

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 9, 2003

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

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB2439 by Flores (Relating to the operation and administration of the state lottery, including authorizing the Texas Lottery Commission to offer video lottery; providing penalties.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2439, As Introduced: a positive impact of \$630,276,095 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	\$181,186,477
2005	\$449,089,618
2006	\$670,160,546
2007	\$719,121,813
2008	\$773,544,297

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(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	\$6,683,000	\$174,503,477	\$2,164,072	(\$2,164,072)
2005	\$17,778,000	\$431,311,618	\$1,285,649	(\$1,285,649)
2006	\$26,165,000	\$643,995,546	\$1,298,816	(\$1,298,816)
2007	\$27,714,000	\$691,407,813	\$1,291,204	(\$1,291,204)
2008	\$29,459,000	\$744,085,297	\$1,329,864	(\$1,329,864)

Fiscal Year	Change in Number of State Employees from FY 2003
2004	17.3
2005	17.3
2006	17.3
2007	17.3
2008	17.3

Fiscal Analysis

The bill would partially implement the Additional e-Texas Recommendations ED-18, April '03. The bill would amend Chapter 466 of the Government Code to allow the Lottery Commission to adopt rules for the operation of video lottery games at greyhound and horse racetracks licensed under the Texas Racing Act and in existence on January 1, 2003.

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 hour 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

Video lottery terminals (VLTs) currently operate in racetracks in Delaware, Rhode Island, and West Virginia; and they exist outside racetracks in other states. Data from other states were applied to the population and geographic characteristics of Texas. Given startup time requirements, it was estimated that operations could begin in December 2003 with 1,000 machines per track opening monthly, yielding an average of 3,500 terminals in fiscal 2004. This average was projected to grow to nearly 13,000 machines in fiscal 2005. Net income per terminal at racetracks in other states was used to estimate the net income per machine to be expected in Texas.

The state's share of the net terminal income is expected to be 58 percent in fiscal 2004, rising in half percentage point increments until topping out at 60 percent in fiscal 2008 and subsequent years. The portion going to the lottery retailer would begin at 31 percent, declining to 29 percent.

Video lottery in Texas would be expected to regain a portion of the gaming money currently leaving the state in Texas, but it would also affect Texas sales tax collections and lottery sales. Monies lost to VLTs would no longer be available to consumers to spend on taxable items, so those losses would have a negative effect on current sales tax collections. On the positive side, sales tax collections would be increased by additional spending by VLT retailers, VLT operators, and by the recovery of gaming money currently going to other states.

Current lottery and bingo revenues would be reduced by the introduction of video lottery terminals in racetracks. A loss of sales to current Texas lottery games was calculated based on the experience in other states, yielding an expected 5.9 percent decline in the sales of current Texas lottery games. The loss of revenue from the bingo prize fees is expected to be 11.8 percent with the operation of 13,000 video lottery terminals, with annual impacts proportional to the estimated number of terminals each year.

The Lottery Commission estimates implementing video lottery games would take nine months and sales would begin on April 1, 2004. This analysis assumes a total of 13,000 video lottery terminals would be offered at the nine pari-mutuel dog and horse racing facilities in Texas. All video lottery terminals would be provided and linked to a central communications system operated by a single vendor contracted by the Lottery Commission. Promotional and advertising costs for the new game are estimated at \$90,000 for 2004 and \$25,000 for each year thereafter.

In addition, the Lottery Commission estimates the need for 17.3 full time equivalents at a cost of \$2.1 million in 2004 and \$1.2 million every year thereafter for the regulation of video lottery.

The Commission estimates the bill would add an additional 530 retailer locations, beginning November 1, 2003 due to the change to Subchapter D of the Government Code. The commission indicates it can implement this provision of the bill with current resources.

Technology

The Lottery Commission estimates a one-time start up cost of \$619,600 in equipment.

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

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