

By: Flores

H.B. No. 3230

A BILL TO BE ENTITLED

AN ACT

1
2 relating to authorizing the operation of video lottery games on
3 behalf of this state, the powers and duties of the Texas Lottery
4 Commission, and the regulation of gaming in this state; providing
5 penalties.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

7 SECTION 1. Section 466.002, Government Code, is amended by
8 amending Subdivisions (2)-(10) and adding Subdivisions (11)-(36)
9 to read as follows:

10 (2) "Communication technology" means the methods used
11 and the components employed to facilitate the transmission of
12 information, including transmission and reception systems that
13 transmit information through wire, cable, radio, microwave, light,
14 optics, or computer data networks.

15 (3) "Director" means a [the] director employed by the
16 executive director under Section 467.033 [of the division].

17 (4) "Disable" with respect to video lottery terminals
18 means the process that causes a video lottery terminal to cease
19 functioning on issuance of a shutdown command from the video
20 lottery central system.

21 (5) "Distribute," with respect to a video lottery
22 terminal, an electronic computer component of a video lottery
23 terminal, the cabinet in which a video lottery terminal is housed,
24 video lottery equipment, or video lottery game software intended

1 for use or play in this state, including on Indian lands in this
2 state, means the sale, lease, marketing, offer, or other
3 disposition of any of those items.

4 (6) [~~3~~] "Division" means the lottery division
5 established by the commission under Chapter 467.

6 (7) "Electronic storage medium," with respect to video
7 lottery, means the electronic medium on which the operation
8 software for a game playable on a video lottery terminal is stored,
9 in the form of erasable programmable read only memory, compact
10 disc-read only memory, flash random access memory, or other
11 technology medium the commission approves for use in a video
12 lottery terminal.

13 (8) [~~4~~] "Executive director" means the executive
14 director of the commission.

15 (9) "Gaming agreement" means an agreement authorized
16 under Subchapter K between this state and a federally recognized
17 Indian tribe under which this state allows the tribe to conduct
18 limited gaming activities authorized under this chapter or
19 applicable federal law.

20 (10) "House-banked game" means a game of chance:

21 (A) in which the house plays as a participant;

22 (B) in which the house competes against all
23 players, collects from all losers, and pays all winners; and

24 (C) that the house has an opportunity to win.

25 (11) "Indian lands" means land over which an Indian
26 tribe exercises governmental power and:

27 (A) that is held in trust by the United States on

1 January 1, 2005, for the benefit of the Indian tribe or an
2 individual member of the Indian tribe pursuant to the Restoration
3 Acts, 25 U.S.C. Section 731 and 18 U.S.C. Section 1166 et seq., and
4 25 U.S.C. Section 2701 et seq.; or

5 (B) on which Class III gaming is permitted under
6 the Indian Gaming Regulatory Act of 1988 (P.L. 100-497, codified at
7 18 U.S.C. Section 1166 et seq. and 25 U.S.C. Section 2701 et seq.).

8 (12) "Institutional investor" means:

9 (A) a state or federal government pension plan;
10 or

11 (B) any of the following that meets the
12 requirements of a "qualified institutional buyer" as defined in
13 Rule 144A, Securities Act of 1933 (15 U.S.C. Sections 77a-77aa),
14 and the rules and regulations adopted under that rule by the United
15 States Securities and Exchange Commission:

16 (i) a bank as defined by Section 3(a)(6),
17 Securities Exchange Act of 1934 (15 U.S.C. Sections 78a-78kk), and
18 the rules and regulations adopted under that act by the United
19 States Securities and Exchange Commission;

20 (ii) an insurance company as defined by
21 Section 2(a)(17), Investment Company Act of 1940 (15 U.S.C. Section
22 80a-1 et seq.);

23 (iii) an investment company registered
24 under Section 8, Investment Company Act of 1940 (15 U.S.C. Section
25 80a-1 et seq.);

26 (iv) an employee benefit plan or pension
27 fund subject to the Employee Retirement Income Security Act of 1974

1 (29 U.S.C. Section 1001 et seq.), excluding an employee benefit
2 plan or pension fund sponsored by a publicly traded corporation
3 registered with the Securities and Exchange Commission;

4 (v) a group composed entirely of persons
5 specified by this subdivision; or

6 (vi) any other person the commission
7 recognizes as an institutional investor for reasons consistent with
8 the policies expressed in this chapter.

9 (13) [(5)] "Lottery" means the state lottery
10 established and operated in accordance with the Texas Constitution
11 under this chapter and includes the operation of a state-controlled
12 and determined video lottery system [procedures operated by the
13 state under this chapter through which prizes are awarded or
14 distributed by chance among persons who have paid, or
15 unconditionally agreed to pay, for a chance or other opportunity to
16 receive a prize].

17 (14) [(6)] "Lottery game" means an activity conducted
18 lawfully and in accordance with the Texas Constitution and this
19 chapter that is controlled by this state as part of the lottery and
20 through which prizes are awarded or distributed by chance to
21 persons who have paid or unconditionally agreed to pay, or who
22 otherwise participate in a game, for a chance or other opportunity
23 to receive a prize [includes a lottery activity].

24 (15) [(7)] "Lottery operator" means a person selected
25 under Section 466.014(b) to operate a lottery game.

26 (16) "Manufacture," with respect to a video lottery
27 terminal, an electronic computer component of a video lottery

1 terminal, the cabinet in which a video lottery terminal is housed,
2 video lottery equipment, or video lottery game software intended
3 for use or play in this state, including on Indian lands in this
4 state, means to design, assemble, fabricate, produce, program, or
5 make modifications to any of those items.

6 (17) "Net terminal income" means the total amount of
7 money paid to play video lottery games less the value of all credits
8 redeemed for money, including any progressive prizes, by the
9 players of the video lottery games. The costs associated with
10 progressive prizes may not be deducted from the total amount of
11 money paid to play the video lottery games for purposes of
12 determining net terminal income. Promotional prizes offered by a
13 video lottery retailer or video lottery manager may not be deducted
14 or otherwise considered credits redeemed for money by players for
15 the purpose of determining net terminal income.

16 (18) "Pari-mutuel license holder" means a person
17 licensed to conduct wagering on a greyhound race or a horse race
18 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
19 Statutes).

20 (19) "Person" means, for purposes of video lottery
21 operations, any natural person, corporation, association, trust,
22 partnership, limited partnership, joint venture, subsidiary, or
23 other entity, regardless of its form, structure, or nature.

24 (20) [~~8~~] "Player" means a person who contributes any
25 part of the consideration for a ticket or to play a video lottery
26 game under this chapter.

27 (21) "Racetrack" means a racetrack as defined by

1 Section 1.03(25), Texas Racing Act (Article 179e, Vernon's Texas
2 Civil Statutes), that is:

3 (A) a Class I or Class II horse racetrack that
4 held a pari-mutuel license on January 1, 2005, or for which a person
5 by that date had applied for the pari-mutuel license to conduct
6 horse racing as a Class I or Class II racetrack under which the
7 racetrack operates; or

8 (B) a greyhound racetrack that held a pari-mutuel
9 license on January 1, 2005, or for which a person by that date had
10 applied for the pari-mutuel license to conduct greyhound racing
11 under which the racetrack operates.

12 (22) [~~(9)~~] "Sales agent" or "sales agency" means a
13 person licensed under this chapter to sell tickets.

14 (23) "Slot machine" means a mechanical, electrical, or
15 other type of device, contrivance, or machine that plays or
16 operates on insertion of a coin, currency, token, or similar object
17 or on payment of any other consideration, and the play or operation
18 of which, through the skill of the operator, by chance, or both, may
19 deliver to the person playing or operating the machine, or entitle
20 the person to receive, cash, premiums, merchandise, tokens, or any
21 other thing of value, whether the payoff is made automatically from
22 the machine or in any other manner. The term does not include any
23 equipment, machine, technological aid, or other device used or
24 authorized in connection with the play of bingo under Chapter 2001,
25 Occupations Code.

26 (24) "Substantial interest holder" means any of the
27 following that is not a bona fide lender, bank, or other authorized

1 or licensed lending institution that holds a mortgage or other lien
2 acquired in the ordinary course of business or a vendor of the
3 applicant or license holder that is not otherwise a substantial
4 business holder:

5 (A) a person who directly, indirectly, or
6 beneficially owns any interest in a privately owned corporation,
7 association, trust, partnership, limited partnership, joint
8 venture, subsidiary, or other entity, regardless of its form,
9 structure, or nature;

10 (B) a person who directly, indirectly, or
11 beneficially owns 10 percent or more of any publicly owned
12 corporation, association, trust, partnership, limited partnership,
13 joint venture, subsidiary, or other entity, regardless of its form,
14 structure, or nature;

15 (C) a person associated with an applicant or
16 license holder who the commission determines has the power or
17 authority to:

18 (i) control the activities of the applicant
19 or license holder; or

20 (ii) elect or select the executive
21 director, the managers, the partners, or a majority of the board of
22 directors of the applicant or license holder; and

23 (D) any key personnel of a video lottery retailer
24 or video lottery manager, including an executive director, officer,
25 director, manager, member, partner, limited partner, executive,
26 employee, or agent, who the commission determines has the power to
27 exercise significant influence over decisions concerning any part

1 of the applicant's or license holder's business operation.

2 (25) [~~(10)~~] "Ticket" means any tangible evidence
3 issued to provide participation in a lottery game authorized by
4 this chapter other than a video lottery game.

5 (26) "Video lottery central system" means the system
6 of procedures and facilities operated and controlled by the
7 commission that is designed to link together all video lottery
8 terminals operated in this state, determines the outcome of all
9 video lottery games, and allows the commission to continuously
10 monitor the activity of each video lottery terminal and to disable
11 any video lottery terminal in this state.

12 (27) "Video lottery central system provider" means a
13 person that, under a contract with the commission, provides the
14 video lottery central system.

15 (28) "Video lottery equipment" means:

16 (A) a video lottery terminal;

17 (B) equipment, a component, or a contrivance used
18 remotely or directly in connection with a video lottery terminal
19 to:

20 (i) affect the reporting of gross revenue
21 and other accounting information, including a device for weighing
22 and counting money;

23 (ii) connect video lottery terminals
24 together for accounting or wide-area prize or promotional purposes;

25 (iii) monitor video lottery terminal
26 operations; and

27 (iv) provide for the connection of video

1 lottery terminals to the video lottery central system; or

2 (C) any other communications technology or
3 equipment necessary for the operation of a video lottery terminal.

4 (29) "Video lottery game" means an electronically
5 simulated game displayed on a video lottery terminal the outcome of
6 which is determined solely by chance based on a computer-generated
7 random selection of winning combinations of symbols or numbers
8 other than roulette, dice, or baccarat game themes associated with
9 casino gambling, except that game themes displaying symbols that
10 appear to roll on drums to simulate a classic casino slot machine or
11 themes of other card games and keno may be used.

12 (30) "Video lottery manager" means a person who:

13 (A) is licensed by the commission under this
14 chapter to manage a video lottery terminal establishment; or

15 (B) provides management services for a video
16 lottery terminal establishment on Indian lands.

17 (31) "Video lottery retailer" means a person licensed
18 to operate a video lottery terminal establishment at which video
19 lottery games are conducted under Subchapter K.

20 (32) "Video lottery system" means the system
21 authorized under Subchapter K and controlled and operated by the
22 commission under which individuals play lottery games on video
23 lottery terminals as authorized under that subchapter.

24 (33) "Video lottery terminal" means an interactive
25 electronic device that is capable of displaying video lottery
26 games.

27 (34) "Video lottery terminal establishment" means

1 premises at which the operation of video lottery terminals is
2 authorized by the commission under this chapter in accordance with
3 a license or a gaming agreement.

4 (35) "Video lottery terminal provider" means a person
5 in the business of manufacturing or distributing video lottery
6 terminals in this state.

7 (36) "Video lottery ticket" means the tangible
8 evidence issued by a video lottery terminal to reflect winnings
9 from the play of a video lottery game.

10 SECTION 2. Section 466.003, Government Code, is amended by
11 amending Subsection (b) and adding Subsection (c) to read as
12 follows:

13 (b) Any [A] contract or authorized agreement between the
14 division and a lottery operator, the video lottery central system
15 provider, a video lottery terminal provider, or a manufacturer or
16 distributor of video lottery games under Section 466.014(b) must
17 contain a provision allowing the contract or authorized agreement
18 to be terminated without penalty should the division be abolished
19 unless another state agency is assigned to control and supervise
20 all video lottery game activity as required by this chapter.

21 (c) Notwithstanding Subsection (a), if any gaming agreement
22 that allows video lottery is in effect, the commission or another
23 state agency designated by the legislature must operate, control,
24 and supervise video lottery games as necessary to comply with a
25 gaming agreement under this chapter.

26 SECTION 3. Section 466.004(a), Government Code, is amended
27 to read as follows:

- 1 (a) A political subdivision of this state may not impose:
2 (1) a tax on the sale of a ticket;
3 (2) a tax on the payment of a prize under this chapter;
4 ~~[or]~~
5 (3) an ad valorem tax on tickets; or
6 (4) a tax, fee, or other assessment on consideration
7 paid to play a video lottery game.

8 SECTION 4. Section 466.014, Government Code, is amended to
9 read as follows:

10 Sec. 466.014. POWERS AND DUTIES OF COMMISSION AND EXECUTIVE
11 DIRECTOR; CONTRACT AUTHORITY. (a) The commission and executive
12 director have broad authority and shall exercise strict control and
13 close supervision over ~~[all]~~ lottery games ~~[conducted in this~~
14 ~~state]~~ to promote and ensure integrity, security, honesty, and
15 fairness in the operation and administration of the lottery.

16 (b) The executive director may contract with or employ a
17 person to perform a function, activity, or service in connection
18 with the operation of the lottery as prescribed by the executive
19 director. A contract relating to the operation of video lottery
20 must be consistent with Subchapter K. Except as provided by this
21 subsection, a [A] person with whom the executive director contracts
22 to operate a lottery game must be eligible for a sales agent license
23 under Section 466.155. A person with whom the executive director
24 contracts to provide the video lottery central system must be
25 eligible under the same standards as those applicable to the
26 registration or approval by the commission of a video lottery
27 terminal provider in accordance with Subchapter K.

1 (c) The executive director may award a contract for lottery
2 supplies, equipment, or services, including a contract under
3 Subsection (b), pending the completion of any investigation and
4 licensing, registration, or other approval authorized or required
5 by this chapter. A contract awarded under this subsection must
6 include a provision permitting the executive director to terminate
7 the contract without penalty if the investigation reveals that the
8 person to whom the contract is awarded would not be eligible for a
9 sales agent license under Section 466.155 or with regard to video
10 lottery does not satisfy the applicable requirements for licensing,
11 registration, or other approval under Subchapter K.

12 (d) In the acquisition or provision of facilities,
13 supplies, equipment, materials, or services related to the
14 implementation of video lottery, the commission must comply with
15 procurement procedures prescribed under:

16 (1) Subtitle D, Title 10; and

17 (2) Section 466.101.

18 SECTION 5. Section 466.015(b), Government Code, is amended
19 to read as follows:

20 (b) The commission shall adopt rules to the extent they are
21 not inconsistent with Chapters 551 and 552 governing the:

22 (1) security for the lottery and the commission,
23 including the development of an internal security plan;

24 (2) apportionment of the total revenues from the sale
25 of tickets and from all other sources in the amounts provided by
26 this chapter;

27 (3) enforcement of prohibitions on the sale of tickets

1 to or by an individual younger than 18 years of age; ~~and~~

2 (4) enforcement of prohibitions on a person playing a
3 lottery game by telephone; and

4 (5) enforcement of prohibitions provided by law on the
5 sale of any purchase or play of a video lottery game.

6 SECTION 6. Section 466.017, Government Code, is amended to
7 read as follows:

8 Sec. 466.017. AUDITS. (a) The commission ~~[executive~~
9 ~~director]~~ shall provide for a certified public accountant to
10 conduct an independent audit of the commission's annual financial
11 statements in accordance with generally accepted auditing
12 standards that requires the accountant to express an opinion on the
13 conformity of the financial statements with generally accepted
14 accounting principles ~~[for each fiscal year of all accounts and~~
15 ~~transactions of the lottery]~~. The certified public accountant may
16 not have~~[, as determined by the executive director,]~~ a significant
17 financial interest in a sales agent, lottery vendor, ~~[or]~~ lottery
18 operator, video lottery manager, video lottery retailer, video
19 lottery terminal provider, or video lottery central system
20 provider. The certified public accountant shall present an audit
21 report to the executive director, the commission, the governor, the
22 comptroller, and the legislature not later than the 30th day after
23 the submission date for the annual financial report required by the
24 General Appropriations Act. ~~[The report must contain~~
25 ~~recommendations to enhance the earnings capability of the lottery~~
26 ~~and improve the efficiency of lottery operations.]~~ The state
27 auditor may review the results of and working papers related to the

1 audit.

2 (b) The records of a [Each] lottery operator, sales agent,
3 video lottery manager, video lottery retailer, video lottery
4 terminal provider, or video lottery central system provider
5 ~~[operator's and sales agent's records]~~ are subject to audit by the
6 commission and the state auditor. For the purpose of carrying out
7 this chapter, the executive director or state auditor may examine
8 all books, records, papers, or other objects that the executive
9 director or state auditor determines are necessary for conducting a
10 complete examination under this chapter and may also examine under
11 oath any officer, director, or employee of a lottery operator, ~~[or]~~
12 sales agent, video lottery manager, video lottery retailer, video
13 lottery terminal provider, or video lottery central system
14 provider. The executive director or state auditor may conduct an
15 examination at the principal office or any other office of the
16 person subject to the audit ~~[lottery operator or sales agent]~~ or may
17 require the person ~~[lottery operator or sales agent]~~ to produce the
18 records at the office of the commission or state auditor. If a
19 sales agent, video lottery manager, video lottery retailer, video
20 lottery terminal provider, or video lottery central system provider
21 refuses to permit an examination or to answer any question
22 authorized by this subsection, the executive director may summarily
23 suspend the license or registration of the sales agent, video
24 lottery manager, video lottery retailer, or video lottery terminal
25 provider under Section 466.160 or Subchapter K until the
26 examination is completed as required. Section 321.013(h) does not
27 apply to an audit of a lottery operator, ~~[or]~~ sales agent, video

1 lottery manager, video lottery retailer, video lottery terminal
2 provider, or video lottery central system provider.

3 SECTION 7. Section 466.018, Government Code, is amended to
4 read as follows:

5 Sec. 466.018. INVESTIGATIONS. The attorney general, the
6 district attorney for Travis County, or the district attorney,
7 criminal district attorney, or county attorney performing the
8 duties of district attorney for the county in which the violation or
9 alleged violation occurred may investigate a violation or alleged
10 violation of this chapter and of the penal laws of this state by the
11 commission or its employees, a sales agent, a lottery vendor, ~~[or]~~ a
12 lottery operator, a video lottery manager, a video lottery
13 retailer, a video lottery terminal provider, or a video lottery
14 central system provider.

15 SECTION 8. Sections 466.020(c), (d), and (e), Government
16 Code, are amended to read as follows:

17 (c) A security officer or investigator employed by the
18 department of security or a peace officer who is working in
19 conjunction with the commission or the Department of Public Safety
20 in the enforcement of this chapter may:

21 (1) [r] without a search warrant, [may] search and
22 seize a lottery vending machine, lottery computer terminal, video
23 lottery terminal, or other lottery or gaming equipment that is
24 located on premises for which a person holds a sales agent, video
25 lottery retailer, or video lottery manager license issued under
26 this chapter; or

27 (2) seize a lottery vending machine, lottery computer

1 terminal, video lottery terminal, or other lottery or gaming
2 equipment that is being used or is in the possession of any person
3 in violation of this chapter.

4 (d) The Department of Public Safety or any other state or
5 local law enforcement agency in this state, at the commission's
6 request and in accordance with an interagency agreement, shall
7 perform a full criminal background investigation of a prospective
8 deputy or investigator of the department of security. The
9 commission shall reimburse the agency [~~Department of Public Safety~~]
10 for the actual costs of an investigation.

11 (e) At least once every two years, the executive director
12 shall employ an independent firm that is experienced in security,
13 including computer security and systems security, to conduct a
14 comprehensive study of all aspects of lottery security, including:

- 15 (1) lottery personnel security;
- 16 (2) sales agent security;
- 17 (3) lottery operator and vendor security;
- 18 (4) security against ticket counterfeiting and
19 alteration and other means of fraudulent winning;
- 20 (5) security of lottery drawings;
- 21 (6) lottery computer, data communications, database,
22 and systems security;
- 23 (7) lottery premises and warehouse security;
- 24 (8) security of distribution of tickets;
- 25 (9) security of validation and payment procedures;
- 26 (10) security involving unclaimed prizes;
- 27 (11) security aspects of each lottery game;

1 (12) security against the deliberate placement of
2 winning tickets in lottery games that involve preprinted winning
3 tickets by persons involved in the production, storage,
4 transportation, or distribution of tickets; ~~and~~

5 (13) security of video lottery retailers, video
6 lottery managers, video lottery terminal providers, and video
7 lottery central system providers; and

8 (14) other security aspects of lottery operations,
9 including video lottery game operations.

10 SECTION 9. Section 466.021(a), Government Code, is amended
11 to read as follows:

12 (a) The executive director shall, every two years, employ an
13 independent firm experienced in demographic analysis to conduct a
14 demographic study of lottery players. The study must examine
15 ~~[include]~~ the income, age, sex, race, education, and frequency of
16 participation of players. The study must distinguish between
17 players of traditional lottery games and video lottery games.

18 SECTION 10. Section 466.022, Government Code, is amended by
19 amending Subsection (b) and adding Subsections (c), (d), (e), and
20 (f) to read as follows:

21 (b) In addition to commission records excepted from
22 disclosure under Chapter 552, the following information is
23 confidential and is exempt from disclosure:

24 (1) security plans and procedures of the commission
25 designed to ensure the integrity and security of the operation of
26 the lottery;

27 (2) information of a nature that is designed to ensure

1 the integrity and security of the selection of winning tickets or
2 numbers in the lottery, other than information describing the
3 general procedures for selecting winning tickets or numbers; ~~and~~

4 (3) the street address and telephone number of a prize
5 winner, if the prize winner has not consented to the release of the
6 information; and

7 (4) information relating to all system operations of
8 video lottery games, including the operation of the video lottery
9 system, security related to video lottery games, and commission
10 plans and procedures intended to ensure the integrity and security
11 of the operation of video lottery games.

12 (c) Information that is confidential under Subsection
13 (b)(4) includes information and data that:

14 (1) is furnished to the commission under Subchapter K
15 or that may be otherwise obtained by the commission from any source;

16 (2) pertains to an applicant's criminal record,
17 antecedents, and background and is furnished to or obtained by the
18 commission from any source, including information obtained by the
19 commission under Section 411.108(d);

20 (3) is provided to the commission, a commission
21 employee, or an investigator acting on behalf of the commission by a
22 governmental agency or an informer or on the assurance that the
23 information will be held in confidence and treated as confidential;

24 (4) is obtained by the commission from a video lottery
25 manager, video lottery retailer, video lottery terminal provider,
26 or video lottery central system provider; or

27 (5) is prepared or obtained by an agent or employee of

1 the commission relating to a license, registration, or renewal
2 application, a finding of suitability, or any approval required
3 under Subchapter K.

4 (d) Information that qualifies as confidential under
5 Subsection (b)(4) may be disclosed in whole or in part only as
6 necessary to administer this chapter or under a court order. The
7 commission, subject to appropriate procedures, may disclose the
8 information and data to an authorized agent of a political
9 subdivision of this state, the United States, another state or a
10 political subdivision of another state, a tribal law enforcement
11 agency, or the government of a foreign country.

12 (e) For the annual report required under Section 466.016,
13 the commission may disclose a compilation of statistical
14 information that is otherwise confidential under Subsection (b)(4)
15 if the compilation does not disclose the identity of an applicant,
16 license or registration holder, or video lottery establishment.

17 (f) Notwithstanding any other provision of state law, the
18 information provided under Subsection (d) or (e) may not otherwise
19 be disclosed without specific commission authorization.

20 SECTION 11. Section 466.024, Government Code, is amended to
21 read as follows:

22 Sec. 466.024. PROHIBITED GAMES. (a) The executive
23 director, ~~or~~ a lottery operator, a video lottery manager, a video
24 lottery retailer, a video lottery terminal provider, or a video
25 lottery central system provider may not establish or operate a
26 lottery game in which the winner is chosen on the basis of the
27 outcome of a sports event.

1 (b) The ~~[commission shall adopt rules prohibiting the]~~
2 operation of any game using a video lottery machine, slot ~~[or]~~
3 machine, or other gambling device that is not connected to the video
4 lottery central system and controlled and supervised by the
5 commission is prohibited.

6 (c) In this section, "sports"
7 ~~[(1) "Sports]~~ event" means a football, basketball,
8 baseball, or similar game, or a horse or dog race on which
9 pari-mutuel wagering is allowed.

10 ~~[(2) "Video lottery machine" or "machine" means any~~
11 ~~electronic video game machine that, upon insertion of cash, is~~
12 ~~available to play or simulate the play of a video game, including~~
13 ~~video poker, keno, and blackjack, using a video display and~~
14 ~~microprocessors in which the player may receive free games or~~
15 ~~credits that can be redeemed for cash, coins, or tokens, or that~~
16 ~~directly dispenses cash, coins, or tokens.]~~

17 SECTION 12. Section 466.025, Government Code, is amended to
18 read as follows:

19 Sec. 466.025. REPORTS OF TICKETS SOLD, NET TERMINAL INCOME,
20 AND PRIZES AWARDED. For each lottery game, other than a video
21 lottery game, after the last date on which a prize may be claimed
22 under Section 466.408(d), the director shall prepare a report that
23 shows the total number of tickets sold and the number and amounts of
24 prizes awarded in the game. The report must be available for public
25 inspection. For video lottery games, the director shall prepare a
26 weekly report that shows net terminal income for the preceding
27 week.

