

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

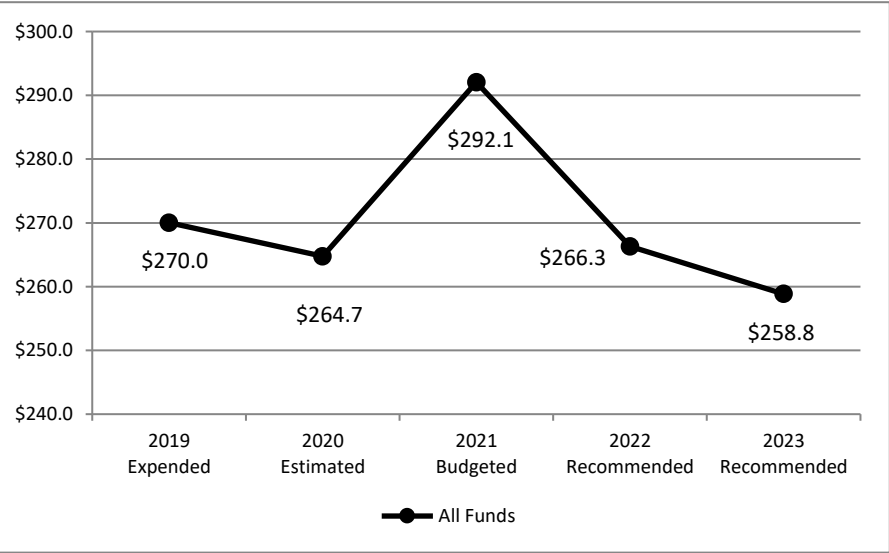
Page VII-8
 Gary Grief, Executive Director
 Emily Joslin, LBB Analyst

Method of Financing	2020-21 Base	2022-23 Recommended	Biennial Change (\$)	Biennial Change (%)
General Revenue Funds	\$8,890,004	\$4,839,181	(\$4,050,823)	(45.6%)
GR Dedicated Funds	\$547,898,879	\$520,306,436	(\$27,592,443)	(5.0%)
<i>Total GR-Related Funds</i>	<i>\$556,788,883</i>	<i>\$525,145,617</i>	<i>(\$31,643,266)</i>	<i>(5.7%)</i>
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
All Funds	\$556,788,883	\$525,145,617	(\$31,643,266)	(5.7%)

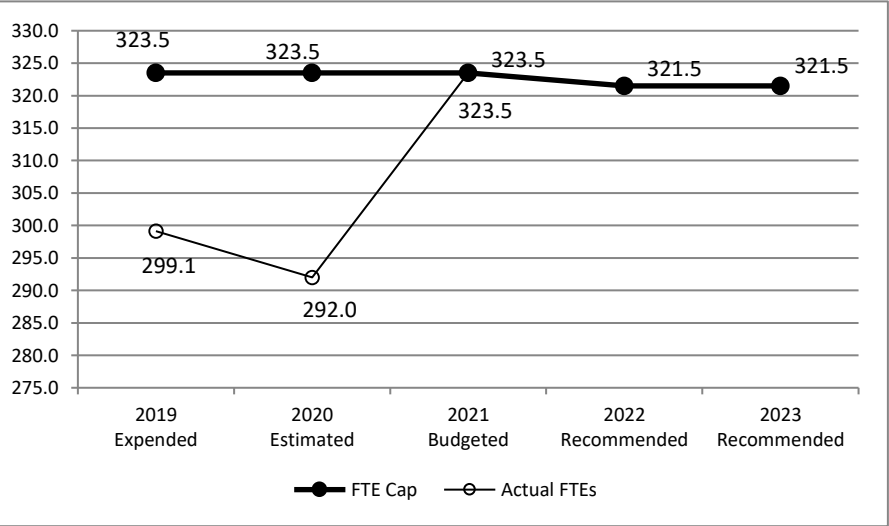
	FY 2021 Budgeted	FY 2023 Recommended	Biennial Change	Percent Change
FTEs	323.5	321.5	(2.0)	(0.6%)

Agency Budget and Policy Issues and/or Highlights
 None.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



The bill pattern for this agency (2022-23 Recommended) represents an estimated 100.0% of the agency's estimated total available funds for the 2022-23 biennium.

