

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 10, 2003

TO: Honorable Kino Flores, Chair, House Committee on Licensing & Administrative Procedures

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB1215 by Flores (Relating to authorizing the Texas Lottery Commission to operate and administer keno and to allow a license to be issued under the State Lottery Act to a location that possesses certain permits issued under the Alcoholic Beverage Code.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1215, As Introduced: a positive impact of \$140,607,285 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$32,920,595
2005	\$107,686,690
2006	\$109,707,071
2007	\$111,845,509
2008	\$113,885,025

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>GENERAL REVENUE FUND 1</i>	Probable Revenue Gain from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Revenue Gain from <i>LOTTERY ACCT 5025</i>	Probable Savings/ (Cost) from <i>LOTTERY ACCT 5025</i>
2004	(\$3,757,000)	\$36,677,595	\$38,084,101	(\$38,084,101)
2005	(\$6,545,000)	\$114,231,690	\$15,000,852	(\$15,000,852)
2006	(\$6,670,000)	\$116,377,071	\$15,206,721	(\$15,206,721)
2007	(\$6,803,000)	\$118,648,509	\$15,415,284	(\$15,415,284)
2008	(\$6,929,000)	\$120,814,025	\$15,632,267	(\$15,632,267)

Fiscal Year	Change in Number of State Employees from FY 2003
2004	14.0
2005	14.0
2006	14.0
2007	14.0
2008	14.0

Fiscal Analysis

The bill would amend Subchapter B of the Government Code to allow the Texas Lottery Commission (TLC) to adopt rules for conducting the game of keno. The bill would also amend Subchapter D of the Government Code to allow a location for which a person holds a wine and beer retailer's permit, mixed beverage permit, mixed beverage late hours permit, private club registration permit, or private club late hours permit issued under the Alcoholic Beverage Code to be licensed as an authorized lottery retailer.

The Act takes effect immediately if it receives a vote of two-thirds in both houses of the Legislature. Otherwise, this Act takes effect September 1, 2003. Sales of a keno game are anticipated to begin as early as January 4, 2004.

Methodology

The bill is permissive, authorizing but not mandating keno games and does not specify the frequency or retailer availability of keno games, leaving the establishment of these rules to TLC. TLC expects that keno drawings in Texas would be held every 5 minutes from 6am to midnight. The administrative costs for keno would be proportionally greater than in other games because of the frequency of drawings. TLC estimates the percentage take for the state to be 28 percent of keno sales. A weighted average of per capita sales in eight comparison states was used as the basis for expected sales in Texas.

The increase in sales from allowing liquor license holders to apply for a lottery retailer license largely counterbalances the loss in sales to traditional games because of the addition of keno. The addition of keno in bars would have a substitution effect on liquor taxes, causing some loss in General Revenue.

TLC estimates the bill would take six months to implement and it would start selling keno tickets on January 1, 2004. The commission expects 4,000 additional licensed locations as a result of the bill and also expects 1,250 of its current retailers to offer keno. One time expenses for additional on-line terminals, keno monitors and video controllers is estimated at \$22.3 million in 2004. Promotional start-up costs are expected to be \$7 million for the first year and \$2 million in advertising every year thereafter.

TLC expects to pay a vendor 2.699 percent of sales from keno to operate the games each year. These payments are estimated to be \$7.1 million in 2004, \$12 million in 2005, \$12.2 million in 2006, \$12.4 million in 2007 and \$12.6 million in 2008.

In addition, TLC estimates the need for 14 full time equivalents at a cost of \$1.6 million for the regulation of keno throughout the state.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 362 Texas Lottery Commission, 458 Alcoholic Beverage Commission

LBB Staff: JK, JO, JRO, SD, RT