1 SECTION 13. Section 466.103(a), Government Code, is amended
2 to read as follows:

3 (a) Except as provided by Subsection (b), the executive
4 director may not award a contract for the purchase or lease of
5 facilities, goods, or services related to lottery operations to a
6 person who:

7 (1) would be denied a license as a sales agent under
8 Section 466.155; or

9 (2) with regard to video lottery equipment:

10 (A) is not a registered video lottery terminal
11 provider if registration is required; or

12 (B) would be deemed unsuitable to be a video
13 lottery terminal provider under Subchapter K.

14 SECTION 14. Section 466.110, Government Code, is amended to
15 read as follows:

16 Sec. 466.110. PROHIBITED ADVERTISEMENTS. The legislature
17 intends that advertisements or promotions sponsored by the
18 commission or the division for the lottery not be of a nature that
19 unduly influences any person to purchase a lottery ticket or number
20 or play a video lottery game.

21 SECTION 15. Section 466.151(b), Government Code, is amended
22 to read as follows:

23 (b) The executive director may establish a provisional
24 license or other classes of licenses necessary to regulate and
25 administer the quantity and type of lottery games provided at each
26 licensed location of a sales agent.

27 SECTION 16. Section 466.158(a), Government Code, is amended

1 to read as follows:

2 (a) Unless suspended or revoked, a license issued under this
3 subchapter expires on the date specified in the license, which may
4 not be later than the second anniversary of its date of issuance.

5 SECTION 17. Section 466.201(a), Government Code, is amended
6 to read as follows:

7 (a) The commission is entitled to conduct an investigation
8 of and is entitled to obtain criminal history record information
9 maintained by the Department of Public Safety, the Federal Bureau
10 of Investigation Identification Division, or another law
11 enforcement agency to assist in the investigation of:

12 (1) a sales agent or an applicant for a sales agent
13 license;

14 (2) a person required to be named in a license
15 application;

16 (3) a lottery operator, video lottery manager, video
17 lottery retailer, video lottery terminal provider, or video lottery
18 central system provider, or prospective lottery operator, video
19 lottery manager, video lottery retailer, video lottery terminal
20 provider, or video lottery central system provider;

21 (4) an employee of a lottery operator, video lottery
22 manager, video lottery retailer, video lottery terminal provider,
23 or video lottery central system provider or prospective lottery
24 operator, video lottery manager, video lottery retailer, video
25 lottery terminal provider, or video lottery central system
26 provider, if the employee is or will be directly involved in lottery
27 operations;

1 (5) a person who manufactures or distributes lottery
2 equipment or supplies, or a representative of a person who
3 manufactures or distributes lottery equipment or supplies offered
4 to the lottery;

5 (6) a person who has submitted a written bid or
6 proposal to the commission in connection with the procurement of
7 goods or services by the commission, if the amount of the bid or
8 proposal exceeds \$500;

9 (7) an employee or other person who works for or will
10 work for a sales agent or an applicant for a sales agent license;

11 (8) a person who proposes to enter into or who has a
12 contract with the commission to supply goods or services to the
13 commission; or

14 (9) if a person described in Subdivisions (1) through
15 (8) is not an individual, an individual who:

16 (A) is an officer or director of the person;

17 (B) holds more than 10 percent of the stock in the
18 person;

19 (C) holds an equitable interest greater than 10
20 percent in the person;

21 (D) is a creditor of the person who holds more
22 than 10 percent of the person's outstanding debt;

23 (E) is the owner or lessee of a business that the
24 person conducts or through which the person will conduct
25 lottery-related activities;

26 (F) shares or will share in the profits, other
27 than stock dividends, of the person;

1 (G) participates in managing the affairs of the
2 person; or

3 (H) is an employee of the person who is or will be
4 involved in:

5 (i) selling tickets; or

6 (ii) handling money from the sale of
7 tickets.

8 SECTION 18. Subchapter E, Chapter 466, Government Code, is
9 amended by adding Section 466.206 to read as follows:

10 Sec. 466.206. CRIMINAL HISTORY INVESTIGATION FOR VIDEO
11 LOTTERY. (a) Except as otherwise provided by this section,
12 Sections 466.020 and 466.201, and Subchapter K, a criminal history
13 investigation of a video lottery retailer, video lottery manager,
14 video lottery terminal provider, or video lottery central system
15 provider is governed by commission rules adopted under Subchapter
16 K, which may consider a criminal history investigation conducted
17 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
18 Statutes).

19 (b) The Department of Public Safety or a state or local law
20 enforcement agency in this state, in accordance with an interagency
21 agreement with the commission, shall provide any assistance
22 requested by the commission in the administration and enforcement
23 of this chapter, including conducting background investigations of
24 a person seeking a license, registration, or other commission
25 authorization required under Subchapter K or of any person required
26 to be named in an application for a license, registration, or other
27 commission authorization under that subchapter.

1 (c) This section does not limit the commission's right to
2 obtain criminal history record information from any other local,
3 state, or federal agency. The commission may enter into a
4 confidentiality agreement with the agency as necessary and proper.

5 (d) Except as otherwise provided by Section 411.108(d) or
6 another provision of this chapter, criminal history record
7 information obtained by the commission under this section may be
8 disclosed only:

9 (1) to another law enforcement agency to assist in or
10 further an investigation related to the commission's operation and
11 oversight of video lottery; or

12 (2) under a court order.

13 SECTION 19. Section 466.252, Government Code, is amended to
14 read as follows:

15 Sec. 466.252. PLAYER [~~PURCHASE OF TICKET~~] AGREEMENT TO
16 ABIDE BY RULES AND INSTRUCTIONS. (a) By purchasing a ticket in a
17 particular lottery game or participating as a player in a lottery
18 game, a player agrees to abide by and be bound by the commission's
19 rules and instructions, including the rules or instructions
20 applicable to the particular lottery game involved. The player
21 also acknowledges that the determination of whether the player is a
22 valid winner is subject to:

23 (1) the commission's rules, instructions, and claims
24 procedures, including those developed for the particular lottery
25 game involved; [~~and~~]

26 (2) any validation tests established by the commission
27 for the particular lottery game involved; and

1 (3) the limitations and other provisions prescribed by
2 this chapter.

3 (b) If the lottery uses tickets, an abbreviated form of the
4 rules or a reference to the rules may appear on the tickets.

5 SECTION 20. Section 466.3011, Government Code, is amended
6 to read as follows:

7 Sec. 466.3011. VENUE. Venue is proper in Travis County or
8 any county in which venue is proper under Chapter 13, Code of
9 Criminal Procedure, for:

10 (1) an offense under this chapter;

11 (2) an offense under the Penal Code, if the accused:

12 (A) is a lottery operator, lottery vendor, sales
13 agent, video lottery manager, video lottery retailer, video lottery
14 terminal provider, video lottery central system provider, or
15 employee of the division; and

16 (B) is alleged to have committed the offense
17 while engaged in lottery activities, including video lottery
18 activities; or

19 (3) an offense that involves property consisting of or
20 including lottery tickets under Title 7 or 11, Penal Code.

21 SECTION 21. Subchapter G, Chapter 466, Government Code, is
22 amended by adding Section 466.3031 to read as follows:

23 Sec. 466.3031. UNAUTHORIZED OPERATION, USE, OR POSSESSION
24 OF VIDEO LOTTERY TERMINAL. (a) A person may not operate, use, or
25 possess a video lottery terminal unless the operation, use, or
26 possession is expressly authorized by this chapter or other law.

27 (b) Except for transport to or from a video lottery

1 establishment and as provided by this chapter, a person commits an
2 offense if the person operates, uses, or possesses any video
3 lottery terminal that is not at all times connected to the video
4 lottery central system or that does not generate revenue for this
5 state, except funds retained by the commission to pay
6 administrative costs. An offense under this subsection is a felony
7 of the third degree.

8 (c) Notwithstanding Subsection (b), a video lottery
9 retailer, video lottery manager, or registered or approved video
10 lottery terminal provider may store a video lottery terminal as
11 authorized by the commission for a period not to exceed 120
12 consecutive days, and the commission may possess video lottery
13 terminals for study and evaluation.

14 (d) Nothing in this section shall be construed to prohibit
15 the operation, use, or possession of equipment, machines,
16 technological aids, or other devices allowed in connection with the
17 play of bingo under Chapter 2001, Occupations Code.

18 SECTION 22. Section 466.305(a), Government Code, is amended
19 to read as follows:

20 (a) A sales agent, video lottery manager, or video lottery
21 retailer, or an employee of a sales agent, video lottery manager, or
22 video lottery retailer, commits an offense if the person
23 intentionally or knowingly sells a ticket to another person or
24 allows the person to play or conduct a game on a video lottery
25 terminal by extending credit or lending money to the person to
26 enable the person to purchase the ticket or play the game.

27 SECTION 23. The heading to Section 466.3051, Government

1 Code, is amended to read as follows:

2 Sec. 466.3051. SALE OF TICKET OR LOTTERY GAME TO OR PURCHASE
3 OF TICKET OR LOTTERY GAME BY PERSON YOUNGER THAN 18 YEARS OF AGE.

4 SECTION 24. Section 466.3051, Government Code, is amended
5 by adding Subsection (a-1) and amending Subsections (b) and (e) to
6 read as follows:

7 (a-1) A video lottery manager, a video lottery retailer, or
8 an employee of a video lottery manager or video lottery retailer
9 commits an offense if the person intentionally or knowingly allows
10 a person younger than 18 years of age to play a video lottery game.

11 (b) An individual who is younger than 18 years of age
12 commits an offense if the individual:

- 13 (1) purchases a ticket;
- 14 (2) plays a video lottery game; or
- 15 (3) [~~2~~] falsely represents the individual to be 18
16 years of age or older by displaying evidence of age that is false or
17 fraudulent or misrepresents in any way the individual's age in
18 order to purchase a ticket or play a video lottery game.

19 (e) An offense under Subsection (a) or (a-1) is a Class C
20 misdemeanor.

21 SECTION 25. Section 466.3053, Government Code, is amended
22 to read as follows:

23 Sec. 466.3053. PURCHASE OF TICKET OR VIDEO LOTTERY GAME
24 WITH PROCEEDS OF AFDC CHECK OR FOOD STAMPS. (a) A person commits an
25 offense if the person intentionally or knowingly purchases a ticket
26 or plays a video lottery game with:

- 27 (1) the proceeds of a check issued as a payment under

1 the Aid to Families with Dependent Children program administered
2 under Chapter 31, Human Resources Code; or

3 (2) a food stamp coupon issued under the food stamp
4 program administered under Chapter 33, Human Resources Code.

5 (b) An offense under this section is a Class C misdemeanor.

6 SECTION 26. Section 466.306, Government Code, is amended to
7 read as follows:

8 Sec. 466.306. FORGERY; ALTERATION OF TICKET. (a) A person
9 commits an offense if the person intentionally or knowingly alters
10 or forges a ticket or video lottery ticket.

11 (b) An offense under this section is a felony of the third
12 degree unless it is shown on the trial of the offense that the prize
13 alleged to be authorized by the ticket or video lottery ticket
14 forged or altered is greater than \$10,000, in which event the
15 offense is a felony of the second degree.

16 SECTION 27. Section 466.309(a), Government Code, is amended
17 to read as follows:

18 (a) A person commits an offense if the person intentionally
19 or knowingly tampers with, damages, defaces, or renders inoperable
20 any vending machine, electronic computer terminal, video lottery
21 terminal or other video lottery equipment, or other mechanical
22 device used in a lottery game.

23 SECTION 28. The heading to Section 466.317, Government
24 Code, is amended to read as follows:

25 Sec. 466.317. PROHIBITION AGAINST SALE OF CERTAIN LOTTERY
26 TICKETS OR OPERATION OF CERTAIN VIDEO LOTTERY SYSTEMS.

27 SECTION 29. Section 466.317, Government Code, is amended by

1 adding Subsection (a-1) and amending Subsections (b) and (c) to
2 read as follows:

3 (a-1) A person may not control or operate a video lottery
4 system in this state except as provided by this chapter.

5 (b) The state may enter into a compact with another state or
6 state government [~~or an Indian tribe or tribal government~~] to
7 permit the sale of lottery tickets of this state in the state's[~~7~~
8 ~~tribe's,~~] or government's jurisdiction and to allow the sale of the
9 state's[~~7~~, ~~tribe's,~~] or government's lottery tickets in this state.

10 (c) A person commits an offense if the person violates this
11 section. An offense under this section is a felony of the third
12 degree [~~Class A misdemeanor~~].

13 SECTION 30. Section 466.355(a), Government Code, is amended
14 to read as follows:

15 (a) The state lottery account is a special account in the
16 general revenue fund. The account consists of all revenue received
17 from the sale of tickets, license and application fees under this
18 chapter, other than Subchapter K [~~chapter~~], and all money credited
19 to the account from any other fund or source under law. Interest
20 earned by the state lottery account shall be deposited in the
21 unobligated portion of the general revenue fund.

22 SECTION 31. Subchapter H, Chapter 466, Government Code, is
23 amended by adding Section 466.360 to read as follows:

24 Sec. 466.360. VIDEO LOTTERY TERMINAL REVENUE. Revenue
25 generated from the operation of video lottery terminals is governed
26 by Subchapter K and commission rules.

27 SECTION 32. Section 466.402, Government Code, is amended by

1 adding Subsection (e) to read as follows:

2 (e) This section does not apply to the payment of prizes for
3 video lottery games governed by Subchapter K.

4 SECTION 33. Chapter 466, Government Code, is amended by
5 adding Subchapter K to read as follows:

6 SUBCHAPTER K. VIDEO LOTTERY

7 Sec. 466.501. LEGISLATIVE FINDINGS AND DECLARATIONS. The
8 legislature finds and declares the following:

9 (1) This state's public policy prohibiting gambling is
10 subject only to limited exceptions provided by the Texas Racing Act
11 (Article 179e, Vernon's Texas Civil Statutes) or enumerated in the
12 Texas Constitution and approved by the voters. These limited
13 exceptions fall into four categories: bingo games conducted by
14 enumerated charitable or nonprofit organizations; charitable
15 raffles; pari-mutuel wagering on horse and greyhound races; and a
16 state-operated lottery.

17 (2) Any game that is a lottery cannot lawfully be
18 operated in this state unless the game is excepted from the
19 constitutional prohibition against lotteries. In 1991, the
20 electorate approved a constitutional amendment authorizing the
21 state to operate lotteries. In 2005, the electorate approved a
22 constitutional amendment allowing expansion of the existing state
23 lottery through a state-controlled video lottery system allowing
24 video lottery terminals connected to a state-controlled and
25 determined video lottery central system to be placed at locations
26 determined in accordance with law enacted by the legislature.

27 (3) The purpose and intent of this chapter is to carry

1 out the intent of the voters as established by the approval of
2 Section 47(f), Article III, Texas Constitution.

3 (4) The people of this state intend to allow only
4 state-controlled video lottery games to be conducted in this state
5 and only in locations licensed as video lottery terminal
6 establishments or at locations on Indian lands under an agreement
7 between this state and the appropriate Indian tribe.

8 (5) This state has the authority and responsibility to
9 control the proliferation of gambling by:

10 (A) limiting the total number of video lottery
11 terminals permitted at authorized locations in this state;

12 (B) limiting video lottery to licensed video
13 lottery terminal establishments;

14 (C) extending strict and exclusive state
15 oversight and supervision to all persons, locations, practices, and
16 associations related to the operation of video lottery games; and

17 (D) providing comprehensive law enforcement
18 supervision of video lottery game activities.

19 (6) This state's ability to monitor and control the
20 operation of all video lottery terminals ensures the integrity of
21 the system and provides for the most efficient oversight and
22 supervision. Costs incurred for oversight and supervision of
23 gambling will be significantly less than if video lottery terminals
24 were not operated as part of the video lottery system. In addition,
25 providing for the state-controlled and determined system will
26 defend against criminal infiltration of gambling operations.

27 (7) The video lottery games operated at video lottery

1 terminal establishments under this chapter are controlled and
2 determined by this state in a manner that allows this state to
3 continuously monitor all video lottery terminals and to disable any
4 video lottery terminal for the protection of the public and this
5 state.

6 (8) Through the video lottery system this state will
7 monitor the network of video lottery terminals to ensure maximum
8 security unique to state-operated gambling. Except as may
9 otherwise be required by federal law governing Indian lands, each
10 operating video lottery terminal in this state will be connected to
11 a video lottery central system.

12 (9) In authorizing only a state-controlled and
13 state-operated video lottery system and state-controlled video
14 lottery terminals in limited locations and continuing the general
15 prohibition on gambling in this state as a matter of public policy,
16 this state is protecting the state's legitimate interests by
17 restricting such vice activity. By limiting the operation of video
18 lottery terminals to those connected to the state-controlled and
19 determined video lottery system and to certain lands and certain
20 types of games, the legislature seeks to foster this state's
21 legitimate sovereign interest in regulating the growth of gambling
22 activities in this state. Limiting video lottery terminals to
23 those controlled by this state and located at video lottery
24 terminal establishments is reasonably designed to defend against
25 the criminal infiltration of gambling operations and adverse
26 impacts on communities statewide. By restricting gambling such as
27 video lottery terminals to limited locations and video lottery

1 terminals controlled by this state that may be disabled by this
2 state if necessary to protect the public, this state furthers the
3 state's purpose of ensuring that such gambling activities are free
4 from criminal and undesirable elements.

5 (10) This chapter is game-specific and may not be
6 construed to allow the operation of any other form of gambling
7 unless specifically allowed by this chapter. This chapter does not
8 allow the operation of slot machines, dice games, roulette wheels,
9 house-banked games, including house-banked card games, or games in
10 which winners are determined by the outcome of a sports contest that
11 are prohibited under other state law.

12 (11) To effectuate the will of the voters, any gaming
13 on lands of Indian tribes must be in strict compliance with state
14 law, unless otherwise required by federal law, and in accordance
15 with a gaming agreement negotiated with the governor and ratified
16 by the legislature. A tribe may not under any circumstances operate
17 Class III gaming as defined by federal law other than video lottery
18 terminals connected to a video lottery central system controlled
19 and operated by this state.

20 (12) This state has conferred a substantial economic
21 benefit on federally recognized Indian tribes by allowing operation
22 of video lottery terminals on lands held in trust by the Indian
23 tribes and on Indian lands on which gaming is allowed under
24 applicable federal law. Federally recognized Indian tribes have
25 the exclusive right to operate video lottery terminals at locations
26 on the Indian lands in this state without incurring the investment
27 necessary to construct, maintain, and operate racetracks for live

1 racing, and through revenue-sharing both the policy of
2 self-governance for the tribes and this state's interests in
3 generating additional revenue to fund governmental programs can be
4 promoted.

5 (13) The public has an interest in video lottery game
6 operations, and other gaming operations conducted under Section
7 47(f), Article III, Texas Constitution, and this chapter represent
8 an exception to the general policy of this state prohibiting
9 wagering for private gain. Therefore, participation in a video
10 lottery game by a holder of a license, registration, or approval
11 under this chapter is considered a privilege conditioned on the
12 proper and continued qualification of the holder and on the
13 discharge of the affirmative responsibility of each holder to
14 provide to the commission or other regulatory and investigatory
15 authorities established by this chapter any assistance and
16 information necessary to assure that the policies declared by this
17 chapter are achieved. Consistent with this policy, the legislature
18 intends this chapter to:

19 (A) preclude the creation of any property right
20 in any license, registration, or approval issued or granted by this
21 state under this chapter, the accrual of any value to the privilege
22 of participation in any video lottery game operation, or the
23 transfer of a license or permit; and

24 (B) require that participation in video lottery
25 game operations be solely conditioned on the individual
26 qualifications of persons seeking this privilege.

27 (14) Only video lottery terminals lawfully operated in

1 connection with a video lottery system authorized by this
2 subchapter may be lawfully operated on Indian lands under the
3 Johnson Act (15 U.S.C. Section 1175).

4 Sec. 466.502. CONSTRUCTION; APPLICABILITY OF OTHER LAWS.

5 (a) This subchapter applies uniformly throughout this state and
6 all political subdivisions of this state.

7 (b) Nothing contained in this chapter may be construed to
8 implicitly repeal or modify existing state laws with respect to
9 gambling, except that the state lottery and video lottery terminals
10 are not prohibited by another law if conducted as authorized under
11 this subchapter.

12 (c) To the extent of any inconsistency between Chapter 2003
13 and this subchapter or a commission rule governing video lottery
14 terminals, this subchapter or the commission rule controls in all
15 matters related to video lottery terminals, including hearings
16 before the State Office of Administrative Hearings.

17 (d) Video lottery equipment operated under commission
18 authority and this chapter is exempt from 15 U.S.C. Section 1172.

19 Sec. 466.505. AUTHORITY TO OPERATE VIDEO LOTTERY SYSTEM.

20 (a) The commission may implement and operate a video lottery system
21 and control the operation of video lottery terminals at video
22 lottery terminal establishments in accordance with this chapter
23 and, for a video lottery terminal establishment at a racetrack, the
24 Texas Racing Act (Article 179e, Vernon's Texas Civil Statutes).
25 This chapter supersedes any conflicting or inconsistent provision
26 of the Texas Racing Act or other state law.

27 (b) The commission may allow the operation of video lottery

1 terminals pursuant to this chapter at locations on Indian lands in
2 accordance with an effective gaming agreement and in compliance
3 with applicable federal law.

4 Sec. 466.506. VIDEO LOTTERY GAMES; STATE OWNERSHIP AND
5 PROPRIETARY INTEREST. (a) This state must own all video lottery
6 games conducted through the video lottery system, regardless of
7 ownership of the video lottery terminal on which the game is played.
8 This state must possess a proprietary interest in:

9 (1) the main logic boards and any electronic storage
10 medium used in video lottery equipment or games; and

11 (2) software consisting of computer programs,
12 documentation, and other related materials necessary for the
13 operation of the video lottery system.

14 (b) For purposes of this chapter, this state may acquire a
15 proprietary interest in video lottery game software through:

16 (1) ownership of the software; or

17 (2) an exclusive product license agreement with a
18 provider in which the provider retains copyrighted ownership of the
19 software but the license granted to this state is nontransferable
20 and authorizes this state to operate the software program, solely
21 for the state's own use, on the video lottery central system and
22 video lottery terminals connected to the video lottery central
23 system.

24 Sec. 466.507. STATE CONTROL OF VIDEO LOTTERY SYSTEM. (a)
25 The commission shall control and operate the video lottery system
26 and the video lottery central system.

27 (b) The commission may disable a video lottery terminal if a

1 video lottery retailer's or video lottery manager's license is
2 revoked, surrendered, or summarily suspended under this
3 subchapter.

4 Sec. 466.510. VIDEO LOTTERY CENTRAL SYSTEM. (a) The
5 commission shall establish or cause to be established a video
6 lottery central system to link all video lottery terminals in the
7 video lottery system through which the commission has the exclusive
8 and unilateral ability to:

9 (1) control and determine the outcome of all video
10 lottery games;

11 (2) monitor activity of video lottery terminals and
12 remotely disable video lottery terminals for the public safety,
13 health, and welfare or the preservation of the integrity of the
14 lottery; and

15 (3) provide the auditing and other information
16 required by the commission.

17 (b) The commission shall provide to a registered video
18 lottery terminal provider or an applicant applying for registration
19 as a video lottery terminal provider the protocol documentation
20 data necessary to enable the provider's or applicant's video
21 lottery terminals to communicate with the commission's video
22 lottery central system for the purposes described by Subsection
23 (a).

24 (c) The video lottery central system may not limit or
25 preclude potential providers from providing the video lottery
26 terminals based on:

27 (1) prohibitive costs to implement program

1 modifications necessary to communicate or link with the system; or
2 (2) the inability of video lottery terminals of more
3 than one provider to communicate or link with the system.

4 (d) The video lottery central system provider may not sell
5 or distribute video lottery terminals in this state.

6 (e) The commission may contract with a video lottery central
7 system provider to establish the video lottery central system.

8 Sec. 466.511. VIDEO LOTTERY TERMINAL PROVIDER:
9 REGISTRATION OR APPROVAL REQUIRED. (a) A person may not
10 manufacture or distribute video lottery equipment for use or play
11 in this state unless the person is registered as a video lottery
12 terminal provider or is otherwise approved by the commission to
13 manufacture or distribute video lottery equipment in this state.

14 (b) Unless suspended or revoked, the registration or
15 approval expires on the date specified by the commission, which may
16 not be later than the third anniversary of the date of the
17 registration or approval. A person may renew an unexpired
18 registration or approval by paying the required renewal fee and
19 complying with the requirements of this subchapter and commission
20 rule.

21 (c) To be eligible for registration or commission approval
22 as required by this section, an applicant must satisfy all
23 applicable requirements under this subchapter.

24 Sec 466.512. VIDEO LOTTERY TERMINAL PROVIDER: APPLICATION;
25 CHANGE IN INFORMATION. (a) The commission shall adopt rules
26 governing the registration or approval of video lottery terminal
27 providers. The rules must require the application and any other

1 form or document submitted to the commission by or on behalf of the
2 applicant to determine the applicant's qualification under this
3 section to be sworn to or affirmed before an officer qualified to
4 administer oaths.