Texas Lottery Commission
Summary of Funding Changes and Recommendations - Senate

Section 2

Funding Changes and Recommendations for the 2022-23 Biennium compared to the 2020-21 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
<i>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):</i>							
A)	Recommendations decrease Strategy A.1.6, Lottery Operator Contract due to the decline in the percentage of gross state lottery sales dictating the contract amount. The rate changes from 2.0773 percent in fiscal year 2022 to 2.0331 percent in fiscal year 2023.	\$0	(\$25.9)	\$0	\$0	(\$25.9)	A.1.6
B)	Decrease in Strategy A.1.8, Promote Lottery Games Contracts, funding from \$35.9 million to \$20 million for the biennium.	\$0	(\$15.9)	\$0	\$0	(\$15.9)	A.1.8
C)	Recommendations increase funding for Retailer Commissions to meet percentage of projected gross lottery sales for this purpose as outlined in Rider 8, Retailer Commissions.	\$0	\$17.8	\$0	\$0	\$17.8	A.1.11
D)	Decrease in Bingo Prize Fee collection appropriation due to legislative change redirecting the distribution of prize fees from the agency to licensed organizations.	(\$3.8)	\$0	\$0	\$0	(\$3.8)	B.1.4
<i>OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):</i>							
E)	Decrease in operating expenses due to anticipated move into the Capitol Complex, changes in utilization of security and monitoring services, and reduced bingo salary expenses. Recommendations include the removal of 2 vacant bingo FTE positions from TLC's FTE cap per the agency's request.	(\$0.4)	(\$4.8)	\$0	\$0	(\$5.2)	A.1.1, A.1.4, B.1.3
F)	Recommendations accommodate agency reported changes in product contracting costs, broadcasting and draw game drawings contracting costs, and Multi-State Lottery Association membership fees.	\$0	\$0.8	\$0	\$0	\$0.8	A.1.3, A.1.7, A.1.9
G)	Other agency directed adjustments to meet anticipated changes in operations and administration.	\$0.1	\$0.5	\$0	\$0	\$0.6	A.1.2, A.1.5, B.1.1
TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions)		(\$4.1)	(\$27.5)	\$0	\$0	(\$31.6)	As Listed
<i>SIGNIFICANT & OTHER Funding Increases</i>		\$0.1	\$19.1	\$0	\$0	\$19.2	As Listed
<i>SIGNIFICANT & OTHER Funding Decreases</i>		(\$4.2)	(\$46.6)	\$0	\$0	(\$50.8)	As Listed

NOTE: Totals may not sum due to rounding.

Texas Lottery Commission
Selected Fiscal and Policy Issues - Senate

1. **Lottery Sales.** Recommendations assume the following amounts for lottery sales as projected in the Legislative Appropriations Request (LAR):

- FY 2020 – \$6,704.0 million
- FY 2021 – \$6,651.7 million
- FY 2022 and FY 2023 - \$6,336.3 million each year

The most current agency report (Rider 10, Appropriation of Increased Revenues) indicates that fiscal year 2020 finished with \$6,704.0 million in sales. This is \$810.4 million above the appropriated level.

Proceeds from the sale of lottery tickets are deposited to General Revenue Dedicated – Lottery Account No. 5025. Proceeds pay winning ticket holders as well as other obligations to retailers, operators, other contract holders, and Lottery Commission administrative activities. No more than 12% of gross sales may be used to meet these other financial obligations. Funds remaining from non-veterans' games are deposited into the Foundation School Fund and funds remaining from veterans' games are deposited into the Fund for Veterans' Assistance. Prizes that remain unclaimed for 180 days are allocated to the Fund for Veterans' Assistance, GR-D Fund 5049 (State Owned Multi-categorical Teaching Hospital Account), and the Foundation School Fund based upon their designation as veterans' or non-veterans' games.

As lottery sales in the state increase, contributions to these funds will also increase. The Lottery Commission reports the agency transferred \$1.66 billion to the Foundation School Fund (FSF) and \$22.2 million to the Fund for Veterans Assistance in fiscal year 2020, the highest contributions to these funds to date.

