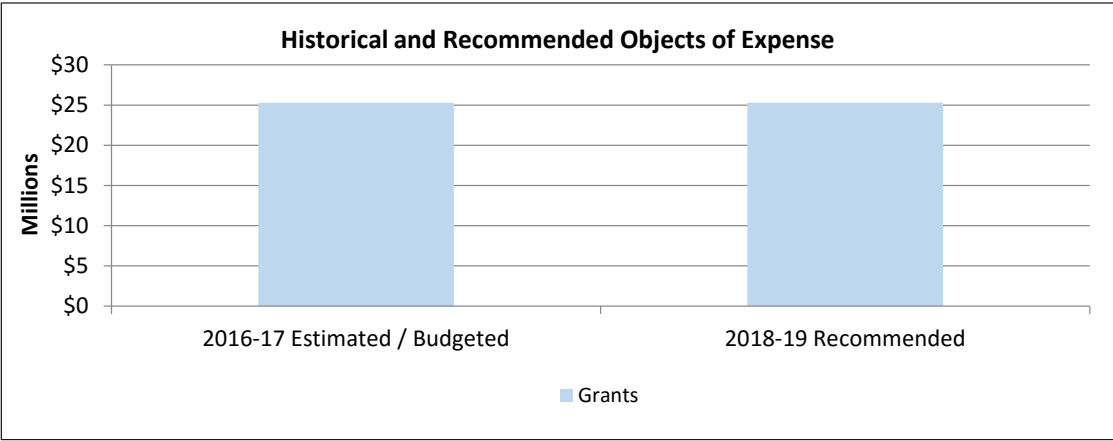
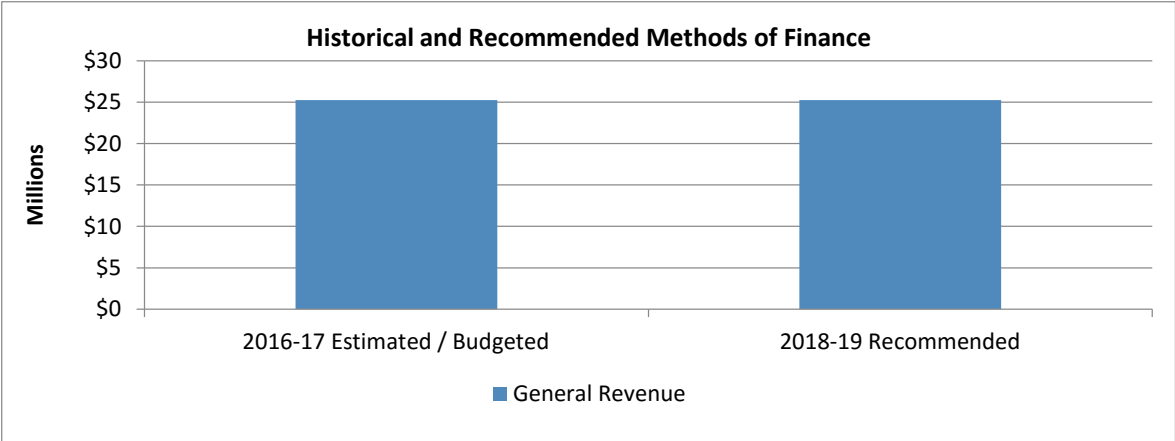
Administers and manages the allocation of revenue to local jurisdictions in a manner consistent with the provisions of the Bingo Enabling Act.

**Legal Authority:** Government Code, Ch. 467; Occupations Code, Ch. 2001; Tex. Constitution, Art. III, Sec. 47

<b>Year Implemented</b>	1982	<b>Performance and/or</b>		<b>Revenue Supported</b>	Yes
<b>Authority</b>	Strong	<b>Operational Issues</b>	No	<b>Appropriate Use of Constitutional and</b>	
<b>Centrality</b>	Strong	<b>Outsourced Services</b>	No	<b>General Revenue-Dedicated Funds</b>	Compliant
<b>Service Area</b>	Statewide	<b>State Service(s)</b>	Business & Workforce Development & Regulation		