5 (b) An applicant for a video lottery terminal provider
6 registration or approval must provide the following information:

7 (1) the full name and address of the applicant;

8 (2) the full name and address of each location at which
9 video lottery equipment is or will be manufactured or stored in this
10 state;

11 (3) the name, home address, and share of ownership of
12 the applicant's substantial interest holders;

13 (4) a full description of each separate type of video
14 lottery equipment that the applicant seeks to manufacture or
15 distribute in this state;

16 (5) the brand name under which each type of video
17 lottery equipment is to be distributed;

18 (6) if the applicant is incorporated under law other
19 than the laws of this state, the applicant's irrevocable
20 designation of the secretary of state as the applicant's resident
21 agent for service of process and notice in accordance with the law
22 of this state;

23 (7) a list of all businesses or organizations in this
24 state in which the applicant has any financial interest and the
25 details of that financial interest, including all arrangements
26 through which a person directly or indirectly receives any portion
27 of the profits of the video lottery terminal provider and

1 indebtedness between the license holder and any other person, other
2 than a regulated financial institution, in excess of \$5,000;

3 (8) a list of all affiliated businesses or
4 corporations in which the applicant or an officer, director, or
5 substantial interest-holder of the applicant, either directly or
6 indirectly, owns or controls as a sole proprietor or partner more
7 than 10 percent of the voting stock of a publicly traded
8 corporation;

9 (9) a list of all businesses or corporations licensed
10 to conduct gambling activities or to supply gambling-related
11 equipment, supplies, or services in which the applicant or an
12 officer, director, or substantial interest-holder of the applicant
13 has any interest;

14 (10) a list of all jurisdictions in which the
15 applicant or an officer, director, or substantial interest-holder
16 of the applicant has been licensed, registered, qualified, or
17 otherwise approved to conduct gambling-related activities during
18 the 10 years preceding the date of the filing of the application;

19 (11) a statement, including all related details,
20 indicating whether the applicant or an officer, director, or
21 substantial interest-holder of the applicant has ever had a
22 license, registration, qualification, or other approval for
23 gambling-related activities denied, revoked, or suspended by any
24 jurisdiction or has been fined or otherwise required to pay
25 penalties or monetary forfeitures for gambling-related activities
26 in any jurisdiction; and

27 (12) a statement acknowledging that the applicant will

1 make available for review at the time and place requested by the
2 commission all records related to the ownership or operation of the
3 business.

4 (c) The commission may require the following information
5 from an applicant:

6 (1) personal financial and personal history records of
7 all substantial interest-holders;

8 (2) all records related to the scope of activity,
9 including sales of product, purchases of raw materials and parts,
10 and any contracts, franchises, patent agreements, or similar
11 contracts or arrangements related to manufacturing or distributing
12 video lottery terminals; and

13 (3) records related to any financial or management
14 control of or by customers and suppliers.

15 (d) The applicant must demonstrate the ability to comply
16 with all manufacturing, quality control, and operational
17 restrictions imposed on authorized video lottery equipment,
18 patented or otherwise restricted video lottery games, or other
19 video lottery equipment that the applicant seeks to manufacture or
20 distribute for use in this state. The registration or approval
21 process must include an on-site review of the applicant's
22 manufacturing equipment and process for each separate type of
23 authorized video lottery equipment to ensure compliance with the
24 requirements of this chapter and commission rules.

25 (e) Not later than the 10th day after the date of any change
26 in the information submitted on or with the application form, the
27 applicant shall notify the commission of the change, including a

1 change that occurs after the registration or other commission
2 approval has been granted.

3 (f) The applicant shall comply with all federal and state
4 laws, local ordinances, and rules.

5 Sec. 466.513. VIDEO LOTTERY TERMINAL PROVIDER: APPLICATION
6 FEE. (a) An applicant seeking registration or approval or renewal
7 of registration or approval as a video lottery terminal provider
8 must pay a nonrefundable application fee in the amount of \$_____.

9 (b) Application fees paid under this section shall be
10 retained by the commission to defray costs incurred in the
11 administration and enforcement of this chapter relating to the
12 operation of video lottery terminals.

13 Sec. 466.520. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
14 MANAGER LICENSE REQUIRED. Except as provided by a gaming
15 agreement, a person may not own or operate a video lottery terminal
16 if the person does not satisfy the requirements of this subchapter
17 and is not licensed by the commission to act as a video lottery
18 retailer or video lottery manager.

19 Sec. 466.521. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
20 MANAGER: APPLICATION AND QUALIFICATION. (a) An applicant for a
21 video lottery retailer or video lottery manager license must apply
22 to the commission under rules adopted by the commission, provide
23 the information necessary to determine the applicant's eligibility
24 for a license, and provide other information considered necessary
25 by the commission.

26 (b) An applicant for a video lottery retailer license must
27 hold a valid racing license granted by the Texas Racing Commission

1 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
2 Statutes) and be a racetrack as defined by Section 466.002.

3 (c) An applicant for a video lottery manager license must:

4 (1) have a valid and executed contract with a
5 racetrack that satisfies the requirements of Subsection (b) to act
6 as a video lottery manager for the racetrack subject to licensing
7 under this chapter; or

8 (2) demonstrate to the commission's satisfaction that
9 the applicant seeks to act as a video lottery manager for a
10 federally recognized Indian tribe that has entered into a gaming
11 agreement with this state that is in effect and governs the
12 regulation of video lottery terminals on Indian lands in this
13 state.

14 (d) Each officer, partner, director, key employee,
15 substantial interest-holder, video lottery game operation
16 employee, and owner of video lottery game operations must be
17 eligible and maintain eligibility in accordance with this
18 subchapter to be involved in video lottery games in this state.

19 (e) An applicant for a video lottery retailer or video
20 lottery manager license has the burden of proving qualification for
21 a license by clear and convincing evidence. In addition to
22 satisfying minimum requirements established by commission rules,
23 an applicant for a video lottery retailer or video lottery manager
24 license must:

25 (1) be a person of good character, honesty, and
26 integrity;

27 (2) be a person whose background and prior activities,

1 including criminal record, reputation, habits, and associations,
2 do not pose a threat to the security and integrity of video lottery
3 or to the public interest of this state or to the effective
4 operation and control of video lottery, or do not create or enhance
5 the dangers of unsuitable, unfair, or illegal practices, methods,
6 and activities in the conduct of video lottery or in the carrying on
7 of the business and financial arrangements incidental to video
8 lottery;

9 (3) if applying for a new license, provide
10 fingerprints for a criminal records evaluation by the Texas
11 Department of Public Safety or other law enforcement agency,
12 including fingerprints for each person required to be named in an
13 application, accompanied by a signed authorization for the release
14 of information to the commission by the department of public safety
15 and the Federal Bureau of Investigation;

16 (4) not have been convicted of an offense under this
17 chapter or of any crime related to theft, bribery, gambling, or
18 involving moral turpitude;

19 (5) demonstrate adequate business probity,
20 competence, experience, and financial stability as defined by the
21 commission;

22 (6) demonstrate adequate financing for the operation
23 of the facility at which the video lottery terminals will be
24 operated from a source that meets the requirements of this
25 subchapter and is adequate to support the successful performance of
26 the duties and responsibilities of the license holder and disclose
27 all financing or refinancing arrangements for the purchase, lease,

1 or other acquisition of video lottery equipment in the degree of
2 detail requested by the commission;

3 (7) when applying for a new license or renewing a
4 license under this chapter, present evidence to the commission of
5 the existence and terms of any agreement regarding the proceeds
6 from the operation of video lottery terminals;

7 (8) demonstrate that each substantial interest-holder
8 in the applicant meets all applicable qualifications under this
9 subchapter;

10 (9) provide all information, including financial data
11 and documents, consents, waivers, and any other materials,
12 requested by the commission for purposes of determining
13 qualifications for a license; and

14 (10) as part of its application, expressly waive any
15 and all claims against the commission, this state, and a member,
16 officer, employee, or authorized agent of the commission or this
17 state for damages resulting from any background investigation,
18 disclosure, or publication relating to an application for a video
19 lottery retailer or video lottery manager license.

20 (f) An application or disclosure form and any other document
21 submitted to the commission by or on behalf of the applicant for
22 purposes of determining qualification for a video lottery retailer
23 or video lottery manager license must be sworn to or affirmed before
24 an officer qualified to administer oaths.

25 (g) An applicant who knowingly fails to reveal any fact
26 material to qualification for a license, finding of suitability, or
27 other approval or who knowingly submits false or misleading

1 material information is ineligible for a video lottery retailer or
2 video lottery manager license.

3 (h) An applicant for a license or renewal of a license as a
4 video lottery retailer or video lottery manager shall notify the
5 commission of any change in the application information for a
6 license or renewal of a license not later than the 10th day after
7 the date of the change, except that a publicly traded corporation or
8 other business association or entity applicant is not required to
9 notify the commission of a transfer by which any person directly or
10 indirectly becomes the beneficial owner of less than 10 percent of
11 the stock of the corporation or association.

12 (i) Except as provided by Section 466.525(c), the
13 commission shall deny an application for a license or shall suspend
14 or revoke a license if the commission finds that the applicant would
15 be subject to denial or revocation of a sales agent license under
16 Section 466.155.

17 Sec. 466.522. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
18 MANAGER: APPLICATION FEE. (a) An applicant for a video lottery
19 retailer or video lottery manager license shall submit a
20 nonrefundable application processing fee in the amount of \$_____.

21 (b) An application may not be processed until the applicant
22 pays the application fee. If the application fee is not received by
23 the 30th day after the date the commission notifies the applicant of
24 the amount of the fee, the application is considered withdrawn and
25 may not be considered by the commission.

26 (c) The commission shall set any additional application fee
27 necessary to pay the costs of determining the applicant's

1 eligibility, including costs to conduct all investigations
2 necessary for processing the application. An investigation may not
3 begin until the applicant has submitted all required fees to the
4 commission. If additional fees are required by the commission
5 during the course of the investigation or processing of the
6 application and are not received by the commission by the 15th day
7 after the date the commission notifies the applicant of the amount
8 of the fees, the investigation and evaluation processes shall be
9 suspended.

10 (d) The commission shall retain an application fee paid
11 under this section to defray costs incurred in the administration
12 and enforcement of this chapter relating to the operation of video
13 lottery terminals.

14 Sec. 466.523. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
15 MANAGER: EMPLOYEE INFORMATION. (a) A video lottery retailer or
16 video lottery manager shall provide to the commission the name and
17 address of each employee involved in the operation of video lottery
18 games and the name and address of the providers of surety and
19 insurance required by Section 466.587.

20 (b) Not later than the 10th day following the date of the
21 change, a license holder must report to the commission any change in
22 an officer, partner, director, key employee, substantial
23 interest-holder, video lottery game operation employee, or owner
24 and any change in a surety or insurance provider.

25 Sec. 466.525. VIDEO LOTTERY TERMINAL ESTABLISHMENT:
26 REQUIREMENTS; LOCATION. (a) A video lottery retailer or video
27 lottery manager may not operate video lottery terminals at any

1 place that is not licensed as a video lottery terminal
2 establishment.

3 (b) The commission by rule shall establish standards for
4 video lottery terminal establishments to ensure that
5 establishments are accessible, safe, comfortable, durable, and of
6 sufficiently high-quality construction to promote investments in
7 establishments and related facilities that foster lasting economic
8 development and continuity in producing state revenue, and that
9 protect the health and welfare of employees, patrons, and all state
10 residents. The standards must include or incorporate high-quality
11 commercial building standards, including safety, air-conditioning,
12 heating, and electrical standards.

13 (c) An applicant for a video lottery terminal establishment
14 license must:

15 (1) consent to the application of state laws with
16 exclusive venue in Travis County, Texas, related to any action
17 arising out of the operation of video lottery terminals;

18 (2) provide office space for at least one commission
19 employee as required by commission rule; and

20 (3) provide free and unrestricted access to the
21 establishment by the commission.

22 (d) An applicant for a video lottery terminal establishment
23 license must provide the maps, surveys, site plans, architectural
24 plans, and financial statements required by the commission and
25 update the information at least annually if required by the
26 commission.

27 (e) Notwithstanding Section 466.155, the commission may not

1 deny, suspend, or revoke a license under this subchapter based on
2 the fact that a video lottery terminal establishment or a proposed
3 video lottery terminal establishment is a location for which a
4 person holds a wine and beer retailer's permit, mixed beverage
5 permit, mixed beverage late hours permit, private club registration
6 permit, or private club late hours permit, issued under Chapter 25,
7 28, 29, 32, or 33, Alcoholic Beverage Code.

8 Sec. 466.526. LICENSE HOLDER AS SALES AGENT. The holder of
9 a video lottery retailer or video lottery manager license may
10 operate as a sales agent for lottery tickets in accordance with this
11 chapter.

12 Sec. 466.527. LICENSE TERM; RENEWAL ELIGIBILITY. (a)
13 Unless suspended or revoked, a license issued under this subchapter
14 expires on the date specified in the license, which may not be later
15 than the fifth anniversary of the date of issuance.

16 (b) To be eligible for renewal of a license, an applicant
17 must satisfy all applicable licensing requirements under this
18 subchapter.

19 Sec. 466.528. RULES FOR ADDITIONAL LICENSE QUALIFICATIONS.
20 The commission by rule may establish other license qualifications
21 the commission determines are in the public interest and consistent
22 with the declared policy of this state.

23 Sec. 466.529. APPLICATION AS REQUEST FOR CHARACTER
24 DETERMINATION. An application under this subchapter to receive or
25 renew a license, registration, or approval or to be found suitable
26 constitutes a request for a determination of the applicant's
27 general character, integrity, and ability to participate or engage

1 in or be associated with the operation of video lottery terminals.

2 Sec. 466.530. IMMUNITY FOR STATEMENT MADE IN PROCEEDING OR
3 INVESTIGATION. Any written or oral statement made in the course of
4 an official commission proceeding or investigative activities
5 related to an application for commission licensing, registration,
6 or other approval under this subchapter, by any member or agent or
7 any witness testifying under oath that is relevant to the purpose of
8 the proceeding is absolutely privileged and does not impose
9 liability for defamation or constitute a ground for recovery in any
10 civil action.

11 Sec. 466.531. SUITABILITY FINDING. To promote the
12 integrity and security of the lottery, the commission in its
13 discretion may require a suitability finding for any person doing
14 business with or in relation to the operation of video lottery
15 terminals who is not otherwise required to obtain a license,
16 registration, or approval from the commission for the person's
17 video lottery-related operations.

18 Sec. 466.532. SUMMARY SUSPENSION OF VIDEO LOTTERY RETAILER
19 OR VIDEO LOTTERY MANAGER LICENSE; TERMINAL DISABLED. (a) The
20 commission may summarily suspend the license of a video lottery
21 retailer or video lottery manager without notice or hearing if the
22 commission finds the action is necessary to maintain the integrity,
23 security, honesty, or fairness of the operation or administration
24 of the lottery or to prevent financial loss to this state and:

25 (1) the license holder fails to deposit money received
26 from video lottery terminal operations as required by this chapter
27 or commission rule;

1 (2) an event occurs that would render the license
2 holder ineligible for a license under this subchapter;

3 (3) the license holder refuses to allow the
4 commission, the commission's agents, or the state auditor, or their
5 designees, to examine the license holder's books, records, papers,
6 or other objects under Section 466.017; or

7 (4) the executive director learns the license holder
8 failed to disclose information that would, if disclosed, render the
9 video lottery retailer or video lottery manager ineligible for a
10 license under this subchapter.

11 (b) A summary suspension under this section must comply with
12 the notice and procedure requirements provided by Section 466.160.

13 (c) The commission may disable a video lottery terminal
14 operated by a license holder under this subchapter at the time:

15 (1) a proceeding to summarily suspend the license is
16 initiated;

17 (2) the commission discovers the license holder failed
18 to deposit money received from video lottery terminal operation as
19 required if the license is being summarily suspended under this
20 section; or

21 (3) an act or omission occurs that, under commission
22 rules, justifies the termination of video lottery terminal
23 operations to:

24 (A) protect the integrity of the lottery or the
25 public health, welfare, or safety; or

26 (B) prevent financial loss to this state.

27 (d) The commission shall immediately disable a video

1 lottery terminal if necessary to protect the public health,
2 welfare, or safety.

3 Sec. 466.533. LICENSING, REGISTRATION, SUITABILITY, AND
4 REGULATORY APPROVAL AS REVOCABLE PERSONAL PRIVILEGES. (a) An
5 applicant for a license, registration, suitability, or other
6 affirmative regulatory approval under this subchapter does not have
7 any right to the license, registration, suitability, or approval
8 sought.

9 (b) Any license, registration, or suitability or other
10 regulatory approval granted under this subchapter is a revocable
11 privilege, and a holder of the privilege does not acquire any vested
12 right in or under the privilege.

13 (c) The courts of this state do not have jurisdiction to
14 review a decision to deny, limit, or condition the license,
15 registration, suitability, or approval unless the judicial review
16 is sought on the ground that the denial, limitation, or condition is
17 based on a suspect classification, such as race, color, religion,
18 sex, or national origin, in violation of the Equal Protection
19 Clause of the Fourteenth Amendment to the United States
20 Constitution. The state court must affirm the commission's action
21 unless the violation is proven by clear and convincing evidence. If
22 a state court has jurisdiction over a claim under this section, then
23 this state's sovereign immunity is waived only to the extent
24 expressly provided by Section 466.601.

25 (d) A license, registration, suitability, or regulatory
26 approval granted or renewed under this subchapter may not be
27 transferred or assigned to another person, and a license,

1 registration, suitability, or approval may not be pledged as
2 collateral. The purchaser or successor of a person who has been
3 granted a license, registration, suitability, or regulatory
4 approval must independently qualify for a license, registration,
5 suitability, or approval required by this subchapter.

6 (e) The following acts void the license, registration,
7 suitability, or other regulatory approval of the holder unless
8 approved in advance by the commission:

9 (1) the transfer, sale, or other disposition of an
10 interest in the holder that results in a change in the identity of a
11 substantial interest holder; or

12 (2) the sale of the assets of the holder, other than
13 assets bought and sold in the ordinary course of business, or any
14 interest in the assets, to any person not already determined to have
15 met the applicable qualifications of this subchapter.

16 Sec. 466.535. CAPITAL INVESTMENTS AND IMPROVEMENT
17 REQUIREMENTS FOR VIDEO LOTTERY TERMINAL ESTABLISHMENT. A video
18 lottery retailer or video lottery manager shall provide all
19 necessary capital investments and required improvements at a video
20 lottery terminal establishment operated by the retailer or manager.

21 Sec. 466.536. VIDEO LOTTERY TERMINAL: PROCUREMENT AND FEE.

22 (a) The commission shall provide all video lottery retailers or
23 video lottery managers with a list of registered video lottery
24 terminal providers, video lottery games, and video lottery
25 terminals authorized for operation under this subchapter.

26 (b) At the time and in the manner prescribed by commission
27 rule, a video lottery retailer or video lottery manager shall remit

1 to the commission a fee of \$_____ for each video lottery terminal
2 delivered to the video lottery terminal establishment operated by
3 the retailer or manager.

4 Sec. 466.537. VIDEO LOTTERY TERMINAL: DISTRIBUTION AND
5 COMMISSION APPROVAL. (a) A video lottery terminal provider may not
6 distribute a video lottery terminal or other video lottery
7 equipment for placement at a video lottery terminal establishment
8 in this state unless the video lottery terminal has been approved by
9 the commission.

10 (b) Only a video lottery terminal provider registered with
11 or approved by the commission may apply for approval of a video
12 lottery terminal or other video lottery equipment.

13 (c) Not later than the 10th day before the date of shipment
14 to a location in this state, a video lottery terminal provider shall
15 file a report with the commission itemizing all video lottery
16 terminals and other video lottery equipment to be provided to a
17 video lottery retailer or video lottery manager in the shipment.

18 Sec. 466.538. VIDEO LOTTERY TERMINAL: TESTING; REPORT. (a)
19 A video lottery terminal provider shall submit two copies of
20 terminal illustrations, schematics, block diagrams, circuit
21 analysis, technical and operation manuals, and any other
22 information requested by the commission for the purpose of
23 analyzing and testing the video lottery terminal or other video
24 lottery equipment.

25 (b) The commission may require up to four working models of
26 a video lottery terminal to be transported to a location designated
27 by the commission for testing, examination, and analysis. The video

1 lottery terminal provider shall pay all the costs of testing,
2 examination, analysis, and transportation of the models. The
3 testing, examination, and analysis of video lottery terminals may
4 require dismantling of the terminal, and some tests may result in
5 damage or destruction to one or more electronic components of the
6 model. The commission may require a video lottery terminal
7 provider to provide specialized equipment or pay for an independent
8 technical expert or laboratory to test the terminal.

9 (c) The video lottery terminal provider shall pay the cost
10 of transporting up to four video lottery terminals to the
11 headquarters of the commission or a location designated by the
12 commission. The commission shall conduct an acceptance test to
13 determine terminal functions and compatibility with the video
14 lottery central system. At the expense of the video lottery
15 terminal provider, the commission may contract with an independent
16 technical expert or laboratory to determine compatibility and
17 terminal functions. If the video lottery terminal fails the
18 acceptance test conducted by the commission, the video lottery
19 terminal provider shall make all modifications required by the
20 commission before distribution in this state.

21 (d) After each test under this section has been completed,
22 the commission shall provide the video lottery terminal provider
23 with a report containing findings, conclusions, and pass or fail
24 results. The report may contain recommendations for modifications
25 to bring a video lottery terminal into compliance with this chapter
26 and commission standards.

27 (e) Before approving a particular video lottery terminal

1 model, the commission may require a field trial period not to exceed
2 60 days for a licensed video lottery terminal establishment to test
3 the terminal. During the trial period, modifications may not be
4 made to the video lottery terminal model unless approved by the
5 commission.

6 Sec. 466.539. VIDEO LOTTERY TERMINAL: INSTALLATION;
7 MODIFICATION REQUEST. (a) A video lottery terminal provider is
8 responsible for the assembly and installation of all video lottery
9 terminals and other video lottery equipment.

10 (b) A video lottery terminal provider or a video lottery
11 retailer or video lottery manager may not change the assembly or
12 operational functions of a video lottery terminal authorized by the
13 commission for placement in this state unless a request for
14 modification of an existing video lottery terminal prototype is
15 approved by the commission. The request must contain:

16 (1) a detailed description of the type of change;

17 (2) a detailed description of the reasons for the
18 change; and

19 (3) technical documentation of the change.

20 (c) A video lottery terminal approved by the commission for
21 placement at a video lottery terminal establishment must conform to
22 the exact specifications of the video lottery terminal prototype
23 tested and approved by the commission.

24 Sec. 466.540. VIDEO LOTTERY TERMINAL REMOVAL. (a) If any
25 video lottery terminal that has not been approved by the commission
26 is distributed by a video lottery terminal provider or operated by a
27 video lottery retailer or video lottery manager or if an approved

1 video lottery terminal malfunctions, the commission shall require
2 the terminal to be removed from use and play.

3 (b) The commission may order that an unapproved terminal be
4 seized and destroyed and that a malfunctioning terminal not
5 repaired and returned to play within 30 days or as otherwise
6 prescribed by the commission be disposed of in compliance with
7 Section 466.543(b).

8 (c) The commission may suspend or revoke the license of a
9 video lottery retailer or video lottery manager or the registration
10 of a video lottery terminal provider for the distribution,
11 possession, or operation of an unauthorized video lottery terminal.

12 Sec. 466.541. VIDEO LOTTERY TERMINAL SPECIFICATIONS. (a)
13 The commission shall adopt rules for approval of video lottery
14 terminals, including requirements for video lottery game tickets,
15 maximum and minimum payout, and maximum wagers.

16 (b) A commission-approved video lottery terminal must meet
17 the following minimum specifications:

18 (1) the terminal must:

19 (A) operate through a player's insertion of a
20 coin, currency, voucher, or token into the video lottery terminal
21 that causes the video lottery terminal to display credits that
22 entitle the player to select one or more symbols or numbers or cause
23 the video lottery terminal to randomly select symbols or numbers;

24 (B) allow the player to win additional game play
25 credits, coins, or tokens based on game rules that establish the
26 random selection of winning combinations of symbols or numbers and
27 the number of free play credits, coins, or tokens to be awarded for

1 each winning combination; and

2 (C) allow the player at any time to clear all game
3 play credits and receive a video lottery ticket entitling the
4 player to receive the cash value of those credits;

5 (2) a surge protector must be installed on the
6 electrical power supply line to each video lottery terminal, a
7 battery or equivalent power backup for the electronic meters must
8 be capable of maintaining the accuracy of all accounting records
9 and video lottery terminal status reports for a period of 180 days
10 after power is disconnected from the video lottery terminal, and
11 the power backup device must be in the compartment specified in
12 Subdivision (4);

13 (3) the operation of each video lottery terminal may
14 not be adversely affected by any static discharge or other
15 electromagnetic interference;

16 (4) the main logic boards of all electronic storage
17 mediums must be located in a separate compartment in the video
18 lottery terminal that is locked and sealed by the commission;

19 (5) the instructions for play of each game must be
20 displayed on the video lottery terminal face or screen, including a
21 display detailing the credits awarded for the occurrence of each
22 possible winning combination of numbers or symbols;

23 (6) communication equipment and devices must be
24 installed to enable each video lottery terminal to communicate with
25 the video lottery central system through the use of a
26 communications protocol provided by the commission to each
27 registered video lottery terminal provider, which must include

1 information retrieval and programs to activate and disable the
2 terminal; and

3 (7) a video lottery terminal may be operated only if
4 connected to the video lottery central system, and play on the
5 terminal may not be conducted unless the terminal is connected to
6 the video lottery central system.