2. **Lottery Operator Contract.** Recommendations provide \$260.4 million for the lottery operator contract. This is a reduction of \$25.9 million from the 2020-21 biennium. The reduction occurs because the contract was designed to decrease over time. The percentage contributed changes from 2.2099 to 2.0773 in fiscal year 2021 and will further decline to 2.0331 in fiscal year 2023.

3. **Retailer Bonus Program.** Recommendations provide \$4 million for this program, holding the appropriation unchanged from the 2020-21 base. This program provides lottery retailers with supplementary funds (bonuses) when certain high-tier prizes are sold by them.

The Eighty-Fifth legislature appropriated \$8.4 million for the 2018-19 biennium. This amount was later reduced following a Governor's Veto Proclamation which removed \$4.2 million in fiscal year 2019. The Commission received an appropriation of \$4 million in the 2020-21 biennium. The agency requested the full restoration of the Retailer Bonus Program to \$8.4 million for the 2022-23 biennium, or \$4.4 million in additional funding. Recommendations maintain the 2020-21 base level of funding (\$4.0 million) and do not include funding for this exceptional item.

4. **Retailer Commissions.** Recommendations provide \$63.4 million, an increase of \$17.8 million above the 2020-21 biennium base spending, to fully fund this program according to the requirements of Rider 8, Retailer Commissions. This appropriation is based upon estimated lottery sales. These payments are provided to retailers whose sales exceed certain performance benchmarks and they are in addition to the commissions outside of the General Appropriations Act from lottery sales.

5. **Promotion of Lottery Games.** The agency receives appropriations for the promotion of lottery games contracts through Strategy A.1.8, Promote Lottery Game Contracts. Recommendations provide \$20.0 million for this strategy across the biennium, a \$15.9 million reduction in General Revenue-Dedicated Funds from 2020-2021 levels.

An initial base appropriation of \$40 million per year for promotion was maintained from FY 1993 to FY 2001 until the addition of a statutory provision tied the advertising budget to the prize payout percentage. Following the repeal of this provision, the base appropriation for advertising was \$32 million per year from FY 2012 to FY 2017. Mass media advertising appropriations have continued to be reduced in successive legislative sessions from \$32 million per year to the current recommended amount of \$10 million per year. Total lottery sales have continued to increase year over year.

The Texas Lottery Commission has requested the transition of the funding of advertising activities from within Strategy A.1.8, Promote Lottery Games Contracts, to a rider that appropriates funds to promote lottery games as a percentage of lottery ticket sales with a “not to exceed” amount of \$40 million each fiscal year. This mechanism change would align the funding of promotion with the mechanism which is currently used to fund retailer commissions appropriated through Rider 8, Retailer Commissions. Funding for this rider would be from the General Revenue-Dedicated Lottery Account 5025 which is not counted towards the certification of the General Appropriations Act. If this rider is adopted, the agency requests that Strategy A.1.8 be zeroed out. Recommendations do not include this rider language.

6. **Scratch Tickets.** Recommendations include \$96.3 million in Strategy A.1.7, Scratch Ticket Production and Contract, which is \$300,000 greater than the 2020-21 base spending and a \$20.1 million increase over amounts in the General Appropriations Act. This increase represents a continued trend of the Texas Lottery Commission requesting increased budget authority to enable the production of scratch tickets to keep up with increased demand. Per agency reporting, appropriated funds allocated through Rider 10, Appropriation of Increased Revenues, are largely used to support increased scratch ticket costs.
7. **Local Bingo Prize Fees.** House Bill 914, passed during the 86th Legislative Session, modifies the process that is used to distribute bingo prize fees collected pursuant to Texas Occupations Code Section 2001.502. Charitable bingo prize fees were previously appropriated to the Texas Lottery Commission and then the agency itself would transfer those fees to applicable local jurisdictions. Following the passage of this bill, the collection and transfer of fees are now managed by licensed operators. Recommendations include a decrease of \$3.8 million in Strategy B.1.4, Bingo Prize Fee Collection, to reflect this change in distribution structure and the removal of the associated Rider language.
8. **Data Center Services.** Recommendations include \$353,886 in funding and capital authority for ongoing data center services.