Major Activities	2016-17 Estimated / Budgeted	2017 FTEs	2018-19 Recommended	2019 FTEs	% of Total
Bingo Prize Fee Allocation	\$ 25,271,000	0.0	\$ 25,271,000	0.0	100.0%
<b>TOTAL</b>	<b>\$ 25,271,000</b>	<b>0.0</b>	<b>\$ 25,271,000</b>	<b>0.0</b>	<b>100.0%</b>

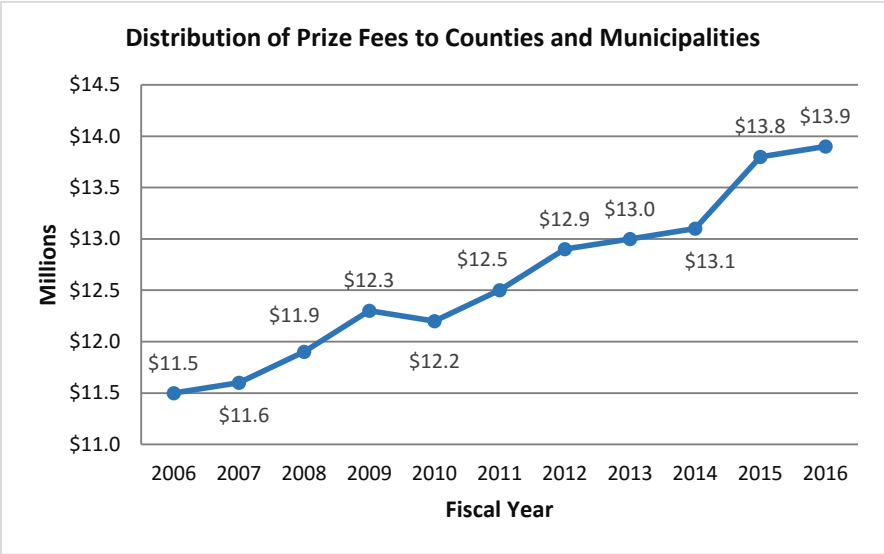
	2018-19 Recommended	% of Total
Funds Inside the State Treasury	\$ 25,271,000	100%
Funds Outside the State Treasury	\$ -	0.0%
<b>Total</b>	<b>\$ 25,271,000</b>	<b>100.0%</b>



Program: Bingo Prize Fee Allocation

Agency  
Ranking

13 out of 13



Summary of Recommendations and Fiscal and Policy Issues

- 1 Pursuant to Occupations Code Sec. 2001.502, a licensed bingo operator collects from prizes greater than \$5 a fee in the amount of five percent of the value of the prize; the operator then remits to the agency a fee in the amount of five percent of all prizes awarded. Counties and municipalities that imposed a gross receipts tax on the conduct of bingo as of January 1, 1993, are entitled to 50 percent of the fee collected by the agency for games conducted in their county or municipality. If both the county and municipality in which a game is conducted imposed a gross receipts tax, each is entitled to 25 percent of the fee collected. All prize fees that are not allocated to counties and municipalities are deposited to General Revenue.
- 2 The agency reports that attendance at bingo games has declined from 19.3 million in fiscal year 2006 to 14.8 million in fiscal year 2015. However, as shown in the graph to the left, annual allocations to counties and municipalities have increased over the same period, from \$11.5 million in fiscal year 2006 to \$13.9 million in fiscal year 2016.

Recommended Statutory Changes for Program Improvement

- 1 None.

Enhancement Opportunities

- 1 The agency reports that requiring licensees to submit reports electronically would improve timeliness, eliminate mathematical reporting errors, and increase processing efficiencies of prize fee allocation.

Challenges to Operation of Program

- 1 Prize fees are held in trust by the licensed organization conducting bingo and remitted to the agency on a quarterly basis. If organizations do not meet the reporting and payment deadlines, allocations are delayed to a subsequent quarter.

Funding Alternatives

- 1 A provision in House Bill 2642, Eighty-Fourth Legislature, Regular Session, 2015 would have redirected the state's share of prize fee revenue to charities. The agency estimated that this would result in a loss of \$74.6 million to General Revenue over a five-year period. This provision was not included in the enrolled version of the bill.