7 (c) The commission may reject any instructions for play
8 required under Subsection (b)(5) that the commission determines to
9 be incomplete, confusing, or misleading.

10 Sec. 466.542. VIDEO LOTTERY TERMINALS: HOURS OF OPERATION;
11 COMMUNICATION; LOCATION. (a) The hours of operation for video
12 lottery terminals are subject to restrictions or other conditions
13 provided by commission rules.

14 (b) The commission by rule may prescribe restrictions or
15 conditions on the hours of video lottery terminal operations for
16 purposes determined by the commission, including accounting for and
17 collecting revenue generated by video lottery terminal operations
18 and performing other operational services on the video lottery
19 system.

20 (c) Communication between the video lottery central system
21 and each video lottery terminal must be continuous and on a
22 real-time basis as prescribed by the commission.

23 (d) Except as provided by a gaming agreement, placement or
24 movement of video lottery terminals in a video lottery terminal
25 establishment must be consistent with a commission-approved video
26 lottery terminal establishment floor plan.

27 Sec. 466.543. VIDEO LOTTERY TERMINAL: TRANSPORT;

1 DISPOSITION OF OBSOLETE TERMINAL. (a) The transportation and
2 movement of video lottery terminals into or within this state is
3 prohibited, except as permitted by this subchapter and approved by
4 the commission.

5 (b) An obsolete video lottery terminal or a video lottery
6 terminal that is no longer in operation must be promptly reported to
7 the commission and, if taken out of use and play, must immediately
8 be sold or otherwise transferred to a registered video lottery
9 terminal provider or another person in a jurisdiction outside this
10 state for use in that jurisdiction.

11 Sec. 466.544. VIDEO LOTTERY TERMINALS: MAXIMUM NUMBER.

12 (a) The commission by rule shall establish the maximum number of
13 video lottery terminals that may be operated at each video lottery
14 terminal establishment operated by a video lottery retailer or
15 video lottery manager based on factors prescribed by commission
16 rule, including demographics, to ensure that the number of permits
17 to operate video lottery terminals requested by the retailer or
18 manager is not detrimental to the public health, safety, welfare,
19 and economic development of this state and will result in the
20 optimization of revenue to fund state governmental programs.

21 (b) The commission shall determine the number of video
22 lottery terminals that may be operated by an Indian tribe in
23 connection with the tribe's video lottery system in accordance with
24 the applicable gaming agreement entered into pursuant to this
25 chapter and the criteria prescribed by Subsection (a).

26 Sec. 466.545. LICENSE AND REGISTRATION INVESTIGATIVE TRUST
27 FUND. (a) The investigative trust fund is created as a trust fund

1 to pay all expenses incurred by the commission related to oversight
2 investigations of applicants for a license, registration, or
3 approval and of license, registration, or approval holders.

4 (b) The commission shall determine the amount initially
5 deposited and the amount maintained in the fund by each applicant or
6 license, registration, or approval holder and shall administer the
7 money in the fund as a revolving fund available to the commission.

8 (c) If the commission does not receive the initial deposit
9 required by Subsection (b) before the 30th day following the date
10 the commission notifies the applicant or license, registration, or
11 approval holder of the initial deposit amount, the commission may
12 not issue or renew the license, registration, or approval. The
13 investigative trust fund is in the state treasury and is held in
14 trust with the comptroller's treasury operations division.

15 (d) Expenses may be advanced from the investigative fund,
16 and expenditures may be made from the fund without regard to any
17 other state law regarding travel expenses of state employees.

18 (e) The commission at least quarterly shall provide each
19 applicant or license, registration, or approval holder a written
20 accounting of the costs and charges incurred in oversight
21 investigations for that applicant or holder. An applicant or a
22 license, registration, or approval holder shall deposit money not
23 later than the 10th day after receipt of the accounting to maintain
24 the fund balance required by the commission.

25 (f) If an applicant for a license, registration, or approval
26 is not licensed, registered, or approved, or if a license,
27 registration, or approval is not renewed, the commission shall

1 refund to the applicant or holder any balance in the fund paid by
2 the applicant or holder not offset by costs incurred in an
3 investigation for that applicant or holder.

4 Sec. 466.546. CONSENT TO COMMISSION DETERMINATION. (a) An
5 application for a license, registration, finding of suitability, or
6 other approval under this chapter constitutes a request to the
7 commission for a decision on the applicant's general suitability,
8 character, integrity, and ability to participate or engage in or be
9 associated with the lottery in the manner or position sought.

10 (b) By filing an application with the commission, the
11 applicant specifically consents to the commission's decision at the
12 commission's election when the application, after filing, becomes
13 moot for any reason other than death.

14 Sec. 466.547. ABSOLUTE AUTHORITY OF COMMISSION. To protect
15 the integrity of the lottery or the public health, welfare, or
16 safety, or to prevent financial loss to this state, the commission
17 has full and absolute power and authority to:

18 (1) deny any application or limit, condition,
19 restrict, revoke, or suspend any license, registration, or finding
20 of suitability or approval; and

21 (2) fine any person licensed, registered, found
22 suitable, or approved for any cause deemed reasonable by the
23 commission.

24 Sec. 466.548. WAIVER OF REQUIREMENTS. (a) The commission
25 may waive, either selectively or by general rule, one or more of the
26 requirements of Sections 466.512 and 466.521 if the commission
27 makes a written finding that the waiver is consistent with the

1 policy of this state, the public health, safety, and welfare, and
2 the integrity of the lottery.

3 (b) The commission may waive any requirement under this
4 chapter for a finding of suitability of an institutional investor
5 that is a substantial interest holder with respect to the
6 beneficial ownership of the voting securities of a publicly traded
7 corporation if the institutional investor holds the securities for
8 investment purposes only and applies for a waiver in compliance
9 with Section 466.549 and commission rules.

10 (c) An institutional investor is not eligible for the
11 waiver, except as otherwise provided by Subsection (f), if the
12 institutional investor beneficially owns, directly or indirectly,
13 more than 15 percent of the voting securities and if any of the
14 voting securities were acquired other than through a debt
15 restructuring.

16 (d) Voting securities acquired before a debt restructuring
17 and retained after a debt restructuring or as a result of an
18 exchange, exercise, or conversion after a debt restructuring, or
19 any securities issued to the institutional investor through a debt
20 restructuring, are considered to have been acquired through a debt
21 restructuring.

22 (e) A waiver granted under Subsection (b) is effective only
23 as long as the institutional investor's direct or indirect
24 beneficial ownership interest in the voting securities meets the
25 limitations set forth in this section, and if the institutional
26 investor's interest exceeds the limitation at any time, the
27 investor is subject to the suitability findings required under this

1 subchapter.

2 (f) An institutional investor that has been granted a waiver
3 under Subsection (b) may beneficially own more than 15 percent, but
4 not more than 19 percent, of the voting securities of a publicly
5 traded corporation registered with or licensed by the commission
6 only:

7 (1) if the additional ownership results from a stock
8 repurchase program conducted by the publicly traded corporation;
9 and

10 (2) on the conditions that:

11 (A) the institutional investor does not purchase
12 or otherwise acquire any additional voting securities of the
13 publicly traded corporation that would result in an increase in the
14 institutional investor's ownership percentage; and

15 (B) the institutional investor reduces its
16 ownership percentage of the publicly traded corporation to 15
17 percent or less before the first anniversary of the date the
18 institutional investor receives constructive notice that it
19 exceeded the 15 percent threshold, based on any public filing by the
20 corporation with the United States Securities and Exchange
21 Commission.

22 (g) The one-year time period under Subsection (f)(2)(B) may
23 be extended for a reasonable time on commission approval.

24 (h) An institutional investor may not be considered to hold
25 voting securities of a publicly traded corporation for investment
26 purposes only unless the voting securities were acquired and are
27 held in the ordinary course of business as an institutional

1 investor and not for the purpose of causing, directly or
2 indirectly, the election of a majority of the members of the board
3 of directors, any change in the corporate charter, bylaws,
4 management, policies, or operations of the corporation registered
5 with or licensed by the commission or any of its gaming affiliates,
6 or any other action which the commission finds to be inconsistent
7 with investment purposes only. The following activities may not be
8 considered to be inconsistent with holding voting securities for
9 investment purposes only:

10 (1) voting, directly or indirectly through the
11 delivery of a proxy furnished by the board of directors, on all
12 matters voted on by the holders of the voting securities;

13 (2) serving as a member of any committee of creditors
14 or security holders formed in connection with a debt restructuring;

15 (3) nominating any candidate for election or
16 appointment to the board of directors in connection with a debt
17 restructuring;

18 (4) accepting appointment or election as a member of
19 the board of directors in connection with a debt restructuring and
20 serving in that capacity until the conclusion of the member's term;

21 (5) making financial and other inquiries of management
22 of the type normally made by securities analysts for information
23 purposes and not to cause a change in management, policies, or
24 operations; and

25 (6) any other activity the commission determines to be
26 consistent with the investment intent.

27 (i) For purposes of this section, "debt restructuring"

1 means:

2 (1) a proceeding under the United States Bankruptcy
3 Code; or

4 (2) any out-of-court reorganization of a person that
5 is insolvent or generally unable to pay the person's debts as they
6 become due.

7 Sec. 466.549. WAIVER APPLICATION REQUIREMENTS. An
8 application for a waiver under Section 466.548(b) must include:

9 (1) a description of the institutional investor's
10 business and a statement as to why the institutional investor meets
11 the definition of an institutional investor set forth in this
12 chapter;

13 (2) a certification, made under oath and penalty of
14 perjury, that:

15 (A) states that the voting securities were
16 acquired and are held for investment purposes only in accordance
17 with Section 466.548;

18 (B) provides that the applicant agrees to be
19 bound by and comply with this chapter and the rules adopted under
20 this chapter, to be subject to the jurisdiction of the courts of
21 this state, and to consent to this state as the choice of forum in
22 the event any dispute, question, or controversy arises regarding
23 the application or any waiver granted under Section 466.548(b); and

24 (C) includes a statement by the signatory
25 explaining the basis of the signatory's authority to sign the
26 certification and bind the institutional investor to its terms;

27 (3) a description of all actions, if any, taken or

1 expected to be taken by the institutional investor related to the
2 activities described in Section 466.548(f);

3 (4) the names, addresses, telephone numbers, dates of
4 birth, and social security numbers of:

5 (A) the officers and directors of the
6 institutional investor or the officers' and directors' equivalents;
7 and

8 (B) the persons that have direct control over the
9 institutional investor's holdings of voting securities of the
10 publicly traded corporation registered with or licensed by the
11 commission;

12 (5) the name, address, telephone number, date of
13 birth, and social security number or federal tax identification
14 number of each person who has the power to direct or control the
15 institutional investor's exercise of its voting rights as a holder
16 of voting securities of the publicly traded corporation registered
17 with or licensed by the commission;

18 (6) the name of each person that beneficially owns
19 more than five percent of the institutional investor's voting
20 securities or other equivalent;

21 (7) a list of the institutional investor's affiliates;

22 (8) a list of all securities of the publicly traded
23 corporation registered with or licensed by the commission that are
24 or were beneficially owned by the institutional investor or its
25 affiliates in the preceding year, including a description of the
26 securities, the amount of the securities, and the date of
27 acquisition or sale of the securities;

1 (9) a list of all regulatory agencies with which the
2 institutional investor or any affiliate that beneficially owns
3 voting securities of the publicly traded corporation registered
4 with or licensed by the commission files periodic reports, and the
5 name, address, and telephone number of the person, if known, to
6 contact at each agency regarding the institutional investor;

7 (10) a disclosure of all criminal or regulatory
8 sanctions imposed during the preceding 10 years and of any
9 administrative or court proceedings filed by any regulatory agency
10 during the preceding five years against the institutional investor,
11 its affiliates, any current officer or director, or any former
12 officer or director whose tenure ended within the preceding 12
13 months, except that for a former officer or director, the
14 information need be provided only to the extent that it relates to
15 actions arising out of or during the person's tenure with the
16 institutional investor or its affiliates;

17 (11) a copy of the institutional investor's most
18 recent Schedule 13D or 13G and any amendments to that schedule filed
19 with the United States Securities and Exchange Commission
20 concerning any voting securities of the publicly traded corporation
21 registered with or licensed by the commission;

22 (12) a copy of any filing made under the Securities
23 Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) with respect to
24 the acquisition or proposed acquisition of voting securities of the
25 publicly traded corporation registered with or licensed by the
26 commission; and

27 (13) any additional information the commission may

1 request.

2 Sec. 466.550. CHANGE IN INVESTMENT FOLLOWING WAIVER;
3 NOTICE. (a) An institutional investor that has been granted a
4 waiver of a finding of suitability under Section 466.548 and that
5 subsequently intends not to hold the investor's voting securities
6 of the publicly traded corporation for investment purposes only or
7 that intends to take any action inconsistent with the investor's
8 prior intent shall, not later than the second business day after the
9 date of the decision, deliver notice to the commission in writing of
10 the change in the investor's investment intent. The commission may
11 then take any action the commission deems appropriate.

12 (b) If the commission finds that an institutional investor
13 has failed to comply with this chapter or should be subject to a
14 finding of suitability to protect the public interest, the
15 commission may require the institutional investor to apply for a
16 finding of suitability.

17 (c) Any publicly traded corporation registered with or
18 licensed by the commission shall immediately notify the commission
19 of any information about, fact concerning, or actions of an
20 institutional investor holding any of its voting securities that
21 may materially affect the institutional investor's eligibility to
22 hold a waiver under Section 466.548.

23 Sec. 466.551. EFFECT OF DENIAL OF LICENSE OR REGISTRATION.

24 (a) A person whose application for a license or registration has
25 been denied may not have any interest in or association with a video
26 lottery retailer or video lottery manager or any other business
27 conducted in connection with video lottery without prior approval

1 of the commission.

2 (b) Any contract between a person holding a license or
3 registration and a person denied a license or registration must be
4 terminated immediately. If the person denied a license or
5 registration has previously been granted a temporary license or
6 registration, the temporary license or registration expires
7 immediately on denial of the permanent license or registration.

8 (c) Except as otherwise authorized by the commission, a
9 person denied a license or registration may not reapply for any
10 license or registration before the second anniversary of the date
11 of the denial.

12 Sec. 466.553. PRACTICE BY VIDEO LOTTERY RETAILER OR VIDEO
13 LOTTERY MANAGER. A video lottery retailer or video lottery manager
14 must:

15 (1) be aware of patron conditions and prohibit play by
16 visibly intoxicated patrons;

17 (2) comply with state alcoholic beverage control laws;

18 (3) at all times maintain sufficient change and cash
19 in denominations accepted by video lottery terminals;

20 (4) promptly report all video lottery terminal
21 malfunctions and down-time;

22 (5) install, post, and display prominently any
23 material required by the commission;

24 (6) prohibit illegal gambling and any related
25 paraphernalia;

26 (7) except as otherwise provided by this chapter, at
27 all times prohibit money lending or other extensions of credit at

1 the video lottery terminal establishment;

2 (8) supervise employees and activities to ensure
3 compliance with all commission rules and this chapter;

4 (9) maintain continuous camera coverage of all aspects
5 of video lottery game operations, including video lottery
6 terminals; and

7 (10) maintain an entry log for each video lottery
8 terminal on the premises of the video lottery terminal
9 establishment and maintain and submit complete records on receipt
10 of each video lottery terminal on the premises as determined by the
11 commission.

12 Sec. 466.554. RACETRACK REQUIREMENTS. (a) A video lottery
13 retailer at all times must hold a valid pari-mutuel wagering
14 license, except that the commission may allow a video lottery
15 retailer whose pari-mutuel wagering license has lapsed or been
16 revoked, suspended, or surrendered to reapply for a license in
17 order to operate the video lottery terminal establishment or by
18 rule may establish a period not to exceed two years during which
19 time the video lottery terminal establishment may be operated
20 pending acquisition by a person qualified and licensed under this
21 chapter to operate video lottery terminals.

22 (b) If a video lottery retailer is not licensed as required
23 by Subsection (a) before the second anniversary of the date a
24 license lapses or is revoked, suspended, or surrendered or a new
25 video lottery manager or video lottery retailer is not licensed and
26 authorized to operate the facility before the second anniversary,
27 the racetrack shall permanently lose eligibility under this chapter

1 to operate video lottery terminals.

2 (c) Subject to the commission's discretion, a video lottery
3 retailer may continue to operate the video lottery terminal
4 establishment after the second anniversary of the date a license
5 lapses or is revoked, suspended, or surrendered only to satisfy the
6 establishment's existing outstanding debt attributable to video
7 lottery operation.

8 Sec. 466.556. PRIZE RULES. The commission shall adopt
9 rules governing:

10 (1) the amount a player may be charged to play each
11 video lottery game; and

12 (2) the prizes and credits that may be awarded to the
13 player of a video lottery game.

14 Sec. 466.557. VIDEO LOTTERY CENTRAL SYSTEM: COMMUNICATION
15 TECHNOLOGY. The video lottery central system provider shall pay
16 for the installation and operation of commission-approved
17 communication technology to provide real-time communication
18 between each video lottery terminal and the video lottery central
19 system.

20 Sec. 466.558. RESPONSIBILITY FOR VIDEO LOTTERY GAME
21 OPERATIONS. (a) A video lottery retailer or a video lottery
22 manager, if applicable, is responsible for the management of video
23 lottery game operations, including:

24 (1) the validation and payment of prizes; and

25 (2) the management of cashiers, food and beverage
26 workers, floor workers, security personnel, the security system,
27 building completion, janitorial services, landscaping design, and

1 maintenance.

2 (b) Nothing in Subsection (a) limits the authority of the
3 commission, the Department of Public Safety, or another law
4 enforcement agency to administer and enforce this chapter as
5 related to video lottery.

6 (c) In addition to other requirements under this chapter
7 relating to video lottery, a video lottery retailer or a video
8 lottery manager at all times shall:

9 (1) operate only video lottery terminals that are
10 distributed by a registered video lottery terminal provider and
11 provide a secure location for the placement, operation, and play of
12 the video lottery terminals;

13 (2) prevent any person from tampering with or
14 interfering with the operation of a video lottery terminal;

15 (3) ensure that communication technology from the
16 video lottery central system to the video lottery terminals is
17 connected at all times and prevent any person from tampering or
18 interfering with the operation of the connection;

19 (4) ensure that video lottery terminals are in the
20 sight and control of designated employees of the video lottery
21 retailer or video lottery manager and in the sight of video cameras
22 as required under this subchapter;

23 (5) ensure that video lottery terminals are placed and
24 remain placed in the specific locations in the video lottery
25 terminal establishment that are consistent with the retailer's or
26 manager's commission-approved floor plan;

27 (6) monitor video lottery terminals to prevent access

1 to or play by persons who are under 18 years of age or who are
2 visibly intoxicated;

3 (7) refuse to accept a credit card payment from a
4 player for the exchange or purchase of video lottery game credits or
5 for an advance of coins, currency, vouchers, or tokens to be used by
6 a player to play video lottery games, refuse to extend credit, in
7 any manner, to a player that enables the player to play a video
8 lottery game, and ensure that any person doing business at the video
9 lottery terminal establishment, including a person operating or
10 managing an auxiliary service such as a restaurant, refuses to
11 accept a credit card payment or to extend credit in a manner
12 prohibited by this subdivision, except that:

13 (A) a license holder may cash a check for a player
14 if the license holder exercises reasonable caution cashing the
15 check and does not cash checks for any player in an amount exceeding
16 \$1,000 in any 24-hour period; and

17 (B) an automated teller machine may be located at
18 a video lottery terminal establishment in compliance with the Texas
19 Racing Act (Article 179e, Vernon's Texas Civil Statutes) or an
20 effective gaming agreement;

21 (8) pay all credits won by a player on presentment of a
22 valid winning video lottery game ticket;

23 (9) conduct only the video lottery game advertising
24 and promotional activities consistent with criteria prescribed by
25 the commission, which must prohibit undue influence, offensive
26 language, and anything that would affect the integrity of video
27 lottery operation;

1 (10) install, post, and display prominently at the
2 licensed location redemption information and other informational
3 or promotional materials as required by the commission;

4 (11) maintain general liability insurance coverage
5 for the video lottery terminal establishment and all video lottery
6 terminals in the amounts required by the commission;

7 (12) assume liability for money lost or stolen from
8 any video lottery terminal; and

9 (13) annually submit an audited financial statement to
10 the commission in a format approved by the commission.

11 Sec. 466.560. TECHNICAL STANDARDS FOR VIDEO LOTTERY
12 EQUIPMENT. The commission by rule shall establish minimum
13 technical standards for video lottery equipment that may be
14 operated in this state.

15 Sec. 466.561. INCIDENT REPORTS. (a) A video lottery
16 retailer or video lottery manager shall record all unusual
17 occurrences related to gaming activity in a video lottery terminal
18 establishment operated by the retailer or manager.

19 (b) A video lottery retailer or video lottery manager shall
20 assign each incident, without regard to materiality, a sequential
21 number and, at a minimum, provide the following information in a
22 permanent record prepared in accordance with commission rules to
23 ensure the integrity of the record:

24 (1) the number assigned to the incident;

25 (2) the date and time of the incident;

26 (3) the nature of the incident;

27 (4) each person involved in the incident; and

1 (5) the name of the employee or other agent of the
2 video lottery retailer or video lottery manager who investigated
3 the incident.

4 Sec. 466.562. EXCLUSION OF PERSONS. (a) The commission
5 shall compile a list of persons that a video lottery retailer or
6 video lottery manager must bar from a video lottery terminal
7 establishment based on a person's criminal history or association
8 with criminal offenders or because the person poses a threat to the
9 integrity of the lottery.

10 (b) A video lottery retailer or video lottery manager shall
11 employ the retailer's or manager's best efforts to exclude such
12 persons from entry into the establishment.

13 (c) A video lottery retailer or video lottery manager may
14 exclude a person for any reason not related to the person's race,
15 sex, national origin, physical disability, or religion.

16 (d) A person who believes the person may be playing video
17 lottery games on a compulsive basis may request that the person's
18 name be placed on the list compiled by the commission under
19 Subsection (a).

20 (e) All video lottery game employees shall receive training
21 in identifying players with a compulsive playing problem and shall
22 be instructed to ask the players to leave the establishment. Signs
23 and other materials shall be readily available to direct compulsive
24 players to agencies that offer appropriate counseling.

25 Sec. 466.563. REPORT ON LITIGATION. (a) A video lottery
26 retailer or video lottery manager shall report to the commission
27 any litigation relating to the retailer's or manager's video

1 lottery terminal establishment, including a criminal proceeding, a
2 proceeding involving an issue related to racing activities that
3 impact video lottery operations, or a matter related to character
4 or reputation relevant to a person's suitability under this
5 subchapter.

6 (b) The report required under Subsection (a) must be filed
7 not later than the fifth day after acquiring knowledge of the
8 litigation.

9 Sec. 466.564. COMMISSION APPROVAL REQUIRED FOR PROCEDURES
10 AND ADMINISTRATIVE AND ACCOUNTING CONTROLS. (a) The commission's
11 approval is required for:

12 (1) all internal procedures and administrative and
13 accounting controls of a video lottery retailer or video lottery
14 manager; and

15 (2) all internal procedures and administrative and
16 accounting controls of a video lottery terminal provider that
17 relate to the manufacturing and distribution of video lottery
18 terminals to be used in this state.

19 (b) The commission by rule shall establish general
20 accounting and auditing requirements and internal control
21 standards for video lottery retailers and video lottery managers.

22 Sec. 466.565. FINANCIAL AND OPERATING INFORMATION. A video
23 lottery retailer or video lottery manager shall submit financial
24 and operating information and statistical data to the commission in
25 a format approved by the commission in order for the financial
26 operating position of the retailer or manager and performance and
27 trends of the video lottery game industry in this state to be

1 evaluated.

2 Sec. 466.566. VIDEO LOTTERY TERMINAL EVENTS. A video
3 lottery retailer or video lottery manager shall keep a database of
4 video lottery terminal events. The commission by rule shall
5 determine what constitutes a video lottery terminal event for
6 purposes of this section.

7 Sec. 466.567. EMPLOYEE REPORTING. (a) On or before the
8 15th day of each month, a video lottery retailer or video lottery
9 manager shall submit to the commission an employee report for the
10 video lottery terminal establishment operated by the retailer or
11 manager. For each employee of the retailer or manager, the report
12 must provide the employee's name, job title, date of birth, and
13 social security number.

14 (b) The employee report is confidential and may not be
15 disclosed except under commission order or in accordance with
16 Section 466.022(d).

17 (c) The commission may conduct criminal history
18 investigations for employees of video lottery retailers and video
19 lottery managers.