**Texas Lottery Commission
Rider Highlights - Senate**

Modification of Existing Riders

2. **Capital Budget.** Recommendations update the rider to reflect projected capital expenditures for the following:
 - Capitalized Lottery Drawing Equipment - \$300,000 for the biennium
 - Data Center Services - \$353,886 for the biennium
6. **Appropriations Limited to Revenue Collections.** Recommendations update the rider to reflect estimates.
7. **Petty Cash Fund Authorized.** Recommendations revise the rider to include clarifying language regarding the expenditure of applicable funds towards audits and expenses.
9. **Lottery Operator Contract.** Recommendations update the percent of gross lottery sales for the lottery operator contract in fiscal year 2023 from 2.0773 to 2.0331 percent. This reduction was built into the contract at its inception. It is estimated to lower the cost of the contract by \$25.9 million from the 2020-21 biennium. These contract savings have not been redirected in the recommendations. Projected lottery sales revenue that is not appropriated to the Lottery Commission would become part of the revenue transferred to the Foundation School Fund.
13. **Bingo Third Party Reimbursements.** Recommendations modify the funding source to reflect changes implemented by House Bill 914 (86R). Per this bill, the Method of Finance changed from General Revenue Dedicated Bingo Administration Account No. 5175 to the General Revenue Fund No. 001 with a September 1, 2019 effective date.

Deleted Riders

8. **Local Bingo Prize Fees.** Recommendations delete the Local Bingo Prize Fees rider to reflect the modification in the process used to distribute prize fees per House Bill 914 (86R).

New Riders

None.

Texas Lottery Commission
Items Not Included in Recommendations - Senate

	2022-23 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2024-25
	GR & GR-D	All Funds	FTEs			

Agency Exceptional Items Not Included (in agency priority order)

1)	Full Restoration of Retailer Bonus Program	\$4,352,835	\$4,352,835	0.0	No	Yes	\$4,352,835
----	--	-------------	-------------	-----	----	-----	-------------

Agency Rider Requests Not Included

1)	Promote Lottery Games (rider would establish that the promotion appropriation would be based on a percentage of gross sales each fiscal year not to exceed a specific threshold rather than a specified appropriated amount within the bill pattern's strategies).	.	.	0.0	Yes	Yes	.
2)	Unexpended Balances of Capital Budget for Construction of Buildings and Facilities - Construction Required for Texas Capitol Complex Building	.	.	0.0	Yes	Yes	.

TOTAL Items Not Included in Recommendations		\$4,352,835	\$4,352,835	0.0			\$4,352,835
---	--	-------------	-------------	-----	--	--	-------------

Texas Lottery Commission
Appendices - Senate

Table of Contents		
Appendix	Appendix Title	Page
A	Funding Changes and Recommendations by Strategy	8
B	Summary of Federal Funds	*
C	FTE Highlights	10

* Appendix is not included - no significant information to report

Texas Lottery Commission
Funding Changes and Recommendations by Strategy - Senate -- ALL FUNDS