**Texas Lottery Commission**  
**Appendices - Senate**

<b>Table of Contents</b>		
<b>Appendix</b>	<b>Appendix Title</b>	<b>Page</b>
<b>A</b>	Funding Changes and Recommendations by Strategy	51
<b>B</b>	Summary of Federal Funds	*
<b>C</b>	FTE Highlights	*
<b>D</b>	Performance Measure Highlights	*
<b>E</b>	Summary of Ten Percent Biennial Base Reduction Options	53

\* Appendix is not included - no significant information to report

Texas Lottery Commission  
Funding Changes and Recommendations - Senate, by Strategy -- GR & GR DEDICATED FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
					<i>All appropriations to Goal A are made from the State Lottery Account (General Revenue-Dedicated Fund 5025); all appropriations to Goal B are made from fee-generated General Revenue</i>
LOTTERY OPERATIONS A.1.1	\$14,930,931	\$14,871,726	(\$59,205)	(0.4%)	Net decrease of \$59,205 due to the following: - A decrease of \$339,196 for leasehold improvements, furnishings and equipment, and power supply leasing; and - An increase of \$279,991 for rent and other operating expenses.
LOTTERY FIELD OPERATIONS A.1.2	\$5,691,777	\$5,865,219	\$173,442	3.0%	
MARKETING AND PROMOTION A.1.3	\$13,944,438	\$12,877,556	(\$1,066,882)	(7.7%)	Decrease of \$1,066,882 due to the following: - A decrease of \$933,849 for printing and reproduction, postage, promotional items, and 1.0 market research FTE; and - A decrease of \$133,033 for other operating expenses.
SECURITY A.1.4	\$11,276,958	\$11,322,403	\$45,445	0.4%	Net increase of \$45,445 due to the following: - An increase of \$105,445 for other operating expenses; and - A decrease of \$60,000 for a security officer contract with the Department of Public Safety.
CENTRAL ADMINISTRATION A.1.5	\$25,259,097	\$24,186,974	(\$1,072,123)	(4.2%)	Net decrease of \$1,072,123 due to the following: - A decrease of \$896,903 for reimbursements from the lottery operator for services rendered by the agency in the 2016-17 biennium; - A decrease of \$790,000 for technology improvements, programming services, and publications; - A decrease of \$116,600 for funding a six-year PC replacement cycle; and - An increase of \$731,380 in other operating expenses.
LOTTERY OPERATOR CONTRACT(S) A.1.6	\$207,695,833	\$205,773,137	(\$1,922,696)	(0.9%)	Decrease of \$1,922,696 based on LBB estimates of fiscal years 2018 and 2019 gross lottery ticket proceeds.
SCRATCH TICKET PRODUCT. CONTRACT(S) A.1.7	\$60,300,000	\$60,300,000	\$0	0.0%	
MASS MEDIA ADVERTISING CONTRACT(S) A.1.8	\$65,500,000	\$49,266,896	(\$16,233,104)	(24.8%)	Includes a decrease of \$1,500,000 for one-time expenses not anticipated in the 2018-19 biennium and \$14,733,104 in other reductions.

Texas Lottery Commission  
Funding Changes and Recommendations - Senate, by Strategy -- GR & GR DEDICATED FUNDS

Strategy/Goal	2016-17 Base	2018-19 Recommended	Biennial Change	% Change	Comments
DRAWING & BROADCAST CONTRACT(S) A.1.9	\$5,269,711	\$5,270,356	\$645	0.0%	Increase of \$645 for contractual expenditures.
MARKET RESEARCH CONTRACT(S) A.1.10	\$1,017,935	\$343,440	(\$674,495)	(66.3%)	Decrease of \$674,495 for non-statutory market research.
RETAILER BONUS A.1.11	\$8,145,175	\$8,400,000	\$254,825	3.1%	
RETAILER COMMISSIONS A.1.12	\$46,754,450	\$46,557,115	(\$197,335)	(0.4%)	Decrease of \$197,335 based on LBB estimates of fiscal years 2018 and 2019 gross lottery ticket proceeds.
<b>Total, Goal A, OPERATE LOTTERY</b>	<b>\$465,786,305</b>	<b>\$445,034,822</b>	<b>(\$20,751,483)</b>	<b>(4.5%)</b>	
BINGO LICENSING B.1.1	\$1,610,977	\$1,418,914	(\$192,063)	(11.9%)	
BINGO EDUCATION AND DEVELOPMENT B.1.2	\$296,354	\$285,408	(\$10,946)	(3.7%)	
BINGO LAW COMPLIANCE FIELD OPER B.1.3	\$3,153,621	\$3,075,120	(\$78,501)	(2.5%)	
BINGO PRIZE FEE COLLECTION & ACCT B.1.4	\$25,848,725	\$25,904,688	\$55,963	0.2%	
<b>Total, Goal B, ENFORCE BINGO LAWS</b>	<b>\$30,909,677</b>	<b>\$30,684,130</b>	<b>(\$225,547)</b>	<b>(0.7%)</b>	Decrease of \$225,547 for 2.0 auditing FTEs allocated across all strategies under Goal B.
<b>Grand Total, All Strategies</b>	<b>\$496,695,982</b>	<b>\$475,718,952</b>	<b>(\$20,977,030)</b>	<b>(4.2%)</b>	Total decreases include the following:  - A decrease of \$2,120,031 to the Lottery Operator Contract and Retailer Commission strategies, which are based on LBB estimates of gross lottery ticket proceeds. - A decrease of \$14,958,651 to the Mass Media Advertising Contract and bingo strategies. - A net decrease of \$3,898,348 to all other strategies for various operating expenses.