20 (d) The commission may prohibit an employee from performing
21 any act relating to video lottery terminals if the commission finds
22 that an employee has:

23 (1) committed, attempted, or conspired to commit any
24 act prohibited by this chapter;

25 (2) concealed or refused to disclose any material fact
26 in any commission investigation;

27 (3) committed, attempted, or conspired to commit

1 larceny or embezzlement;

2 (4) been convicted in any jurisdiction of an offense
3 involving or relating to gambling;

4 (5) accepted employment in a position for which
5 commission approval is required after commission approval was
6 denied for a reason involving personal unsuitability or after
7 failing to apply for a license or approval on commission request;

8 (6) been prohibited under color of governmental
9 authority from being present on the premises of any gaming
10 establishment or any establishment where pari-mutuel wagering is
11 conducted for any reason relating to improper gambling activity or
12 for any illegal act;

13 (7) wilfully defied any legislative investigative
14 committee or other officially constituted body acting on behalf of
15 the United States or any state, county, or municipality that sought
16 to investigate alleged or potential crimes relating to gaming,
17 corruption of public officials, or any organized criminal
18 activities; or

19 (8) been convicted of any felony or any crime
20 involving moral turpitude.

21 (e) The commission may prohibit an employee from performing
22 any act relating to video lottery terminals based on a revocation or
23 suspension of any gaming or wagering license, permit, or approval
24 or for any other reason the commission finds appropriate, including
25 a refusal by a regulatory authority to issue a license, permit, or
26 other approval for the employee to engage in or be involved with the
27 lottery or with regulated gaming or pari-mutuel wagering in any

1 jurisdiction.

2 (f) In this section, "employee" includes any person
3 connected directly with or compensated by an applicant or license
4 holder as an agent, personal representative, consultant,
5 independent contractor, or lobbyist for the advocacy of the
6 adoption or amendment of a law related to gaming or lottery
7 activities or the furtherance of gaming or lottery activities in
8 any jurisdiction or as otherwise specified by commission rule.

9 Sec. 466.568. REPORT OF VIOLATIONS. A person who holds a
10 license or registration under this subchapter shall immediately
11 report a violation or suspected violation of this chapter or a rule
12 adopted under this chapter by any license or registration holder,
13 by an employee of a license or registration holder, or by any person
14 on the premises of a video lottery terminal establishment, whether
15 or not associated with the license or registration holder.

16 Sec. 466.569. SECURITY. (a) In addition to the security
17 provisions applicable under Section 466.020, a video lottery
18 retailer or video lottery manager shall comply with the following
19 security procedures:

20 (1) all video lottery terminals must be continuously
21 monitored through the use of a closed-circuit television system
22 that records activity for a continuous 24-hour period and all video
23 tapes or other media used to store video images shall be retained
24 for at least 30 days and made available to the commission on
25 request;

26 (2) access to video lottery terminal areas shall be
27 restricted to persons over the age of 18;

1 (3) the video lottery retailer or video lottery
2 manager must submit for commission approval a security plan and a
3 floor plan of the area where video lottery terminals are to be
4 operated showing video lottery terminal locations and security
5 camera mount locations; and

6 (4) each license holder shall employ at least the
7 minimum number of private security personnel the commission
8 determines is necessary to provide for safe and approved operation
9 of the video lottery terminal establishment and the safety and
10 well-being of the players.

11 (b) Private security personnel must be present during all
12 hours of operation at each video lottery terminal establishment.

13 (c) An agent or employee of the commission or the Department
14 of Public Safety or other law enforcement personnel may be present
15 at a video lottery terminal establishment at any time.

16 (d) The commission may adopt rules to impose additional
17 surveillance and security requirements related to video lottery
18 terminal establishments and the operation of video lottery
19 terminals.

20 Sec. 466.570. VIDEO LOTTERY TERMINAL ESTABLISHMENT:
21 COMMISSION RIGHT TO ENTER. The commission or the commission's
22 representative after displaying appropriate identification and
23 credentials has the free and unrestricted right to enter the
24 premises of a video lottery terminal establishment and to enter any
25 other locations involved in operation or support of video lottery
26 at all times to examine the systems and to inspect and copy the
27 records of a video lottery retailer or video lottery manager

1 pertaining to the operation of video lottery.

2 Sec. 466.571. APPOINTMENT OF SUPERVISOR. (a) The
3 commission by rule may provide for the appointment of a supervisor
4 to manage and operate a video lottery terminal establishment at the
5 direction of the commission and perform any act that a video lottery
6 retailer or video lottery manager is entitled to perform in the
7 event that:

8 (1) a video lottery retailer license or other license
9 required for operation of the establishment is revoked or
10 suspended, lapses, or is surrendered;

11 (2) a video lottery terminal establishment has been
12 conveyed or transferred to a secured party receiver or trustee who
13 does not hold the licenses necessary to operate the establishment;
14 or

15 (3) any other event occurs that causes the
16 establishment to cease the operation of video lottery terminals.

17 (b) The rules may allow the commission to:

18 (1) take any action or adopt any procedure necessary
19 to operate a video lottery terminal establishment pending the
20 licensing of a video lottery retailer, video lottery manager, the
21 video lottery establishment, or a successor on the transfer or sale
22 of the establishment or property; and

23 (2) if necessary to continue the operation of the
24 video lottery establishment, sell the establishment to a person
25 that holds or has applied for the licenses required to operate the
26 establishment under this subchapter and make appropriate
27 distributions of the proceeds of the sale.

1 Sec. 466.586. OFFENSE: CONVEYANCE OF VIDEO LOTTERY
2 TERMINAL ESTABLISHMENT PROPERTY. (a) A person commits an offense
3 if during the pendency of any proceeding before the commission that
4 may result in the appointment of a supervisor or during the period
5 of supervision the person:

6 (1) sells, leases, or otherwise conveys for less than
7 full market value or pledges as security any property of a video
8 lottery terminal establishment; or

9 (2) removes from this state or secretes from the
10 commission or the supervisor any property, money, books, or records
11 of the video lottery terminal establishment, including evidences of
12 debts owed to the establishment.

13 (b) An offense under Subsection (a) is a felony of the third
14 degree.

15 Sec. 466.587. INDEMNIFICATION, INSURANCE, AND BONDING
16 REQUIREMENTS. (a) A license or registration holder shall
17 indemnify and hold harmless this state, the commission, and all
18 officers and employees of this state and the commission from any and
19 all claims which may be asserted against a license or registration
20 holder, the commission, this state, and the members, officers,
21 employees, and authorized agents of this state or the commission
22 arising from the license or registration holder's participation in
23 the video lottery system authorized under this chapter.

24 (b) Surety and insurance required under this subchapter
25 shall be issued by companies or financial institutions financially
26 rated "A" or better as rated by A.M. Best Company or other rating
27 organization designated by the commission and duly licensed,

1 admitted, and authorized to conduct business in this state, or by
2 other surety approved by the commission.

3 (c) The commission shall be named as the obligee in each
4 required surety and as an additional insured in each required
5 insurance contract.

6 (d) A video lottery retailer or video lottery manager may
7 not be self-insured with regard to video lottery terminal
8 operations under this section.

9 (e) The commission by rule shall establish minimum
10 insurance coverage requirements for a video lottery retailer, video
11 lottery manager, or video lottery terminal provider, including:

12 (1) insurance for performance;

13 (2) insurance against losses caused by fraudulent or
14 dishonest acts by an officer or employee of a video lottery
15 retailer, video lottery manager, or video lottery terminal
16 provider;

17 (3) general liability insurance;

18 (4) property insurance;

19 (5) liability insurance for drivers and vehicles
20 employed by a video lottery retailer or video lottery manager; and

21 (6) crime insurance for the location.

22 Sec. 466.588. LIABILITY FOR CREDIT AWARDED OR DENIED;
23 PLAYER DISPUTE. (a) This state and the commission are not liable
24 for any video lottery terminal malfunction or error by a video
25 lottery retailer, video lottery manager, or video lottery terminal
26 provider that causes credit to be wrongfully awarded or denied to
27 players.

1 (b) Any dispute arising between a player and a video lottery
2 retailer or video lottery manager shall be resolved by the
3 commission as follows:

4 (1) if the fair market value of the prize is less than
5 \$1,000, the dispute shall be resolved in accordance with the
6 commission-approved written policies of the video lottery retailer
7 or video lottery manager and without any relief available from the
8 commission or this state; or

9 (2) if the fair market value of the prize is \$1,000 or
10 more, the dispute shall be resolved by the commission in the
11 commission's sole discretion in accordance with commission rules.

12 (c) A court of this state does not have jurisdiction to
13 review the decision of the commission resolving a dispute between a
14 player and a video lottery retailer, video lottery manager, or
15 video lottery terminal provider.

16 Sec. 466.589. STATE VIDEO LOTTERY ACCOUNT. (a) The
17 commission shall deposit funds received under this subchapter to
18 the state video lottery account. The state video lottery account is
19 a special account in the general revenue fund. The account consists
20 of all revenue received by this state from the operation of video
21 lottery terminals. Except as otherwise provided by this
22 subchapter, money in the fund may be used solely to fund state
23 governmental programs and the administration of the video lottery
24 system.

25 (b) Two percent of the net terminal income received by this
26 state under Section 466.590 shall be allocated to the commission to
27 defray expenses incurred in administering this chapter related to

1 video lottery, including expenses incurred to operate the video
2 lottery central system. All money allocated to the commission
3 under this subsection may be retained by the commission to defray
4 expenses of administering this chapter related to video lottery and
5 shall be deposited in the state video lottery account.

6 Sec. 466.590. ALLOCATION OF NET TERMINAL INCOME; TRANSFER
7 OF MONEY. (a) Net terminal income derived from the operation of
8 video lottery games in this state is allocated as follows:

9 (1) net terminal income generated from the operation
10 of video lottery terminals at a video lottery terminal
11 establishment shall be distributed 30 percent to the establishment
12 and 70 percent to this state; and

13 (2) net terminal income generated from the operation
14 of video lottery terminals on Indian lands under a gaming agreement
15 authorized under this subchapter shall be distributed in the amount
16 set forth in the gaming agreement.

17 (b) The commission shall require a video lottery retailer or
18 video lottery manager to establish a separate electronic funds
19 transfer account for depositing money from video lottery terminal
20 operations, making payments to the commission or its designee, and
21 receiving payments from the commission or its designee.

22 (c) A video lottery retailer or video lottery manager may
23 not make payments to the commission in cash. As authorized by the
24 commission, a video lottery retailer or video lottery manager may
25 make payments to the commission by cashier's check.

26 (d) The commission at least daily shall transfer this
27 state's share of net terminal income of a video lottery retailer or

1 video lottery manager to the commission through the electronic
2 transfer of the money.

3 (e) The commission by rule shall establish the procedures
4 for:

5 (1) depositing money from video lottery terminal
6 operations into electronic funds transfer accounts; and

7 (2) handling money from video lottery terminal
8 operations.

9 (f) Unless otherwise directed by the commission, a video
10 lottery retailer or a video lottery manager shall maintain in its
11 account this state's share of the net terminal income from the
12 operation of video lottery terminals, to be electronically
13 transferred by the commission on dates established by the
14 commission. On a license holder's failure to maintain this
15 balance, the commission may disable all of a license holder's video
16 lottery terminals until full payment of all amounts due is made.
17 Interest shall accrue on any unpaid balance at a rate consistent
18 with the amount charged under Section 111.060, Tax Code. The
19 interest shall begin to accrue on the date payment is due to the
20 commission.

21 (g) In the commission's sole discretion, rather than
22 disable a license holder's video lottery terminals under Subsection
23 (f), the commission may elect to impose a fine on a license holder
24 in an amount determined by the commission not to exceed \$250,000 for
25 each violation. If the license holder fails to remedy the
26 violation, including payment of any amounts assessed by or due to
27 this state, within 10 days, the commission may disable the license

1 holder's video lottery terminals or use any other means for
2 collection as provided by the penalty chart established by the
3 commission.

4 (h) A video lottery retailer or video lottery manager is
5 solely responsible for resolving any income discrepancies between
6 actual money collected and the net terminal income reported by the
7 video lottery central system. Unless an accounting discrepancy is
8 resolved in favor of the video lottery retailer or video lottery
9 manager, the commission may not make any credit adjustments. Any
10 accounting discrepancies which cannot otherwise be resolved shall
11 be resolved in favor of the commission.

12 (i) A video lottery retailer and video lottery manager shall
13 remit payment as directed by the commission if the electronic
14 transfer of money is not operational or the commission notifies the
15 license holder that other remittance is required. The license
16 holder shall report this state's share of net terminal income, and
17 remit the amount generated from the terminals during the reporting
18 period.

19 Sec. 466.591. COMMISSION EXAMINATION OF FINANCIAL RECORDS.
20 The commission may examine all accounts, bank accounts, financial
21 statements, and records in the possession or control of a person
22 licensed under this subchapter or in which the license holder has an
23 interest. The license holder must authorize and direct all third
24 parties in possession or in control of the accounts or records to
25 allow examination of any of those accounts or records by the
26 commission.

27 Sec. 466.592. FINANCIAL INFORMATION REQUIRED. (a) A video

1 lottery retailer or video lottery manager shall furnish to the
2 commission all information and bank authorizations required to
3 facilitate the timely transfer of money to the commission.

4 (b) A video lottery retailer or video lottery manager must
5 provide the commission 30 days' advance notice of any proposed
6 account changes in information and bank authorizations to assure
7 the uninterrupted electronic transfer of money.

8 (c) The commission is not responsible for any interruption
9 or delays in the transfer of money. The video lottery retailer or
10 video lottery manager is responsible for any interruption or delay
11 in the transfer of money.

12 Sec. 466.593. DEDUCTIONS FROM VIDEO LOTTERY PROCEEDS AT
13 HORSE RACETRACKS. A racetrack that conducts horse races under the
14 Texas Racing Act (Article 179e, Vernon's Texas Civil Statutes)
15 shall allocate the percentage of its share of net terminal income
16 retained under Section 466.590(a) to a purse fund as provided by
17 Section 6.095, Texas Racing Act (Article 179e, Vernon's Texas Civil
18 Statutes).

19 Sec. 466.594. DEDUCTIONS FROM VIDEO LOTTERY PROCEEDS AT
20 GREYHOUND RACETRACKS. A racetrack that conducts greyhound races
21 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
22 Statutes) shall allocate the percentage of its share of net
23 terminal income retained under Section 466.590(a) to a purse fund
24 as provided by Section 6.095, Texas Racing Act (Article 179e,
25 Vernon's Texas Civil Statutes).

26 Sec. 466.595. LIABILITY OF VIDEO LOTTERY RETAILER AND VIDEO
27 LOTTERY MANAGER. (a) A video lottery retailer, video lottery

1 manager, or both, are liable to the commission for the state's share
2 of net terminal income reported by the video lottery central
3 system.

4 (b) Net terminal income received by the video lottery
5 retailer or video lottery manager is held in trust for the benefit
6 of this state before delivery of the state's share to the commission
7 or electronic transfer to the state treasury, and the video lottery
8 retailer or video lottery manager, or both, are liable to the
9 commission for the full amount of the money held in trust.

10 (c) If the video lottery retailer or video lottery manager
11 is not an individual, each officer, director, or owner of the video
12 lottery retailer or video lottery manager is personally liable to
13 the commission for the full amount of the money held in trust,
14 except that shareholders of a publicly held corporation shall be
15 liable in an amount not to exceed the value of their equity
16 investment.

17 Sec. 466.596. PRIZE PAYMENT AND REDEMPTION. (a) Payment of
18 prizes is the sole and exclusive responsibility of the video
19 lottery retailer or video lottery manager. A prize may not be paid
20 by the commission or this state except as otherwise authorized.

21 (b) Nothing in this subchapter limits the ability of a video
22 lottery retailer or video lottery manager to provide promotional
23 prizes, including wide area progressive networks, in addition to
24 prize payouts regulated by the commission.

25 (c) A video lottery ticket must be redeemed not later than
26 the 180th day following the date of issuance. If a claim is not made
27 for prize money on or before the 180th day after the date on which

1 the video lottery ticket was issued, the prize money becomes the
2 property of this state.

3 (d) The commission shall enact rules consistent with this
4 section governing the use and redemption of prizes and credits
5 recorded on electronic player account records, such as players'
6 club cards and smart cards.

7 Sec. 466.597. REVOCATION OF LICENSE, REGISTRATION, OR OTHER
8 REGULATORY APPROVAL. (a) The commission shall revoke or suspend a
9 license, registration, or other regulatory approval issued under
10 this subchapter if the holder of the license, registration, or
11 approval at any time fails to meet the eligibility requirements set
12 forth in this subchapter.

13 (b) Failure to timely remit revenue generated by video
14 lottery terminals to the commission or any tax or other fee owed to
15 this state as demonstrated by report from the applicable taxing
16 authority or to timely file any report or information required
17 under this subchapter as a condition of any license, registration,
18 or other approval issued under this subchapter may be grounds for
19 suspension or revocation, or both, of a license, registration, or
20 other approval issued under this subchapter.

21 Sec. 466.598. HEARING FOR REVOCATION OR SUSPENSION OF
22 REGISTRATION OR LICENSE. (a) Before the commission revokes or
23 suspends a video lottery terminal provider's registration or video
24 lottery retailer's or video lottery manager's license, or imposes
25 monetary penalties for a violation of this subchapter, the
26 commission shall provide written notification to the license or
27 registration holder of the revocation, the period of suspension, or

1 the monetary penalty. The notice shall include:

2 (1) the effective date of the revocation or the period
3 of suspension or the amount of the monetary penalty, as applicable;

4 (2) each reason for the revocation, suspension, or
5 penalty;

6 (3) an explanation of the evidence supporting the
7 reasons;

8 (4) an opportunity to present the license or
9 registration holder's position in response on or before the 15th
10 day after the effective date of the revocation; and

11 (5) a statement explaining the person's right to an
12 administrative hearing to determine whether the revocation,
13 suspension, or penalty is warranted.

14 (b) The notice required under Subsection (a) must be made by
15 personal delivery or by mail to the person's mailing address as it
16 appears on the commission's records.

17 (c) To obtain an administrative hearing on a suspension,
18 revocation, or penalty under this section, a person must submit a
19 written request for a hearing to the commission not later than the
20 20th day after the date notice is delivered personally or is mailed.

21 (d) If the commission receives a timely request under
22 Subsection (c), the commission shall provide the person with an
23 opportunity for a hearing as soon as practicable. If the commission
24 does not receive a timely request under Subsection (c), the
25 commission may impose the penalty, revoke or suspend a license or
26 registration, or sustain the revocation or suspension without a
27 hearing.

1 (e) Except as provided by Subsection (f) the hearing must be
2 held not earlier than the 11th day after the date the written
3 request is submitted to the commission.

4 (f) The commission may provide that a revocation or
5 suspension takes effect on receipt of notice under Subsection (a)
6 if the commission finds that the action is necessary to prevent or
7 remedy a threat to public health, safety, or welfare. The
8 commission by rule shall establish a nonexclusive list of
9 violations that present a threat to the public health, safety, or
10 welfare.

11 (g) A hearing on a revocation or suspension that takes
12 effect on receipt of notice must be held not later than the 14th day
13 after the date the commission receives the request for hearing
14 under this section. The revocation or suspension continues in
15 effect until the hearing is completed. If the hearing is continued,
16 the revocation or suspension shall continue in effect beyond the
17 14-day period at the request of the license or registration holder
18 or on a finding of good cause by the commission or administrative
19 law judge.

20 (h) To prevail in a post-deprivation administrative hearing
21 under this section, the license or registration holder must
22 demonstrate by clear and convincing evidence that the deprivation
23 or imposition of a penalty was unwarranted or otherwise unlawful.
24 The post-deprivation hearing may be conducted by the commission or
25 referred to the State Office of Administrative Hearings.

26 (i) The administrative record created by the hearing
27 conducted by the State Office of Administrative Hearings shall be

1 provided to the commission for review and determination on the
2 revocation or suspension.

3 (j) If an administrative law judge of the State Office of
4 Administrative Hearings conducts a hearing under this section and
5 the proposal for decision supports the commission's position, the
6 administrative law judge shall include in the proposal a finding of
7 the costs, fees, expenses, and reasonable and necessary attorney's
8 fees this state incurred in bringing the proceeding.

9 (k) The commission may adopt the findings for costs, fees,
10 and expenses and make the finding a part of the final order entered
11 in the proceeding. Proceeds collected from a finding made under
12 this section shall be paid to the commission.

13 Sec. 466.599. JUDICIAL REVIEW OF REVOCATION, SUSPENSION, OR
14 PENALTY IMPOSITION. (a) A person aggrieved by a final decision of
15 the commission to revoke or suspend a registration or license or to
16 impose any monetary penalty may obtain judicial review before a
17 district court in Travis County.

18 (b) The judicial review must be instituted by serving on the
19 commission and filing a petition not later than the 20th day after
20 the effective date of the final decision and must identify the order
21 appealed from and the grounds or reason why the petitioner contends
22 the decision of the commission should be reversed or modified.

23 (c) The review must be conducted by the court sitting
24 without jury, and must not be a trial de novo but is confined to the
25 record on review. The reviewing court may only affirm the decision,
26 remand the case for further proceedings, or reverse the decision if
27 the substantial rights of the petitioner have been violated.

1 (d) If any court of competent jurisdiction concludes on
2 judicial review limited to the administrative record before the
3 commission and subject to the substantial evidence standard that
4 the deprivation or penalty was unwarranted or otherwise unlawful,
5 the sole remedy available is invalidation of the penalty or
6 reinstatement of the license or registration and the continued
7 distribution, manufacture, or operation of video lottery
8 terminals.

9 (e) The commission, this state, or the members, officers,
10 employees, and authorized agents of either are not under any
11 circumstances subject to monetary damages, attorney's fees, or
12 court costs resulting from the penalty or license or registration
13 revocation.

14 Sec. 466.600. LICENSE OR REGISTRATION: AGREEMENT TO WAIVE
15 ENFORCEABILITY. A license or registration holder by virtue of
16 accepting the license or registration agrees that the privilege of
17 holding a license or registration under this subchapter is
18 conditioned on the holder's agreement to Sections 466.597-466.599
19 and waives any right to challenge or otherwise appeal the
20 enforceability of those sections.

21 Sec. 466.601. LIMITED WAIVER OF SOVEREIGN IMMUNITY; NO
22 LIABILITY OF STATE FOR ENFORCEMENT. (a) This state does not waive
23 its sovereign immunity by negotiating gaming agreements with Indian
24 tribes or other persons for the operation of video lottery
25 terminals or other lottery games under this chapter. An actor or
26 agent on behalf of this state does not have any authority to waive
27 the state's sovereign immunity absent an express legislative grant

1 of the authority. The only waiver of sovereign immunity relative to
2 video lottery terminal operations is that expressly provided for in
3 this section.

4 (b) With regard to video lottery terminal operations on
5 Indian lands, this state consents to the jurisdiction of the
6 District Court of the United States with jurisdiction in the county
7 where the Indian lands are located, or if the federal court lacks
8 jurisdiction, to the jurisdiction of a district court in Travis
9 County, solely for the purpose of resolving disputes arising from a
10 gaming agreement authorized under this subchapter for declaratory
11 or injunctive relief or contract damages of \$100,000 or more. Any
12 disputes relating to damages or other awards valued at less than
13 \$100,000 shall be arbitrated under the rules of the American
14 Arbitration Association, provided, however, that application of
15 the rules may not be construed as a waiver of sovereign immunity.

16 (c) All financial obligations of the commission are payable
17 solely out of the income, revenues, and receipts of the commission
18 and are subject to statutory restrictions and appropriations.

19 (d) This state and the commission are not liable if
20 performance by the commission is compromised or terminated by acts
21 or omissions of the legislature or the state or federal judiciary.

22 (e) This state and the commission are not liable related to
23 any enforcement of this chapter.

24 Sec. 466.602. ABSOLUTE PRIVILEGE OF REQUIRED
25 COMMUNICATIONS AND DOCUMENTS. (a) Any communication, document, or
26 record of a video lottery central system provider, video lottery
27 terminal provider, video lottery retailer, or video lottery

1 manager, an applicant, or a license or registration holder or
2 holder of a regulatory approval that is made or transmitted to the
3 commission or any of its employees to comply with any law, including
4 a rule of the commission, to comply with a subpoena issued by the
5 commission, or to assist the commission or its designee in the
6 performance of their respective duties is absolutely privileged,
7 does not impose liability for defamation, and is not a ground for
8 recovery in any civil action.

9 (b) If a communication, document, or record provided under
10 Subsection (a) contains any information that is privileged under
11 state law, that privilege is not waived or lost because the
12 communication, document, or record is disclosed to the commission
13 or any of the commission's employees.

14 (c) The commission shall maintain all privileged
15 information, communications, documents, and records in a secure
16 place as determined in the commission's sole discretion that is
17 accessible only to members of the commission and authorized
18 commission employees.

19 Sec. 466.603. INTELLECTUAL PROPERTY RIGHTS OF COMMISSION.
20 The legislature finds and declares that the commission has the
21 right to establish ownership of intellectual property rights for
22 all lottery products, including video lottery terminals and related
23 video lottery equipment.

24 Sec. 466.604. MODEL GAMING AGREEMENT. (a) The governor
25 shall execute, on behalf of this state, a gaming agreement with the
26 Ysleta del Sur Pueblo Indian tribe, the Alabama-Coushatta Indian
27 tribe, or the Kickapoo Traditional Tribe of Texas containing the

1 terms set forth in Subsection (b), as a ministerial act, without
2 preconditions, not later than the 30th day after the date the
3 governor receives a request from the tribe, accompanied by or in the
4 form of a duly enacted resolution of the tribe's governing body, to
5 enter into the gaming agreement.

6 (b) A gaming agreement executed under Subsection (a) must be
7 in the form and contain the provisions as follows:

8 GAMING AGREEMENT GOVERNING VIDEO LOTTERY TERMINAL OPERATIONS

9 Between the [Name of Tribe] and the STATE OF TEXAS

10 This agreement is made and entered into by and between the
11 [Name of Tribe], a federally recognized Indian Tribe ("Tribe"), and
12 the State of Texas ("State"), with respect to the operation of video
13 lottery terminals (as defined by Section 466.002, Texas Government
14 Code) on the Tribe's Indian lands (as defined by Chapter 466, Texas
15 Government Code).