Strategy/Goal	2020-21 Base	2022-23 Recommended	Biennial Change	% Change	Comments (Optional)
LOTTERY OPERATIONS A.1.1	\$17,833,300	\$13,887,093	(\$3,946,207)	(22.1%)	• Decrease represents net savings from anticipated move to the Capitol Complex building and reduced operating expenses. Base less one time Capital Budget funding appropriated in fiscal year 2021 for agency costs in relation to its future Capitol Complex move.
LOTTERY FIELD OPERATIONS A.1.2	\$6,274,462	\$6,460,691	\$186,229	3.0%	
PRODUCT DEVELOPMENT A.1.3	\$13,098,665	\$13,828,969	\$730,304	5.6%	• Increase of \$730,304 to meet changes in product contract and Multi-State Lottery Association fee costs. The Multi-State Lottery Association (MUSL) assists member lotteries in game development that is multi-jurisdictional.
SECURITY A.1.4	\$11,693,882	\$10,818,139	(\$875,743)	(7.5%)	• Agency reports a reduction in security guard and monitoring services as well as in equipment and digital storage. Base less one time Capitol Budget funding appropriated in fiscal year 2021 for agency costs in relation to its future Capitol Complex move.
CENTRAL ADMINISTRATION A.1.5	\$26,674,740	\$26,947,473	\$272,733	1.0%	
LOTTERY OPERATOR CONTRACT(S) A.1.6	\$286,327,803	\$260,396,306	(\$25,931,497)	(9.1%)	• Decrease of \$25.9 million for anticipated reduction in the cost of the lottery operator contract. This amount is based upon estimated lottery sales. See also Section 3, item 2.
SCRATCH TICKET PRODUCT. CONTRACT(S) A.1.7	\$95,979,039	\$96,270,000	\$290,961	0.3%	
PROMOTE LOTTERY GAMES CONTRACT(S) A.1.8	\$35,899,731	\$20,000,000	(\$15,899,731)	(44.3%)	• Decrease of \$15.9 million for a reduction to Lottery promotion. See also Section 3, item 5.
DRAWING & BROADCAST CONTRACT(S) A.1.9	\$4,548,557	\$4,300,000	(\$248,557)	(5.5%)	• Decrease of \$248,557 due to contractual savings related to the broadcasting and production of draw game drawings.
RETAILER BONUS A.1.10	\$4,047,165	\$4,047,165	\$0	0.0%	
RETAILER COMMISSIONS A.1.11	\$45,521,535	\$63,350,600	\$17,829,065	39.2%	• Increase of \$17.8 million to provide Retailer Commissions at the level appropriated through Rider 8, Retailer Commissions. See also Section 3, item 4.
Total, Goal A, OPERATE LOTTERY	\$547,898,879	\$520,306,436	(\$27,592,443)	(5.0%)	
BINGO LICENSING B.1.1	\$1,238,349	\$1,345,544	\$107,195	8.7%	• Increase reflects changes in appropriations related to salary expenses associated with the processing of bingo licenses.
BINGO EDUCATION AND DEVELOPMENT B.1.2	\$215,486	\$220,966	\$5,480	2.5%	

Texas Lottery Commission					
Funding Changes and Recommendations by Strategy - Senate -- ALL FUNDS					
Strategy/Goal	2020-21 Base	2022-23 Recommended	Biennial Change	% Change	Comments (Optional)
BINGO LAW COMPLIANCE FIELD OPER B.1.3	\$3,040,651	\$2,638,983	(\$401,668)	(13.2%)	• Decrease of \$401,668 for reduction in operating and salary expenses tied to field operations. A portion of the decrease is attributable to the agency directed reduction to its FTE cap. Two vacant FTE positions in bingo field operation were removed.
BINGO PRIZE FEE COLLECTION & ACCT B.1.4	\$4,395,518	\$633,688	(\$3,761,830)	(85.6%)	• Decrease of \$3.8 million to reflect change in Bingo Prize Fee Allocation distribution according to HB 914 (86R). Under this legislation, these fees are now distributed by licensed organizations to applicable local jurisdictions.
Total, Goal B, ENFORCE BINGO LAWS	\$8,890,004	\$4,839,181	(\$4,050,823)	(45.6%)	
Grand Total, All Strategies	\$556,788,883	\$525,145,617	(\$31,643,266)	(5.7%)	

**Texas Lottery Commission
FTE Highlights - Senate**

Full-Time-Equivalent Positions	Expended 2019	Estimated 2020	Budgeted 2021	Recommended 2022	Recommended 2023
Cap	323.5	323.5	323.5	321.5	321.5
Actual/Budgeted	299.1	292.0	323.5	NA	NA

Schedule of Exempt Positions (Cap)					
Executive Director (\$261,068)	\$211,191	\$213,344	\$213,344	\$213,344	\$213,344

Notes:

- a) State Auditor's Office is the source for the FY 2019 and FY 2020 annual average (actual) FTE levels.
- b) The Executive Director of the Texas Lottery Commission is currently a Group 7 position with a salary amount not to exceed \$261,068 annually. The agency is not requesting any changes to its exempt position.
- c) The State Auditor's Office Report, Executive Compensation at State Agencies (Report 18-705, August 2020), indicates a market average salary of \$224,617 for the Executive Director position at the Lottery Commission.
- d) The recommendation reflects an agency request to reduce its FTE cap by 2.0 FTE.