**Texas Lottery Commission**  
**Summary of Ten Percent Biennial Base Reduction Options - Senate**

**Appendix E**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
1)	Mass media advertising contracts	Contracts for mass media advertising would be reduced. The agency estimates this would lead to a reduction in lottery ticket sales.	\$8,005,950	\$8,005,950	0.0	\$26,535,588	2%	Partial
	Scratch ticket production services contracts	Contracts for scratch ticket production would be reduced. This agency estimates this would lead to a reduction in lottery ticket sales.	\$8,497,194	\$8,497,194	0.0	\$91,726,074	2%	No
	Retailer incentives	Retailer incentives for sales-based performance would be reduced. The agency estimates this would lead to a reduction in lottery ticket sales.	\$5,854,600	\$5,854,600	0.0	\$9,251,002	1%	No
2)	Mass media advertising contracts	Contracts for mass media advertising would be reduced. The agency estimates this would lead to a reduction in lottery ticket sales.	\$8,005,950	\$8,005,950	0.0	\$26,535,588	2%	No
	Scratch ticket production services contracts	Contracts for scratch ticket production would be reduced. This agency estimates this would lead to a reduction in lottery ticket sales.	\$8,497,194	\$8,497,194	0.0	\$91,726,074	2%	No
	Retailer incentives	Retailer incentives for sales-based performance would be reduced. The agency estimates this would lead to a reduction in lottery ticket sales.	\$5,854,600	\$5,854,600	0.0	\$9,251,002	1%	No

**Texas Lottery Commission**  
**Summary of Ten Percent Biennial Base Reduction Options - Senate**

**Appendix E**

Priority	Item	Description/Impact	Biennial Reduction Amounts			Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Introduced Bill?
			GR & GR-D	All Funds	FTEs			
3)	Bingo prize fees	Reduction to fee collections on bingo prizes for allocation to counties and municipalities. Fees are collected on prizes greater than \$5 at a rate of five percent of the value of the prize, and are therefore estimated and based on actual amounts collected.	\$1,213,008	\$1,213,008	0.0	\$0	5%	No
4)	Bingo prize fees	Reduction to fee collections on bingo prizes for allocation to counties and municipalities. Fees are collected on prizes greater than \$5 at a rate of five percent of the value of the prize, and are therefore estimated and based on actual amounts collected.	\$1,213,008	\$1,213,008	0.0	\$0	5%	No
5)	Bingo administration	Elimination of 1.0 FTE in bingo education and training, 2.0 FTEs in bingo law compliance and field operations, and 1.0 FTE in bingo prize fee collection and accounting. This would reduce the number of audits and investigations conducted, impact education and training efforts, and increase application processing time.	\$270,657	\$270,657	4.0	\$0	5%	No
6)	Bingo administration	Elimination of 2.0 FTEs in bingo law compliance and field operations. This would reduce the agency's bingo audit and investigation output measures.	\$270,656	\$270,656	2.0	\$0	9%	No
<b>TOTAL, 10% Reduction Options</b>			<b>\$47,682,817</b>	<b>\$47,682,817</b>	<b>6.0</b>	<b>\$255,025,328</b>		