16 SECTION 1.0. TITLE.

17 Sec. 1.1. This document shall be referred to as "The [Name
18 of Tribe] and State of Texas gaming agreement."

19 SECTION 2.0. PURPOSES AND OBJECTIVES.

20 Sec. 2.1. The terms of this agreement are designed and
21 intended to:

22 (a) evidence the good will and cooperation of the Tribe and
23 State in fostering a mutually respectful government-to-government
24 relationship that will serve the mutual interests of the parties;

25 (b) develop and implement a means of regulating limited
26 Class III gaming on the Tribe's Indian lands to ensure fair and
27 honest operation in accordance with the applicable federal and

1 state law, and, through that regulated limited Class III gaming,
2 enable the Tribe to develop self-sufficiency, promote tribal
3 economic development, and generate jobs and revenues to support the
4 Tribe's government and governmental services and programs; and

5 (c) ensure fair operation of video lottery games and
6 minimize the possibilities of corruption and infiltration by
7 criminal influences; promote ethical practices in conjunction with
8 that gaming, through the licensing and control of persons employed
9 in, or providing goods and services to, the Tribe's video lottery
10 operation and protecting against the presence or participation of
11 persons whose criminal backgrounds, reputations, character, or
12 associations make the persons unsuitable for participation in
13 gaming, thereby maintaining a high level of integrity in government
14 gaming.

15 SECTION 3.0. DEFINITIONS.

16 As used in this agreement, all terms have the meaning
17 assigned by Section 466.002, Texas Government Code, unless
18 otherwise specified:

19 Sec. 3.1. "Class III gaming" means the forms of Class III
20 gaming defined in 25 U.S.C. Section 2703(8) and by regulations of
21 the National Indian Gaming Commission.

22 Sec. 3.2. "Financial source" means any person providing
23 financing, directly or indirectly, to the Tribe's video lottery
24 terminal establishment or operation of video lottery terminals
25 authorized under this gaming agreement.

26 Sec. 3.3. "Gaming activities" means the limited Class III
27 gaming activities authorized under this gaming agreement.

1 Sec. 3.4. "Gaming employee" means any person who:

2 (a) operates, maintains, repairs, or assists in any gaming
3 activities, or is in any way responsible for supervising the gaming
4 activities or persons who conduct, operate, account for, or
5 supervise the gaming activities;

6 (b) is in a category under applicable federal or tribal
7 gaming law requiring licensing;

8 (c) is an employee of the Tribal Compliance Agency with
9 access to confidential information; or

10 (d) is a person whose employment duties require or authorize
11 access to areas of the video lottery terminal establishment that
12 are not open to the public.

13 Sec. 3.5. "Gaming ordinance" means a tribal ordinance or
14 resolution authorizing the conduct of Class III Gaming Activities
15 on the Tribe's Indian lands and approved under IGRA or other
16 applicable federal law.

17 Sec. 3.6. "IGRA" means the Indian Gaming Regulatory Act of
18 1988 (18 U.S.C. Sec. 1166 et seq. and 25 U.S.C. Sec. 2701 et seq.),
19 any amendments to the act, and all regulations promulgated under
20 the act.

21 Sec. 3.7. "Key employee" means any person employed by the
22 Tribe as chief operating or executive officer, chief financial
23 officer, chief of security, or manager of a video lottery terminal
24 establishment or operations of video lottery terminals, or any
25 other person who may directly influence the management of a video
26 lottery terminal establishment or the operation of video lottery
27 terminals.

1 Sec. 3.8. "NIGC" means the National Indian Gaming
2 Commission.

3 Sec. 3.9. "Patron" means any person who is on the premises
4 of a video lottery terminal establishment, for the purpose of
5 playing a video lottery game authorized by this gaming agreement.

6 Sec. 3.10. "Principal" means, with respect to any entity,
7 the entity's sole proprietor or any partner, trustee, beneficiary,
8 or shareholder holding 10 percent or more of the entity's
9 beneficial or controlling ownership, either directly or
10 indirectly, or more than 10 percent of the voting stock of a
11 publicly traded corporation, or any officer, director, principal
12 management employee, or key employee of the entity.

13 Sec. 3.11. "Restoration Act" means the Ysleta del Sur
14 Pueblo and Alabama and Coushatta Indian Tribes of Texas Restoration
15 Act (25 U.S.C. Section 731 et seq. and 25 U.S.C. Section 1300g et
16 seq.).

17 Sec. 3.12. "State" means the State of Texas or an authorized
18 official or agency of the state.

19 Sec. 3.13. "Transfer agreement" means a written agreement
20 authorizing the transfer of video lottery terminal operating rights
21 between the Tribe and another Indian tribe.

22 Sec. 3.14. "Transfer notice" means a written notice that
23 the Tribe must provide to the Texas Lottery Commission of the
24 Tribe's intent to acquire or transfer video lottery terminal
25 operating rights pursuant to a transfer agreement.

26 Sec. 3.15. "Tribal chairperson" means the person duly
27 elected or selected under the Tribe's organic documents, customs,

1 or traditions to serve as the primary spokesperson for the Tribe.

2 Sec. 3.16. "Tribal Compliance Agency" ("TCA") means the
3 Tribal governmental agency that has the authority to carry out the
4 Tribe's regulatory and oversight responsibilities under this
5 gaming agreement. Unless and until otherwise designated by the
6 Tribe, the TCA shall be the [Name of Tribe] Gaming Commission. A
7 gaming employee may not be a member or employee of the TCA. The
8 Tribe has the ultimate responsibility for ensuring that the TCA
9 fulfills its responsibilities under this gaming agreement. The
10 members of the TCA are subject to background investigations and
11 shall be licensed to the extent required by any applicable Tribal or
12 federal law and in accordance with this gaming agreement. The Tribe
13 shall ensure that all TCA officers and agents are qualified for the
14 position and receive ongoing training to obtain and maintain skills
15 sufficient to carry out their responsibilities in accordance with
16 industry standards.

17 Sec. 3.17. "Tribal law enforcement agency" means a police
18 or security force established and maintained by the Tribe under the
19 Tribe's powers of self-government to carry out law enforcement
20 duties at or in connection with a video lottery terminal
21 establishment.

22 Sec. 3.18. "Tribal gaming license" means any license issued
23 by the TCA as required by and in compliance with this agreement.

24 Sec. 3.19. "Tribe" means [Name of Tribe], a federally
25 recognized Indian tribe.

26 Sec. 3.20. "Video lottery terminal establishment" means any
27 premises at which the operation of video lottery terminals is

1 authorized under this gaming agreement.

2 SECTION 4.0. RECITALS.

3 Sec. 4.1. This agreement governs all operations of video
4 lottery terminals as defined by Section 466.002, Texas Government
5 Code, on the Tribe's Indian lands.

6 Sec. 4.2. A principal goal of Federal Indian policy is to
7 promote tribal economic development and tribal self-sufficiency.
8 The State and the Tribe find the goal to be consistent with
9 applicable federal law, state public policy, and the public health,
10 safety, and welfare to regulate video lottery terminals on Indian
11 lands in accordance with this gaming agreement.

12 Sec. 4.3. The Tribe is a federally recognized Indian tribe
13 possessing sovereign powers and rights of self-government. The
14 Tribe's governing body has authorized the officials of the Tribe to
15 enter into contracts and agreements of every description, including
16 this gaming agreement, with the State.

17 Sec. 4.4. The Tribe exercises governmental authority within
18 the [name of Reservation] (the "Reservation"), which for purposes
19 of this gaming agreement means those lands within the current
20 boundaries of the Reservation and any other Indian lands over which
21 the Tribe exercises governmental authority.

22 Sec. 4.5. The State of Texas is a state of the United States
23 of America possessing the sovereign powers and rights of a state.
24 The State has a legitimate sovereign interest in regulating the
25 growth of Class III gaming activities in Texas. Mindful of that
26 interest, the State of Texas, pursuant to Chapter 466, Texas
27 Government Code, authorized certain gaming agreements with Indian

1 tribal governments in the State of Texas to permit the operation of
2 video lottery terminals on Indian lands. It is the general policy
3 of the State to prohibit commercial gambling. The limited
4 exceptions to this prohibition are enumerated under Texas law. Any
5 gaming not expressly authorized is prohibited.

6 Sec. 4.6. The parties recognize this agreement provides the
7 Tribe substantial benefits that create a unique opportunity for the
8 Tribe to operate video lottery terminals in an economic environment
9 of limited competition from gaming on non-Indian lands in Texas
10 that is restricted to licensed racetracks in existence in 2005 or
11 applicants who have applied to be licensed as a racetrack on or
12 before January 1, 2005. The parties are mindful that this unique
13 environment is of economic value to the Tribe. In consideration for
14 the substantial rights enjoyed by the Tribe, and in further
15 consideration for the State's willingness to enter into this gaming
16 agreement and allow the Tribe the opportunity to operate video
17 lottery terminals connected to the State's video lottery system,
18 the Tribe has agreed to provide to the State, on a
19 sovereign-to-sovereign basis, a portion of revenue generated by
20 video lottery terminals on Indian lands and to collect and remit to
21 the comptroller State sales and use taxes and State taxes on motor
22 fuels, alcoholic beverages, cigarettes and tobacco products, and
23 hotel occupancy. The requirement to collect and remit these State
24 taxes does not apply to taxes on the sale, use, or consumption of an
25 item by a member of the Tribe.

26 Sec. 4.7. The Tribe desires to offer the play of video
27 lottery terminals, as a means of generating revenue for the support

1 of tribal governmental programs, such as health care, housing,
2 sewer and water projects, police, corrections, fire, judicial
3 services, highway and bridge construction, general assistance for
4 tribal elders, day care for the children, economic development,
5 educational opportunities, and other typical and valuable
6 governmental services and programs for tribal members.

7 Sec. 4.8. The State recognizes that the positive effects of
8 this gaming agreement may extend beyond the Tribe's lands to the
9 Tribe's neighbors and surrounding communities and will generally
10 benefit all of Texas. These positive effects and benefits may
11 include not only those described in Section 4.7, but also may
12 include increased tourism and related economic development
13 activities that, through the Tribe's revenue sharing with the
14 State, will generate additional funds for state governmental
15 programs.

16 Sec. 4.9. The Tribe and the State jointly wish to protect
17 their citizens from any criminal involvement in the gaming
18 operations regulated under this gaming agreement.

19 Sec. 4.10. Nothing in this agreement shall supplant the
20 role or duties of the Texas Department of Public Safety under state
21 law. The Texas Racing Commission and the Texas Comptroller of
22 Public Accounts do not have any role in regulation or oversight of
23 gaming activities conducted by a Tribe.

24 Sec. 4.11. The terms of this gaming agreement strictly
25 define and limit the relationship of the parties. Nothing in this
26 gaming agreement shall be construed to create or imply a joint
27 venture, partnership, principal/agent, or any other relationship

1 between the parties.

2 SECTION 5.0. CLASS III GAMING AUTHORIZED AND PERMITTED.

3 Sec. 5.1. The Tribe is hereby authorized and permitted to
4 engage only in the Class III gaming activities expressly referred
5 to in Section 6.0 and may not engage in Class III gaming that is not
6 expressly authorized in that section. Nothing in this agreement
7 shall be construed to allow Internet gaming.

8 SECTION 6.0. AUTHORIZATION OF VIDEO LOTTERY TERMINALS.

9 Sec. 6.1. Authorized and Permitted Class III Gaming. The
10 Tribe is hereby authorized and permitted to operate the following
11 Class III gaming under the terms and conditions set forth in this
12 agreement.

13 Sec. 6.2. The Tribe and State agree that the Tribe is
14 authorized to operate video lottery terminals only in accordance
15 with this gaming agreement. However, nothing in this agreement
16 limits any right of the Kickapoo Traditional Tribe of Texas to
17 operate any game that is a Class II game under IGRA, and Class II
18 games are not subject to the exclusivity payments required under
19 this gaming agreement.

20 Sec. 6.2.1. Operation of Video Lottery Terminals. Video
21 lottery terminals must be operated in connection with the video
22 lottery system and at all times be connected through communication
23 technology or other video lottery equipment controlled by the State
24 to a State controlled and operated video lottery central system.
25 The Tribe may enter into a management gaming agreement for a third
26 party video lottery manager, or the Tribe may act as its own video
27 lottery manager.

1 (a) Third Party Video Lottery Manager. If the Tribe enters
2 into a management gaming agreement for a third party video lottery
3 manager, the manager must be licensed by the Texas Lottery
4 Commission under Subchapter K, Chapter 466, Texas Government Code,
5 and all video lottery operations shall be subject to and in strict
6 compliance with that Subchapter. Any video lottery manager
7 conducting business on Indian lands shall indemnify and hold
8 harmless the State and the commission and all officers and
9 employees of both from any and all claims which may be asserted
10 against a license holder, the commission, the State, and the
11 members, officers, employees, and authorized agents of either,
12 arising from the license holder's participation in the video
13 lottery system authorized under the gaming agreement.

14 (b) Tribe as Video Lottery Manager. If the Tribe elects to
15 manage video lottery terminal operations, then Sections 7.0 through
16 14.0 of this agreement govern the procurement and operation of the
17 video lottery terminals on the Indian lands of the Tribe.

18 Sec. 6.3. In order to remain eligible to operate video
19 lottery terminals under this gaming agreement, the Tribe must
20 strictly comply with all requirements of the gaming agreement,
21 timely file all reports required by this gaming agreement, and
22 timely remit all payments to the State required under this gaming
23 agreement or applicable state law, including the taxes collected as
24 provided by Section 4.6.

25 Sec. 6.4. Regardless of ownership of video lottery
26 terminals, the State owns all video lottery games.

27 SECTION 7.0. PROCUREMENT OF VIDEO LOTTERY TERMINALS.

1 Sec. 7.1. All video lottery terminals shall be procured
2 only from a video lottery terminal provider registered with the
3 Texas Lottery Commission under Subchapter K, Chapter 466, Texas
4 Government Code. The Tribe may not enter into, or continue to make
5 payments pursuant to, any contract or agreement for the provision
6 of video lottery equipment with any person who is not registered by
7 the commission as a video lottery terminal provider under
8 Subchapter K, Chapter 466, Texas Government Code. Any agreement
9 between the Tribe and a video lottery terminal provider shall be
10 deemed to include a provision for the agreement's termination
11 without further liability on the part of the Tribe, except for the
12 bona fide repayment of all outstanding sums, exclusive of interest,
13 owed as of, or payment for services or materials received up to, the
14 date of termination, on revocation or non-renewal of the video
15 lottery terminal provider's registration.

16 Sec. 7.2. The Texas Lottery Commission shall provide the
17 Tribe a list of registered video lottery terminal providers,
18 commission approved video lottery games, and commission approved
19 video lottery terminals. The Tribe may not operate a video lottery
20 terminal that has not been authorized by the commission.

21 Sec. 7.3. The Tribe shall file with the Texas Lottery
22 Commission any order placed for video lottery terminals
23 simultaneously with the submission of the order to a
24 commission-approved video lottery terminal provider.

25 Sec. 7.4. The Tribe or the video lottery manager shall
26 provide all necessary capital investments and required
27 improvements at a video lottery terminal establishment.

1 SECTION 8.0. LICENSING.

2 Sec. 8.1. Gaming Ordinance and Regulations. All video
3 lottery operations conducted under this agreement, at a minimum,
4 shall comply with all terms and conditions of this gaming
5 agreement, a Gaming Ordinance adopted by the Tribe and approved in
6 accordance with this agreement and any applicable federal law, and
7 with all rules, regulations, procedures, specifications, and
8 standards adopted by the TCA. All licensing related to the
9 operation of video lottery terminals shall be conditioned on an
10 agreement by the license holder to indemnify and hold harmless the
11 State and the Texas Lottery Commission and all officers and
12 employees of both from any and all claims which may be asserted
13 against a license holder, the commission, the State and the
14 members, officers, employees, and authorized agents of either
15 arising from the license or registration holder's participation in
16 the video lottery system authorized under this agreement.

17 Sec. 8.2. Tribal Ownership and Regulation of Gaming
18 Operation. Except as otherwise provided by this agreement, the
19 Tribe shall have the sole proprietary interest in the video lottery
20 terminal establishment and video lottery terminals. This provision
21 may not be construed to prevent the Tribe from granting security
22 interests or other financial accommodations to secured parties,
23 lenders or others, or to prevent the Tribe from entering into leases
24 or financing agreements or a gaming management agreement with a
25 video lottery manager.

26 Sec. 8.3. Government-to-Government Cooperation. The
27 parties intend that the licensing process provided for in this

1 gaming agreement shall involve joint cooperation between the TCA
2 and the Texas Lottery Commission, as described in this agreement.

3 Sec. 8.4. Video Lottery Terminal Establishment. (a) A
4 video lottery terminal establishment authorized by this agreement
5 shall be operated by a licensed video lottery manager or the Tribe
6 and licensed by the TCA in conformity with the requirements of this
7 gaming agreement, the Tribal Gaming Ordinance, and any applicable
8 federal law. The license shall be reviewed and renewed, if
9 appropriate, every two years. The Tribe shall promptly certify in
10 writing to the Texas Lottery Commission each time the license is
11 renewed. The certification must be posted in a conspicuous and
12 public place in the video lottery terminal establishment at all
13 times.

14 (b) In order to protect the health and safety of all video
15 lottery terminal establishment patrons, guests, and employees, all
16 video lottery terminal establishments of the Tribe constructed
17 after the effective date of this gaming agreement, and all
18 expansions or modifications to a site facility for a video lottery
19 terminal establishment in existence as of the effective date of
20 this gaming agreement, shall meet or exceed the building and safety
21 codes of the Tribe. As a condition for engaging in that
22 construction, expansion, modification, or renovation, the Tribe
23 shall amend the Tribe's existing building and safety codes if
24 necessary, or enact such codes if there are none, so that the codes
25 meet the standards of the building and safety codes of any county in
26 which the video lottery terminal establishment is located,
27 including all uniform fire, plumbing, electrical, mechanical, and

1 related codes in effect on the date this agreement takes effect.
2 Nothing in this agreement shall be deemed to confer jurisdiction on
3 any county or the State with respect to any reference to such
4 building and safety codes. Any construction, expansion, or
5 modification must also comply with the federal Americans with
6 Disabilities Act of 1990 (42 U.S.C. Sec. 12101 et seq.), as amended.

7 (c) The TCA shall issue a video lottery terminal
8 establishment a certificate of occupancy prior to occupancy if it
9 was not used for any lawful gaming prior to the effective date of
10 this gaming agreement, or, if it was so used, within one year after
11 the effective date. The certificate shall be reviewed for
12 continuing compliance once every two years. Inspections by
13 qualified building and safety experts shall be conducted under the
14 direction of the TCA as the basis for issuing any certificate
15 hereunder. The TCA shall determine and certify that, as to new
16 construction or new use for gaming activities, the video lottery
17 terminal establishment meets the Tribe's building and safety code,
18 or, as to facilities or portions of facilities that were used for
19 the Tribe's gaming before this gaming agreement, that the video
20 lottery terminal establishment or portions of the establishment do
21 not endanger the health or safety of occupants or the integrity of
22 the video lottery system. The Tribe may not offer video lottery
23 gaming in a video lottery terminal establishment that is
24 constructed or maintained in a manner that endangers the health or
25 safety of occupants or the integrity of the video lottery system.

26 (d) The State shall designate an agent or agents to be given
27 reasonable notice of each inspection by the TCA's experts, and

1 State agents may participate in any such inspection. The Tribe
2 agrees to correct any video lottery terminal establishment
3 condition noted in an inspection that does not meet the standards
4 set forth in Subsections (b) and (c). The TCA and the State's
5 designated agent or agents shall exchange any reports of an
6 inspection within 10 days after completion of the report, and the
7 reports shall be separately and simultaneously forwarded by both
8 agencies to the Tribal chairperson. On certification by the TCA's
9 experts that a video lottery terminal establishment meets
10 applicable standards, the TCA shall forward the experts'
11 certification to the State within 10 days of issuance. If the
12 State's agent objects to that certification, the Tribe shall make a
13 good faith effort to address the State's concerns, but if the State
14 does not withdraw its objection, the matter will be resolved in
15 accordance with the dispute resolution provisions of this gaming
16 agreement.

17 Sec. 8.5. Suitability Standard Regarding Tribal Gaming
18 Licenses. In reviewing an application for a tribal gaming license,
19 and in addition to any standards set forth in the Tribal gaming
20 ordinance, the TCA shall consider whether issuance of the license
21 is inimical to public health, safety, or welfare, and whether
22 issuance of the license will undermine public trust that the
23 Tribe's operation of video lottery terminals, or tribal government
24 gaming generally, is free from criminal and dishonest elements and
25 would be conducted honestly. A license may not be issued unless,
26 based on all information and documents submitted, the TCA is
27 satisfied that the applicant, in addition to any other criteria in

1 any applicable federal law is all of the following:

2 (a) a person of good character, honesty, and integrity;

3 (b) a person whose prior activities, criminal record (if
4 any), reputation, habits, and associations do not pose a threat to
5 the security and integrity of the lottery or to the public interest
6 of the State or to the effective operation and control of the
7 lottery, or create or enhance the dangers of unsuitable, unfair, or
8 illegal practices, methods, or activities in the conduct of the
9 lottery, or in the carrying on of the business and financial
10 arrangements incidental to the conduct of the lottery; and

11 (c) a person who in all other respects is qualified to be
12 licensed as provided in this gaming agreement, any applicable
13 federal law, the Tribal Gaming Ordinance, and any other criteria
14 adopted by the TCA or the Tribe. An applicant may not be found
15 unsuitable solely on the ground that the applicant was an employee
16 of a tribal gaming operation in Texas that was conducted before the
17 effective date of this gaming agreement. Employment in an
18 unauthorized gaming operation in Texas subsequent to the effective
19 date of this agreement, however, shall impose a presumption of
20 unsuitability.

21 Sec. 8.6. Gaming Employees. (a) Every gaming employee
22 shall obtain, and thereafter maintain current, a valid tribal
23 gaming license, which shall be subject to biennial renewal,
24 provided that in accordance with Section 8.8.2, a person may be
25 employed on a temporary or conditional basis pending completion of
26 the licensing process.

27 (b) Without the concurrence of the Texas Lottery

1 Commission, the Tribe may not employ or continue to employ any
2 person whose application to the commission for a registration,
3 license, determination of suitability, or other regulatory
4 approval, or for a renewal of a registration, license,
5 determination of suitability, or other regulatory approval, has
6 been denied or has expired without renewal.

7 Sec. 8.7. Financial Sources. Any person providing
8 financing, directly or indirectly, to the Tribe's video lottery
9 terminal establishment or operation of video lottery terminals must
10 be licensed by the TCA before receipt of that financing, provided
11 that any person who is providing financing at the time of the
12 execution of this gaming agreement must be licensed by the TCA
13 within ninety (90) days of such execution. The TCA shall review
14 licenses at least every two years for continuing compliance. In
15 connection with the review, the TCA shall require the Financial
16 Source to update all information provided in the previous
17 application. Any agreement between the Tribe and a Financial
18 Source is deemed to include a provision for its termination without
19 further liability on the part of the Tribe, except for the bona fide
20 repayment of all outstanding sums, exclusive of interest, owed as
21 of the date of termination, on revocation or non-renewal of the
22 Financial Source's license by the TCA based on a determination of
23 unsuitability by the Texas Lottery Commission. The Tribe may not
24 enter into, or continue to make payments pursuant to any contract or
25 agreement for the provision of financing with any person whose
26 application to the commission for a determination of suitability
27 has been denied or has expired without renewal. A video lottery

1 terminal provider who provides financing exclusively in connection
2 with the sale or lease of video lottery equipment obtained from that
3 video lottery terminal provider may be registered solely in
4 accordance with the commission's registration procedures for video
5 lottery terminal providers. The TCA may, in its discretion,
6 exclude from the licensing requirements of this section, financing
7 provided by:

8 (1) a federally regulated or state-regulated bank,
9 savings and loan, or other federally regulated or state-regulated
10 lending institution;

11 (2) any agency of the federal, state, or local
12 government; or

13 (3) any investor who, alone or in conjunction with
14 others, holds less than 10 percent of any outstanding indebtedness
15 evidenced by bonds issued by the Tribe.

16 Sec. 8.8. Processing License Applications. Each applicant
17 for a tribal gaming license shall submit the completed application
18 on forms prescribed by the TCA and approved by the Texas Lottery
19 Commission, along with the required information and an application
20 fee, to the TCA in accordance with the rules and regulations of that
21 agency. The parties agree that for purposes of this agreement, the
22 standards set forth under federal law with regard to information
23 required for Tribal gaming operation applications shall govern.
24 Accordingly, at a minimum, the TCA shall require submission and
25 consideration of all information required under federal law,
26 including 25 C.F.R. Section 556.4, for licensing primary management
27 officials and key employees. For applicants who are business

1 entities, the licensing provisions apply to the entity and:

2 (a) each officer and director;

3 (b) each principal management employee, including any chief
4 executive officer, chief financial officer, chief operating
5 officer, and general manager;

6 (c) each owner or partner, if an unincorporated business;

7 (d) each shareholder who owns more than 10 percent of the
8 shares of the corporation, if a corporation; and

9 (e) each person or entity, other than a financial
10 institution the TCA has determined does not require a license under
11 the preceding section, that, alone or in combination with others,
12 has provided financing in connection with any video lottery
13 equipment or video lottery terminal establishment under this gaming
14 agreement, if that person or entity provided more than five percent
15 of:

16 (1) the start-up capital;

17 (2) the operating capital over a 12-month period; or

18 (3) a combination thereof.

19 For purposes of this section, if any commonality of the
20 characteristics identified in Subsections (a) to (e), inclusive,
21 exist between any two or more entities, the entities may be deemed
22 to be a single entity. Nothing herein precludes the Tribe or TCA
23 from requiring more stringent licensing requirements.

24 Sec. 8.8.1. Background Investigations of Applicants. (a)
25 The TCA shall conduct or cause to be conducted all necessary
26 background investigations reasonably required to determine that
27 the applicant is qualified for a tribal gaming license under the

1 standards set forth in this gaming agreement, and to fulfill all
2 requirements for licensing under any applicable federal law, the
3 Tribal Gaming Ordinance, and this gaming agreement. The TCA may not
4 issue any license other than a temporary license until a
5 determination is made that the qualifications have been met.

6 (b) Instead of completing its own background investigation,
7 and to the extent that doing so does not conflict with or violate
8 any applicable federal law or the Tribal Gaming Ordinance, the TCA
9 may contract with the Texas Lottery Commission or an independent
10 contractor approved by the commission for the conduct of background
11 investigations. An applicant for a tribal gaming license must
12 provide releases to the commission to make available to the TCA
13 background information regarding the applicant. The commission
14 shall cooperate in furnishing to the TCA that information, unless
15 doing so would violate any agreement the commission has with a
16 source of the information other than the applicant, or would impair
17 or impede a criminal investigation, or unless the TCA cannot
18 provide sufficient safeguards to assure the commission that the
19 information will remain confidential.

20 Sec. 8.8.2. Temporary Licensing of Employees.
21 Notwithstanding any contrary provision in this gaming agreement,
22 the TCA may issue a temporary license and may impose specific
23 conditions on the license pending completion of the applicant's
24 background investigation as the TCA in its sole discretion shall
25 determine, if:

26 (a) the applicant for a tribal gaming license has completed
27 a license application in a manner satisfactory to the TCA; and

1 (b) the TCA has conducted a preliminary background
2 investigation, and the investigation or other information held by
3 the TCA does not indicate:

4 (1) that the applicant has a criminal history that
5 could pose a threat to the security and integrity of the lottery or
6 to the public interest of the State or the effective operation and
7 control of the lottery, or create or enhance the dangers of
8 unsuitable, unfair, or illegal practices, methods, or activities in
9 the conduct of the lottery, or in the carrying on of the business
10 and financial arrangements incidental thereto;

11 (2) other information in the applicant's background
12 that would either disqualify the applicant from obtaining a license
13 or cause a reasonable person to investigate further before issuing
14 a license; or

15 (3) that the applicant is otherwise unsuitable for
16 licensing.

17 (c) The TCA may require special fees to issue or maintain a
18 temporary license.

19 (d) A temporary license shall remain in effect until
20 suspended or revoked, or until a final determination is made on the
21 application. At any time after issuance of a temporary license, the
22 TCA may suspend or revoke the temporary license in accordance with
23 Sections 8.9.1 or 8.9.5, and the Texas Lottery Commission may
24 request suspension or revocation in accordance with Section 8.9.

25 (e) For purposes of this agreement, the parties agree that
26 the standards set forth in 25 C.F.R. Part 558 govern licensing and
27 investigations required under the provisions of this agreement.

1 Nothing in this agreement shall be construed to relieve the Tribe of
2 any obligation under this agreement to comply with the standards
3 set forth in 25 C.F.R. Part 558.

4 Sec. 8.9. Tribal Gaming License Issuance. (a) On
5 completion of the necessary background investigation, the TCA may
6 issue a tribal gaming license on a conditional or unconditional
7 basis. Nothing herein shall create a property or other right of an
8 applicant in an opportunity to be licensed, or in a license itself,
9 both of which shall be considered to be privileges granted to the
10 applicant in the sole discretion of the TCA subject to oversight by
11 the Texas Lottery Commission as provided herein. Any license,
12 registration, suitability, qualification issued, or other
13 regulatory approval granted pursuant to or in compliance with this
14 gaming agreement is a revocable privilege, and a holder does not
15 acquire any vested right therein or thereunder.

16 (b) State and Tribal courts shall have no jurisdiction to
17 review decisions to deny, limit, or condition a license,
18 registration, suitability, qualification, or request for approval
19 unless the judicial review is sought on the ground that such a
20 denial, limitation, or condition is proven by clear and convincing
21 evidence to be based on a suspect classification such as race,
22 color, religion, gender, or national origin, protected under the
23 Equal Protection Clause of the United States Constitution.

24 Sec. 8.9.1. Denial, Suspension, or Revocation of Licenses.

25 (a) The TCA may deny any application for a tribal gaming license
26 and may revoke any license issued if the TCA determines the
27 application is incomplete or deficient or if the applicant is

1 determined to be unsuitable or otherwise unqualified for the gaming
2 license. Pending consideration of revocation, the TCA may
3 summarily suspend a license in accordance with Section 8.9.5. All
4 rights to notice and hearing shall be governed by tribal law. The
5 TCA shall notify the applicant in writing of the tribal law
6 provisions and of the intent to suspend or revoke the license.

7 (b) On receipt of notice that the Texas Lottery Commission
8 has determined a person would be unsuitable for licensure in a video
9 lottery terminal establishment or related to video lottery terminal
10 operations subject to the jurisdiction of the commission, the TCA
11 shall promptly revoke any license issued to the person.

12 Sec. 8.9.2. Renewal of Licenses; Extensions; Further
13 Investigation. The term of a tribal gaming license may not exceed
14 five years, and application for renewal of a license must be made
15 before the license's expiration. An applicant for renewal of a
16 license must provide updated material as requested, on the
17 appropriate renewal forms, but, at the discretion of the TCA, may
18 not be required to resubmit historical data previously submitted or
19 that is otherwise available to the TCA. At the discretion of the
20 TCA, an additional background investigation may be required at any
21 time if the TCA determines the need for further information
22 concerning the applicant's continuing suitability or eligibility
23 for a license. Before renewing a license, the TCA shall deliver to
24 the Texas Lottery Commission copies of all information and
25 documents received in connection with the application for renewal.

26 Sec. 8.9.3. Identification Cards. The TCA shall require
27 all persons who are required to be licensed to wear, in plain view

1 at all times while in the video lottery terminal establishment,
2 identification badges issued by the TCA. Identification badges
3 must include a photograph and an identification number that is
4 adequate to enable TCA agents to readily identify the person and
5 determine the validity and date of expiration of the license.

6 Sec. 8.9.4. Fees for Tribal Gaming License. The fees for
7 all tribal gaming licenses shall be set by the TCA.

8 Sec. 8.9.5. Summary Suspension of Tribal Gaming License.
9 The TCA may summarily suspend a tribal gaming license if the TCA
10 determines that the continued licensing of the person or entity
11 could constitute a threat to the public health or safety or may
12 violate the TCA's licensing or other standards or any provision of
13 applicable federal or state law or of this agreement. Any right to
14 notice or hearing in regard to the suspension are governed by tribal
15 law provided the law is not inconsistent with any provision of this
16 agreement.

17 Sec. 8.9.6. State Certification Process. (a) On receipt of
18 a completed tribal gaming license application and a determination
19 by the TCA that it intends to issue the earlier of a temporary or
20 permanent license, the TCA shall transmit to the Texas Lottery
21 Commission a notice of intent to license the applicant, together
22 with all of the following:

23 (i) a copy of all tribal license application materials
24 and information received by the TCA from the applicant;

25 (ii) an original set of fingerprint cards;

26 (iii) a current photograph; and

27 (iv) except to the extent waived by the commission,

1 the releases of information, waivers, and other completed and
2 executed forms obtained by the TCA.

3 (b) Except for an applicant for licensing as a non-key
4 gaming employee, the TCA shall require the applicant to file an
5 application with the Texas Lottery Commission, before issuance of a
6 temporary or permanent tribal gaming license, for a determination
7 of suitability for licensure under Subchapter K, Chapter 466, Texas
8 Government Code. Investigation and disposition of that application
9 is governed entirely by State law, and the commission shall
10 determine whether the applicant would be found suitable for
11 licensure in a video lottery terminal establishment or in relation
12 to video lottery terminal operations at a video lottery terminal
13 establishment subject to the commission's jurisdiction.
14 Additional information may be required by the commission to assist
15 in a background investigation, provided that the commission
16 requirement is no greater than that which may be required of
17 applicants for a video lottery retailer license in connection with
18 video lottery operations at a video lottery terminal establishment
19 under Subchapter K, Chapter 466, Texas Government Code. A
20 determination of suitability is valid for the term of the tribal
21 license held by the applicant, and the TCA shall require a license
22 holder to apply for renewal of a determination of suitability at the
23 time the license holder applies for renewal of a tribal gaming
24 license. The commission and the TCA, together with tribal gaming
25 agencies under other gaming agreements, shall cooperate in
26 developing standard licensing forms for tribal gaming license
27 applicants, on a statewide basis, that reduce or eliminate

1 duplicative or excessive paperwork, and the forms and procedures
2 must take into account the Tribe's requirements under any
3 applicable federal law and the expense thereof.

4 (c) Background Investigations of Applicants. On receipt of
5 completed license application information from the TCA, the Texas
6 Lottery Commission may conduct a background investigation pursuant
7 to state law to determine whether the applicant would be suitable to
8 be licensed for association with a video lottery terminal
9 establishment or operation subject to the jurisdiction of the
10 commission. If further investigation is required to supplement the
11 investigation conducted by the TCA, the applicant will be required
12 to pay an application fee charged by the commission in an amount
13 that reimburses the commission for actual costs incurred, provided
14 that in requesting any deposit, the commission shall take into
15 consideration reports of the background investigation already
16 conducted by the TCA and the NIGC, if any. Failure to pay the
17 application fee or deposit may be grounds for denial of the
18 application by the commission. The commission and TCA shall
19 cooperate in sharing as much background information as possible to
20 maximize investigative efficiency and thoroughness and to minimize
21 investigative costs. On completion of the necessary background
22 investigation or other verification of suitability, the commission
23 shall issue a notice to the TCA certifying the State has determined
24 that the applicant would be suitable or that the applicant would be
25 unsuitable for licensure in a video lottery terminal establishment
26 subject to the jurisdiction of the commission and, if unsuitable,
27 stating the reasons for unsuitability.

1 (d) The Tribe, on a monthly basis, shall provide the Texas
2 Lottery Commission with the name, badge identification number, and
3 job descriptions of all non-key gaming employees.

4 (e) The Tribe shall, at all times, have a list of key
5 employees on file with the Texas Lottery Commission and shall
6 advise the commission of any change to the list not later than the
7 10th day following the date of the change.

8 (f) Before denying an application for a determination of
9 suitability, the Texas Lottery Commission shall notify the TCA and
10 afford the Tribe an opportunity to be heard. The courts of the
11 State and the Tribe shall have no jurisdiction to review decisions
12 to deny, limit, or condition a license, registration, suitability,
13 qualification, or request for approval unless the denial,
14 limitation, or condition is proven by clear and convincing evidence
15 to be based on a suspect classification such as race, color,
16 religion, sex, or national origin, protected under the Equal
17 Protection Clause of the United States Constitution. Under these
18 circumstances, any requirement for tribal court exhaustion is
19 hereby waived by the Tribe.

20 Sec. 8.9.7. State Assessment for Costs of Oversight. (a)
21 The State shall make annually an assessment sufficient to
22 compensate the State for actual costs of oversight of the operation
23 of video lottery terminals pursuant to this gaming agreement.

24 (b) On or before August 1, annually, beginning with the
25 first such date following the implementation of video lottery
26 operations under this gaming agreement, the State shall render to
27 the TCA a statement of the total cost of oversight and any law

1 enforcement for the preceding fiscal year ending July 31 together
2 with proposed assessments for the forthcoming fiscal year based on
3 the preceding fiscal year cost. In the first year of the effective
4 date of this gaming agreement, however, the assessment must be
5 prospective and based on a pro rata allocation of costs if this
6 gaming agreement becomes operative in the course of a fiscal year
7 and must be established following consultation with the TCA. On
8 September 1, annually, the State, after receiving any objections to
9 the proposed assessments and making such changes or adjustments as
10 may be indicated, shall provide a written notice that assesses the
11 Tribe for the costs of the oversight and any necessary law
12 enforcement. Annually, the Tribe shall pay one-third of the
13 assessment within 20 days of the receipt of the written notice and
14 shall pay the remaining two-thirds of the assessment in two equal
15 payments on January 1 and April 1. The payments must be deposited
16 with the Texas Lottery Commission in a video lottery account
17 established solely for funds related to video lottery terminals
18 operated by the Tribe.

19 (c) In the event that the total assessment paid by the Tribe
20 during any fiscal year of the State exceeds the actual costs of the
21 oversight and any necessary law enforcement during that fiscal
22 year, the State shall adjust the assessment for the succeeding
23 fiscal year in the amount necessary to offset such excess
24 assessment. If the Tribe is aggrieved because of any failure by the
25 State to make such an adjustment, any claim for such an adjustment
26 must be presented in the appeal of the assessment as provided in
27 Section 8.9.8.

1 Sec. 8.9.8. Procedure for Appeal of Assessments or Payments
2 Made to the State. If the Tribe is aggrieved because of any
3 assessment levied or payment made to the State as required by this
4 gaming agreement, the Tribe, not later than the 30th day following
5 the date provided for the payment, may appeal an assessment or
6 payment to the Texas Lottery Commission. If the Tribe is aggrieved
7 by the commission's decision, it may invoke the dispute resolution
8 provisions of this agreement provided that the Tribe must prove by
9 clear and convincing evidence that any collection or assessment of
10 payment to the State was inappropriate.

11 Sec. 8.9.9. Collection and Distribution of Revenue. (a)
12 The Tribe shall establish separate electronic funds transfer
13 accounts for the purposes of depositing money from video lottery
14 terminal operations, making payments to the Texas Lottery
15 Commission, and receiving payments from the commission.

16 (b) The State's share of net terminal income of the Tribe's
17 video lottery terminal operations shall be transferred to the Texas
18 Lottery Commission through the electronic transfer of funds daily
19 by the commission. The commission shall establish the procedures
20 for depositing money from video lottery terminal operations into
21 electronic funds transfer accounts and the procedures for the
22 handling of money from video lottery terminal operations. The
23 State's share of net terminal income from video lottery terminal
24 operations shall be held in trust for the State.

25 (c) Unless directed otherwise by the Texas Lottery
26 Commission, the Tribe shall maintain in its account the State's
27 share of the net terminal income from the operation of video lottery

1 terminals, to be electronically transferred by the commission. On
2 the Tribe's failure to maintain this balance, the commission may
3 disable all of the Tribe's video lottery terminals until full
4 payment of all amounts due is made. Interest shall accrue on any
5 unpaid balance at a rate consistent with the amount charged under
6 Section 111.060, Texas Tax Code. The interest shall begin to accrue
7 on the date payment is due to the commission. In the commission's
8 sole discretion, rather than disable the Tribe's video lottery
9 terminals, the commission may elect to impose contract penalties in
10 an amount to be determined by the commission not to exceed \$250,000
11 for each violation. If the Tribe fails to remedy the violation,
12 including payment of any amounts due to the State, within 10 days,
13 the commission may disable the Tribe's video lottery terminals or
14 use any other means for collection agreed to by the Tribe instead of
15 disabling the Tribe's video lottery terminals.

16 (d) The Tribe is solely responsible for resolving any income
17 discrepancies between actual money collected and the net terminal
18 income reported by the video lottery central system. Unless an
19 accounting discrepancy is resolved in favor of the Tribe, the Texas
20 Lottery Commission may not make any credit adjustments. Any
21 accounting discrepancies which cannot be resolved shall be resolved
22 in favor of the commission.

23 (e) Tribes shall remit payment as directed by the Texas
24 Lottery Commission if the electronic transfer of funds is not
25 operational or the commission notifies the Tribe that remittance by
26 this method is required. The Tribe shall report the State's share
27 of net terminal income, and remit the amount as generated from its

1 terminals during the reporting period.

2 (f) The Tribe agrees to furnish to the Texas Lottery
3 Commission all information and bank authorizations required to
4 facilitate the timely transfer of money to the commission. The
5 Tribe agrees to provide the commission 30 days' advance notice of
6 any proposed account changes in order to assure the uninterrupted
7 electronic transfer of funds. However, in no event shall the
8 commission be responsible for any interruption or delays in
9 transferring of funds. Rather, the Tribe shall be responsible for
10 any interruption or delay in transferring of funds.

11 SECTION 9.0. RULES AND REGULATIONS; MINIMUM REQUIREMENTS
12 FOR OPERATIONS.

13 Sec. 9.1. Regulations. The Tribe shall promulgate any
14 rules and regulations necessary to implement this gaming agreement,
15 which at a minimum shall expressly include or incorporate by
16 reference all requirements of this gaming agreement. Nothing in
17 this gaming agreement shall be construed to affect the Tribe's
18 right to amend its rules and regulations, provided that any such
19 amendment shall be in conformity with this gaming agreement. The
20 Texas Lottery Commission may propose additional rules and
21 regulations related to implementation of this gaming agreement to
22 the TCA at any time, and the TCA shall give good faith consideration
23 to such suggestions and shall notify the commission of its response
24 or action with respect thereto.

25 Sec. 9.2. Compliance; Internal Control Standards. All
26 video lottery operations shall comply with, and all video lottery
27 games approved under the procedures set forth in this gaming

1 agreement shall be operated in accordance with the requirements set
2 forth in this gaming agreement and applicable state law. The
3 parties agree that for purposes of this agreement, the standards
4 set forth in 25 C.F.R. Part 542 shall govern minimum requirements
5 for tribal internal control standards. Accordingly, the Tribe
6 agrees that all tribal video lottery operations shall comply with
7 tribal internal control standards that provide a level of control
8 equal to or exceeding that provided by the standards set forth in 25
9 C.F.R. Part 542.

10 Sec. 9.3. Records. (a) In addition to other records
11 required to be maintained herein, the Tribe shall maintain in
12 permanent written or electronic form the following records related
13 to implementation of this gaming agreement:

14 (1) a log recording all surveillance activities of the
15 video lottery terminal establishment, including surveillance
16 records kept in the normal course of operations and in accordance
17 with industry standards; provided, notwithstanding anything to the
18 contrary herein, surveillance records may, at the discretion of the
19 Tribe, be destroyed if no incident has been reported within one (1)
20 year following the date the records were made;

21 (2) payout from the conduct of all video lottery
22 games;

23 (3) maintenance logs for all video lottery gaming
24 equipment used by the video lottery terminal establishment;

25 (4) security logs as kept in the normal course of
26 conducting and maintaining security at the video lottery terminal
27 establishment, which at a minimum must conform to industry

1 practices for such reports;

2 (5) books and records on video lottery terminals, as
3 described more particularly in Section 9.4, which shall be
4 maintained in accordance with generally accepted accounting
5 principles (GAAP) and the standards set forth in Section 9.4; and

6 (6) all documents generated in accordance with this
7 gaming agreement.

8 (b) The Tribe shall make the records maintained under
9 Subsection (a) of this section available for inspection by the
10 Texas Lottery Commission for not less than four years from the date
11 the records are generated.

12 (c) The security logs required under Subsection (a) of this
13 section must document any unusual or nonstandard activities,
14 occurrences, or events at or related to the video lottery terminal
15 establishment or in connection with the video lottery terminal
16 operations. Each incident, without regard to materiality, shall be
17 assigned a sequential number for each such report. At a minimum,
18 the security logs shall consist of the following information, which
19 shall be recorded in a reasonable fashion noting:

20 (1) the assigned number of the incident;

21 (2) the date of the incident;

22 (3) the time of the incident;

23 (4) the location of the incident;

24 (5) the nature of the incident;

25 (6) the identity, including identification
26 information, of any persons involved in the incident and any known
27 witnesses to the incident; and

1 (7) the Tribal compliance officer making the report
2 and any other persons contributing to its preparation.

3 Sec. 9.4. ACCOUNTING.

4 Sec. 9.4.1. Accounting Records Required. The Tribe agrees
5 with regard to any video lottery terminal operations, to keep
6 accurate, complete, legible, and permanent records of all
7 transactions pertaining to revenue for six years. If the Tribe
8 keeps permanent records in a computerized or microfiche fashion, it
9 shall provide the Texas Lottery Commission, on request, with a
10 detailed index to the microfiche or computer records that is
11 indexed by date.

12 Sec. 9.4.2. Accounting Systems. The Tribe agrees with
13 regard to all video lottery terminal operations, to keep general
14 accounting records on a double entry system of accounting,
15 maintaining detailed, supporting, and subsidiary records,
16 including:

17 (a) detailed records that identify the revenues, expenses,
18 assets, liabilities, and equity of the video lottery terminal
19 establishment and operations;

20 (b) records required by the Tribe's Minimum Internal
21 Control System;

22 (c) journal entries prepared by the Tribe and its
23 independent accountant; and

24 (d) any other records that the TCA may require.

25 Sec. 9.4.3. Net Terminal Income and Expenses. The Tribe
26 agrees with regard to all video lottery terminal operations, to
27 create and maintain records sufficiently accurate to reflect the

1 net terminal income and expenses of the video lottery terminal
2 establishment and operation of video lottery terminals.

3 Sec. 9.4.4. Financial Statements. (a) The Tribe agrees to
4 prepare financial statements covering all financial activities of
5 the video lottery terminal establishment and operation of video
6 lottery terminals for a business year. The statements required by
7 this subsection must be presented on a comparative basis.

8 (b) If the Tribe changes its business year, it must prepare
9 and submit audited or reviewed financial statements to the Texas
10 Lottery Commission covering the "stub" period from the end of the
11 previous business year to the beginning of the new business year not
12 later than 120 days after the end of the stub period or incorporate
13 the financial results of the stub period in the statements for the
14 new business year.

15 Sec. 9.5. Audits. The parties agree that for purposes of
16 this agreement, the standards set forth in 25 C.F.R. Section 571.12
17 govern audits required under this agreement. The TCA shall ensure
18 that an annual independent financial audit of the Tribe's conduct
19 of video lottery games subject to this gaming agreement and of the
20 video lottery terminal establishment is secured. The audit shall,
21 at a minimum, examine revenues and expenses in connection with the
22 operation of video lottery terminals in accordance with generally
23 accepted auditing standards and shall include those matters
24 necessary to verify the determination of net terminal income and
25 the basis of the payments made to the State pursuant to this gaming
26 agreement.

27 (a) The auditor selected by the TCA shall be a firm of known

1 and demonstrable experience, expertise, and stature in conducting
2 audits of this kind and scope and shall be approved by the Texas
3 Lottery Commission.

4 (b) The audit shall be concluded within five months
5 following the close of each calendar year, provided that extensions
6 may be requested by the Tribe and may not be refused by the State if
7 the circumstances justifying the extension request are beyond the
8 Tribe's control. An extension, however, may not extend the
9 conclusion of an audit required by this gaming agreement to more
10 than 12 months following the close of the relevant calendar year.

11 (c) The audit of the operation of video lottery terminals
12 may be conducted as part of or in conjunction with the audit of the
13 video lottery terminal establishment, but if so conducted shall be
14 separately stated for the reporting purposes required herein.

15 (d) The audit shall conform to generally accepted auditing
16 standards. As part of the audit report, the auditor shall certify
17 to the TCA that, in the course of the audit, the auditor did not
18 discover any matters within the scope of the audit which were
19 determined or believed to be in violation of any provision of this
20 gaming agreement. If the auditor discovers matters determined or
21 believed to be in violation of any provision of this gaming
22 agreement, the auditor shall immediately notify the Texas Lottery
23 Commission of the alleged violation and the basis for the auditor's
24 conclusion.

25 (e) The Tribe shall assume all costs in connection with the
26 audit.

27 (f) The audit report for the conduct of video lottery games

1 shall be submitted to the Texas Lottery Commission within thirty
2 (30) days of completion. The auditor's work papers concerning
3 video lottery games shall be made available to the commission on
4 request.

5 (g) Representatives of the Texas Lottery Commission may, on
6 request, meet with the auditors to discuss the work papers, the
7 audit, or any matters in connection therewith; provided such
8 discussions are limited to video lottery information and pursue
9 legitimate state video lottery interests.

10 Sec. 9.6. Security. (a) All video lottery terminals shall
11 be continuously monitored through the use of a closed circuit
12 television system that records all activity for a continuous
13 24-hour period. All video tapes or other media used to store video
14 images shall be retained for a period of at least 30 days.

15 (b) Access to video lottery terminal locations shall be
16 restricted to persons legally entitled by age under State law to
17 play video lottery games.

18 (c) The Tribe must submit for approval by the Texas Lottery
19 Commission a security plan and a floor plan of the area or areas
20 where video lottery terminals are to be operated showing video
21 lottery terminal locations and security camera mount locations.
22 This commission approved security plan shall be subject to review
23 by the commission which may require revision of the plan on a
24 biennial basis.

25 (d) Security personnel shall be present during all hours of
26 operation at each video lottery terminal establishment. The Tribe
27 shall employ at least the number of security personnel the Texas

1 Lottery Commission determines is necessary to provide for safe and
2 approved operation of the video lottery terminal establishment and
3 the safety and well-being of the players.

4 (e) The communication technology used in connection with
5 video lottery operations must meet accepted industry standards for
6 security sufficient to minimize the possibility of any third party
7 intercepting any data transmitted to or from the video lottery
8 terminals.

9 Sec. 9.7. Exclusion of Persons. The Tribe's rules and
10 regulations shall require at a minimum the exclusion of persons
11 based on their prior conduct at the video lottery terminal
12 establishment or who, because of their criminal history or
13 association with criminal offenders, pose a threat to the integrity
14 of the conduct of video lottery games or may be playing video
15 lottery games compulsively.

16 (a) The TCA shall establish a list of the persons to be
17 excluded from any video lottery terminal establishment under this
18 provision.

19 (b) The Tribe shall employ its best efforts to exclude
20 persons on such list from entry into its video lottery terminal
21 establishment.

22 (c) Patrons who believe they may be playing video lottery
23 games on a compulsive basis may request that their names be placed
24 on the list. All gaming employees shall receive training on
25 identifying players who have a problem with compulsive playing and
26 shall be instructed to ask them to leave. Signs and other materials
27 shall be readily available to direct such compulsive players to

1 agencies where they may receive counseling. Notwithstanding any
2 other provision of this agreement, the TCA's list of self-excluded
3 persons shall not be open to public inspection.

4 (d) The Tribe or video lottery manager also may exclude any
5 other person for any reason not related to that person's race, sex,
6 national origin, physical disability, or religion.

7 Sec. 9.8. Sale of Alcoholic Beverages. The sale and service
8 of alcoholic beverages in a video lottery terminal establishment
9 shall be in compliance with state, federal, and tribal law in regard
10 to the licensing and sale of such beverages.

11 Sec. 9.9. Age Restrictions. (a) No person under the age of
12 18 may be allowed to play video lottery games, be admitted into any
13 area in a video lottery terminal establishment where video lottery
14 games are played, or be allowed to operate, or obtain a prize from
15 or in connection with the operation of, any video lottery game,
16 directly or indirectly. If during the term of this agreement, the
17 State amends its law to allow play of video lottery terminals by
18 persons under the age of 18, the Tribe may amend tribal law to
19 reduce the lawful gaming age under this agreement to correspond to
20 the lawful gaming age under state law.

21 (b) No person under the age of 18 may be employed as a gaming
22 employee unless the employment would be allowed under state law.

23 (c) No person under the age of 21 may be employed in the
24 service of alcoholic beverages at any video lottery terminal
25 establishment, unless such employment would be allowed under state
26 law.

27 Sec. 9.10. Destruction of Records. Books, records, and

1 other materials documenting the operation of video lottery
2 terminals may be destroyed only in accordance with rules and
3 regulations adopted by the TCA, which at a minimum shall provide as
4 follows:

5 (a) material that might be utilized in connection with a
6 prize claim, including incident reports, surveillance records,
7 statements, and the like, shall be maintained at least 180 days
8 beyond the time which a claim can be made under this gaming
9 agreement or, if a prize claim is made, beyond the final disposition
10 of such claim; and

11 (b) except as otherwise provided in Section 9.3(a)(1), all
12 books and records with respect to the operation of video lottery
13 terminals or the operation of the video lottery terminal
14 establishment, including all interim and final financial and audit
15 reports and materials related thereto which have been generated in
16 the ordinary course of business, shall be maintained for the
17 minimum period of four years.

18 Sec. 9.11. Location. The Tribe may establish facilities
19 for and operate video lottery terminals only on its Indian lands
20 defined by Chapter 466, Texas Government Code. The Tribe shall
21 notify the Texas Lottery Commission of any potential new video
22 lottery terminal establishment following the effective date of this
23 gaming agreement. Nothing herein shall be construed as expanding
24 or otherwise altering the term "Indian lands," as that term is
25 defined by Chapter 466, Texas Government Code.

26 Sec. 9.12. Placement and Movement of Video Lottery
27 Terminals. Placement and movement of video lottery terminals

1 within a video lottery terminal establishment must be consistent
2 with a video lottery terminal floor plan approved by the Texas
3 Lottery Commission.

4 Sec. 9.13. Monitoring of Operation of Video Lottery
5 Terminals. All terminals connected to the video lottery system
6 will be continuously monitored by the Texas Lottery Commission and
7 disabled, when, in the commission's discretion, a problem arises
8 threatening the public health, safety or welfare, or financial loss
9 to the State, or jeopardizing the integrity of the video lottery.
10 Circumstances justifying termination include malfunction of a
11 video lottery terminal or any game displayed on a video lottery
12 terminal, misuse of any video lottery terminal or video lottery
13 game, or a material breach by the Tribe in the operating
14 requirements or a material provision of this agreement.

15 Sec. 9.14. Wager Limitations. The TCA shall set the maximum
16 wager authorized for any single play of a video lottery terminal
17 consistent with any maximum wager set by rule of the Texas Lottery
18 Commission. During the term of this agreement, the wager
19 limitation set forth in this section shall be automatically
20 increased without the need to amend this agreement on each two-year
21 anniversary of the effective date to an amount equal to the wager
22 limitation multiplied by the CPI adjustment rate, rounded up to the
23 next whole dollar.

24 Sec. 9.15. Prizes. (a) Payment of prizes shall be the sole
25 and exclusive responsibility of the Tribe or video lottery manager.
26 No prizes shall be paid by the Texas Lottery Commission or the State
27 except as otherwise authorized. Video lottery tickets shall be

1 redeemable only for a period of 180 days following the date of
2 issuance. If a claim is not made for prize money on or before the
3 180th day after the date on which the video lottery ticket was
4 issued, the prize money shall become the property of the State. The
5 Tribe agrees to enact rules consistent with this provision and
6 authorized by the commission, governing use and redemption of
7 prizes and credits recorded on electronic player account records,
8 such as players' club cards and smart cards.

9 (b) Nothing herein shall limit the ability of the Tribe or
10 video lottery manager to provide promotional prizes, including wide
11 area progressive networks, in addition to prize payouts regulated
12 by the commission.

13 Sec. 9.16. Patron Disputes. (a) The State and the Texas
14 Lottery Commission shall not be liable for any video lottery
15 terminal malfunction or error by the Tribe or video lottery manager
16 that causes credit to be wrongfully awarded or denied to players.
17 Any disputes arising between players and the Tribe or video lottery
18 manager shall be resolved:

19 (1) if the fair market value of the prize is less than
20 \$1,000, in accordance with commission approved written policies of
21 the TCA with no relief available from the commission or the State;
22 or

23 (2) if the fair market value of the prize is \$1,000 or
24 more, by the commission in its sole discretion pursuant to rules
25 established by the commission.

26 (b) No court of this state or of the Tribe shall have
27 jurisdiction to review the decision of the commission resolving a

1 dispute between players and the Tribe or a video lottery manager.

2 Sec. 9.17. Transfer of Gaming Device Operating Rights.

3 During the term of this agreement, the Tribe may enter into a
4 transfer agreement with one or more federally recognized Indian
5 tribes with Indian lands in this state to acquire or transfer video
6 lottery terminal operating rights on Indian lands. The Tribe's
7 acquisition or transfer of video lottery terminal operating rights
8 is subject to the following conditions:

9 (a) Gaming Agreement. Each Indian tribe that is a party to a
10 transfer agreement must have a valid and effective gaming agreement
11 with the State that contains a provision substantially similar to
12 the provision herein permitting transfers of the Indian tribe's
13 video lottery terminal operating rights.

14 (b) Forbearance Agreement. If the Tribe enters into a
15 transfer agreement to transfer some or all of its video lottery
16 terminal operating rights, the Tribe also shall execute a
17 forbearance agreement with the State. The forbearance agreement
18 shall include a waiver of all rights of the Tribe to put into play or
19 operate the number of video lottery terminal operating rights
20 transferred during the term of the transfer agreement.

21 (c) The Tribe must be operating video lottery terminals at
22 least equal to its current video lottery terminal allocation
23 before, or simultaneously with, the Tribe acquiring the right to
24 operate additional video lottery terminals by a transfer agreement.
25 The Tribe is not required to utilize any video lottery terminal
26 operating rights it acquires, or to utilize them before acquiring
27 additional video lottery terminal operating rights.

1 (d) The Tribe shall not at any time simultaneously acquire
2 video lottery terminal operating rights and transfer video lottery
3 terminal operating rights pursuant to transfer agreements.

4 Sec. 9.17.1. Transfer Agreements. The transfer of video
5 lottery terminal operating rights may be made pursuant to a
6 transfer agreement between two Indian tribes. A transfer agreement
7 must include the following provisions:

8 (a) the number of video lottery terminal operating rights
9 transferred and acquired;

10 (b) the duration of the transfer agreement;

11 (c) the consideration to be paid by the Indian tribe
12 acquiring the video lottery terminal operating rights to the Indian
13 tribe transferring the video lottery terminal operating rights and
14 the method of payment;

15 (d) the dispute resolution and enforcement procedures,
16 including a provision for the State to receive notice of any such
17 proceedings; and

18 (e) a procedure to provide quarterly notice to the Texas
19 Lottery Commission of payments made and received, and to provide
20 timely notice to the commission of disputes, revocation, amendment,
21 and termination.

22 Sec. 9.17.2. Transfer Notice. At least 30 days before the
23 execution of a transfer agreement the Tribe shall send to the Texas
24 Lottery Commission a transfer notice of intent to acquire or
25 transfer video lottery terminal operating rights. The transfer
26 notice shall include a copy of the proposed transfer agreement, the
27 proposed forbearance agreement, and a copy of the tribal resolution

1 authorizing the acquisition or transfer.

2 Sec. 9.17.3. Texas Lottery Commission Denial of Transfer.

3 (a) The Texas Lottery Commission may deny a transfer as set forth
4 in a transfer notice only if:

5 (1) the proposed transfer violates the conditions set
6 forth in this agreement; or

7 (2) the proposed transfer agreement does not contain
8 the minimum requirements listed in this agreement.

9 (b) The commission's denial of a proposed transfer must be
10 in writing, must include the specific reasons for the denial
11 (including copies of all documentation relied upon by the
12 commission to the extent allowed by state law), and must be received
13 by the Tribe within 60 days of the commission's receipt of the
14 transfer notice. If the Tribe disputes the commission's denial of a
15 proposed transfer, the Tribe shall have the right to have the
16 dispute resolved pursuant to the dispute resolution process
17 provided in Section 15.0 herein.

18 Sec. 9.17.4. Effective Date of Transfer. If the Tribe does
19 not receive a notice of denial of the transfer from the Texas
20 Lottery Commission within the time period specified in Section
21 9.17.3, the proposed transfer agreement shall become effective on
22 the later of the 61st day following the commission's receipt of the
23 transfer notice or the date set forth in the transfer agreement.

24 Sec. 9.17.5. Use of Brokers. The Tribe shall not contract
25 with any person to act as a broker in connection with a transfer
26 agreement. No person shall be paid a percentage fee or a commission
27 as a result of a transfer agreement, nor shall any person receive a

1 share of any financial interest in the transfer agreement or the
2 proceeds generated by the transfer agreement. Any person acting as
3 a broker in connection with a transfer agreement is providing
4 gaming services.

5 Sec. 9.17.6. Revenue from Transfer Agreements. The Tribe
6 agrees that all proceeds received by the Tribe as a transferor under
7 a transfer agreement shall be used for the governmental purposes
8 permitted under this agreement for revenue generated by video
9 lottery terminal operations. The Tribe shall include the proceeds
10 in an annual audit and shall make available to the State that
11 portion of the audit addressing proceeds from transfer agreements.

12 Sec. 9.17.7. Agreed Upon Procedures Report. The Tribe
13 agrees to provide to the Texas Lottery Commission, either
14 separately or with the other party to the transfer agreement, an
15 agreed upon procedures report from an independent certified public
16 accountant. The procedures to be examined and reported upon are
17 whether payments made under the transfer agreement were made in the
18 proper amount, made at the proper time, and deposited in an account
19 of the Indian tribe transferring the video lottery terminal
20 operating rights.

21 Sec. 9.17.8. State Payment. Proceeds received by the Tribe
22 as a transferor under a transfer agreement from the transfer of
23 video lottery terminal operating rights are not subject to any
24 payment to the State under this agreement or otherwise.

25 Sec. 9.17.9. Access to Records Regarding Transfer
26 Agreements. The Texas Lottery Commission shall have access to all
27 records of the Tribe directly relating to transfer agreements and

1 forbearance agreements.

2 Sec. 9.18. Supervision of Patrons. The Tribe agrees to
3 ensure that gaming employees, at all times, monitor video lottery
4 terminals to prevent access to or play by persons who are under the
5 age of 18 years or who are visibly intoxicated.

6 Sec. 9.19. Hours of Operation. The Tribe may establish by
7 ordinance or regulation the permissible hours and days of operation
8 of video lottery terminal operations; provided, however, that with
9 respect to the sale of liquor, the Tribe agrees to adopt and comply
10 with standards at least as restrictive as any applicable state
11 liquor laws at all video lottery terminal establishments.

12 Sec. 9.20. Automatic Teller Machines. The Tribe agrees to
13 adopt and comply with a Tribal ordinance establishing responsible
14 restrictions on the provision of financial services at video
15 lottery terminal establishments. At a minimum, the ordinance shall
16 prohibit:

17 (a) locating an automatic teller machine ("ATM") adjacent
18 to, or in proximity to, any video lottery terminal, however, an ATM
19 may be installed in a video lottery terminal establishment,
20 provided that the Tribe adopts and complies with an ordinance
21 establishing standards no less restrictive than any state and
22 federal law governing installation of ATMs within a gaming
23 facility;

24 (b) locating in a video lottery terminal establishment an
25 ATM that accepts electronic benefit transfer cards issued pursuant
26 to a state or federal program that is intended to provide for needy
27 families or individuals; and

1 (c) accepting checks or other non-cash items issued
2 pursuant to a state or federal program that is intended to provide
3 for needy families or individuals.

4 Sec. 9.21. Advertising. Advertisements or promotions must
5 comply with guidelines established by the TCA that are consistent
6 with criteria established by the Texas Lottery Commission.

7 Sec. 9.22. Remedies and Penalties for Unlawful Gaming.
8 Operation or possession of any gaming devices not expressly
9 authorized under this gaming agreement (excluding any Class II
10 gaming authorized under applicable federal law) shall be considered
11 a material breach of the gaming agreement and justify termination
12 of the agreement. Under those circumstances, the State may bring an
13 action in state court and shall be entitled to an injunction
14 prohibiting the continued operation of any unlawful gaming activity
15 upon a showing by a preponderance of evidence that the breach has
16 occurred. In any such proceeding, it is the finding of the
17 legislature that irreparable injury and inadequate remedy at law
18 shall be presumed once the State has demonstrated the violation has
19 occurred. If the State does not seek an injunction for such a
20 material breach of the gaming agreement, the Tribe agrees to pay a
21 contract penalty of \$10,000 per day for every day the violation or
22 breach continues. If the breach or violation is not cured within 30
23 days, the State shall bring an action to enjoin the unlawful conduct
24 and may disable all video lottery terminals operated by the Tribe or
25 operated by a video lottery manager on the Indian lands of the
26 Tribe.

27 SECTION 10.0. ENFORCEMENT OF GAMING AGREEMENT PROVISIONS.

1 Sec. 10.1. The Tribe and TCA shall be responsible for
2 regulating activities pursuant to this gaming agreement. As part
3 of its responsibilities, the Tribe shall:

4 (a) take reasonable measures to assure the physical safety
5 of video lottery terminal establishment patrons and personnel,
6 prevent illegal activity at the video lottery terminal
7 establishment, and protect any rights of patrons under the Indian
8 Civil Rights Act of 1968 (25 U.S.C. Sections 1301-1303);

9 (b) promptly notify appropriate law enforcement authorities
10 of persons who may be involved in illegal acts in accordance with
11 applicable tribal, federal, and state law;

12 (c) assure that the construction and maintenance of the
13 video lottery terminal establishment meets or exceeds federal and
14 Tribal standards for comparable buildings and minimum standards
15 under this gaming agreement; and

16 (d) prepare adequate emergency access and preparedness
17 plans to ensure the health and safety of all video lottery terminal
18 establishment patrons. On finalization of the emergency access and
19 preparedness plans, the TCA or the Tribe shall forward copies of the
20 plans to the Texas Lottery Commission.

21 Sec. 10.2. Members and employees of the TCA shall be
22 licensed in accordance with the provisions of this agreement. All
23 licenses for members and employees of the TCA shall be issued
24 according to the same standards and terms applicable to video
25 lottery terminal establishment employees. The TCA shall employ
26 qualified compliance officers under the authority of the TCA. The
27 compliance officers shall be independent of the video lottery

1 terminal establishment, and shall be supervised by and accountable
2 only to the TCA. A TCA compliance officer shall be available to the
3 video lottery terminal establishment during all hours of operation
4 on reasonable notice, and shall have immediate access to any and all
5 areas of the video lottery terminal establishment for the purpose
6 of ensuring compliance with the provisions of this gaming
7 agreement. The TCA shall investigate any suspected or reported
8 violation of this gaming agreement and shall require the correction
9 of the violation. The TCA shall prepare and retain in its files a
10 timely written report of each investigation and any action taken in
11 response to the investigation, and shall forward copies of the
12 report to the Texas Lottery Commission within 15 days of the date of
13 the filing. Any such violations shall be reported immediately to
14 the TCA, and the TCA shall immediately forward the same to the
15 commission. In addition, the TCA shall promptly report to the
16 commission any such violations that it independently discovers.

17 Sec. 10.3. In order to develop and foster a positive and
18 effective relationship in the enforcement of the provisions of this
19 gaming agreement, representatives of the TCA and the Texas Lottery
20 Commission shall meet at least annually to review past practices
21 and examine methods to improve the regulatory scheme created by
22 this gaming agreement. The meetings shall take place at a location
23 mutually agreed to by the TCA and the commission. The commission,
24 before or during such meetings, shall disclose to the TCA any
25 concerns, suspected activities, or pending matters reasonably
26 believed to possibly constitute violations of this gaming agreement
27 by any person, organization, or entity, if such disclosure will not

1 compromise the interest sought to be protected.

2 Sec. 10.4. Financial Obligations of the Texas Lottery
3 Commission. Any financial obligation of the Texas Lottery
4 Commission or of the State, under this gaming agreement or arising
5 from the operation of the video lottery on the Tribe's Indian lands,
6 shall be payable solely out of the income, revenues, and receipts of
7 the commission resulting from the operation of video lottery
8 terminals on Indian lands of the Tribe.

9 Sec. 10.5. Penalties and Remedies for Noncompliance. (a)
10 Failure to timely remit revenue generated by video lottery
11 terminals to the Texas Lottery Commission or any sales tax or other
12 fee owed to the State or to timely file any report or information
13 required under this gaming agreement or by applicable federal or
14 state law shall constitute a material breach of this gaming
15 agreement. After receiving at least 24 hours written notice from
16 the commission and an additional 48 hours for the opportunity to
17 remedy the breach or otherwise correct the violation, the Tribe
18 shall be subject to contract penalties in the amount of \$10,000 per
19 day for the breach. If the breach is not cured within 30 days, the
20 commission shall disable all video lottery terminals operated by
21 the Tribe.

22 (b) If the Tribe is in material breach of this agreement and
23 the Texas Lottery Commission exercises its right to disable all
24 video lottery terminals operated by the Tribe, the commission shall
25 have the right to enter the premises of any video lottery terminal
26 establishment on the Tribe's Indian lands and remove any video
27 lottery games or other video lottery equipment owned by the State.

1 Sec. 10.6. No Liability of the State Related to
2 Enforcement. The State and the Texas Lottery Commission are not
3 liable for any enforcement of the provisions of this gaming
4 agreement.

5 SECTION 11.0. STATE MONITORING OF GAMING AGREEMENT.

6 Sec. 11.1. (a) The Texas Lottery Commission shall,
7 pursuant to the provisions of this gaming agreement, have the
8 authority to monitor the conduct of video lottery games to ensure
9 video lottery games are conducted in compliance with the provisions
10 of this gaming agreement. In order to properly monitor the conduct
11 of video lottery games, in addition to the State's operation and
12 control of the central system and video lottery system, agents of
13 the commission shall have reasonable access to all areas of the
14 video lottery terminal establishment related to the conduct of
15 video lottery games as provided herein:

16 (1) the commission shall have access to the video
17 lottery terminal establishment only during the video lottery
18 terminal establishment's normal operating hours; provided that to
19 the extent such inspections are limited to areas of the video
20 lottery terminal establishment where the public is normally
21 allowed, commission agents may inspect the video lottery terminal
22 establishment without giving prior notice to the Tribe;

23 (2) any suspected or claimed violations of this gaming
24 agreement or of law shall be directed in writing to the TCA;
25 commission agents may not interfere with the functioning of the
26 video lottery terminal establishment unless the public safety,
27 welfare, or financial loss to the State, or integrity of the state

1 lottery so requires; and

2 (3) before entering any nonpublic area of the video
3 lottery terminal establishment, commission agents must provide
4 proper photographic identification to the TCA.

5 (b) A TCA agent shall accompany a commission agent in
6 nonpublic areas of the video lottery terminal establishment. A
7 one-hour notice by the commission to the TCA may be required to
8 assure that a TCA officer is available to accompany commission
9 agents at all times.

10 Sec. 11.2. Subject to the provisions herein, agents of the
11 Texas Lottery Commission shall have the right to review and copy
12 documents or other records related to the operation of video
13 lottery terminals. The review and copying of those records shall be
14 during normal business hours or hours otherwise at the Tribe's
15 discretion. However, the commission may not copy those portions of
16 any records related to the Tribe's operation of video lottery
17 terminals that contain business or marketing strategies or other
18 proprietary and confidential information, including customer
19 lists, business plans, marketing studies, and customer
20 demographics or profiles. No records of the Tribe related to its
21 conduct of video lottery games or copies thereof shall be released
22 to the public by the State. All such records shall be deemed
23 confidential records owned by the Tribe and are not subject to
24 public disclosure by the State.

25 Sec. 11.3. At the completion of any commission inspection
26 or investigation, the Texas Lottery Commission shall forward a
27 written report thereof to the TCA. The TCA shall be apprised on a

1 timely basis of all pertinent, nonconfidential information
2 regarding any violation of federal, or state laws, rules or
3 regulations, or this gaming agreement. Nothing herein prevents the
4 commission from contacting Tribal or federal law enforcement
5 authorities concerning suspected criminal wrongdoing involving the
6 TCA. The TCA may interview commission agents and inspectors upon
7 reasonable notice and examine work papers in the same fashion that
8 commission agents and inspectors may examine auditors' notes and
9 make auditor inquiry unless providing such information to the TCA
10 will compromise the interests sought to be protected.

11 Sec. 11.4. Nothing in this gaming agreement shall be deemed
12 to authorize the State to regulate the Tribe's government,
13 including the TCA, or to interfere in any way with the Tribe's
14 selection of its governmental officers, including members of the
15 TCA. The Texas Lottery Commission and the Tribe, however, on
16 request of the Tribe, shall jointly employ, at the Tribe's expense,
17 an independent firm to perform on behalf of the commission the
18 duties set forth in Sections 11.2 and 11.3.

19 SECTION 12.0. JURISDICTION.

20 Sec. 12.1. Except as expressly provided herein, this gaming
21 agreement shall not alter tribal, federal, or state civil
22 adjudicatory or criminal jurisdiction.

23 Sec. 12.2. The Tribe expressly consents to the State's
24 jurisdiction to enforce the terms of this gaming agreement
25 including any request for judicial injunctive relief to prohibit
26 unlawful gaming activities.

27 SECTION 13.0. PUBLIC AND WORKPLACE HEALTH, SAFETY, AND

1 LIABILITY.

2 Sec. 13.1. The Tribe will not conduct any gaming activity in
3 a manner that endangers the public health, safety, or welfare.

4 Sec. 13.2. For the purposes of this gaming agreement, the
5 Tribe agrees to:

6 (a) adopt and comply with standards at least as stringent as
7 state public health standards for food and beverage handling at any
8 video lottery terminal establishment. The Tribe will allow
9 inspection of food and beverage services at any video lottery
10 terminal establishment by state or county health inspectors, during
11 normal hours of operation, to assess compliance with these
12 standards, unless inspections are routinely made by an agency of
13 the United States government to ensure compliance with equivalent
14 standards of the United States Public Health Service. Nothing
15 herein shall be construed as submission of the Tribe to the
16 jurisdiction of those state or county health inspectors, but any
17 alleged violations of the standards shall be treated as alleged
18 violations of the gaming agreement;

19 (b) adopt and comply with standards at least as stringent as
20 federal water quality and safe drinking water standards applicable
21 in Texas at any video lottery terminal establishment. The Tribe
22 will allow for inspection and testing of water quality at any video
23 lottery terminal establishment by state or county health
24 inspectors, as applicable, during normal hours of operation, to
25 assess compliance with these standards, unless inspections and
26 testing are made by an agency of the United States pursuant to, or
27 by the Tribe under express authorization of, federal law, to ensure

1 compliance with federal water quality and safe drinking water
2 standards. Nothing herein shall be construed as submission of the
3 Tribe to the jurisdiction of those state or county health
4 inspectors, but any alleged violations of the standards shall be
5 treated as alleged violations of this gaming agreement;

6 (c) comply with the building and safety standards set forth
7 in Section 8.4 of this agreement;

8 (d) carry not less than five million dollars (\$5,000,000) in
9 public liability insurance for patron claims. The Tribe herein
10 provides reasonable assurance that such claims will be promptly and
11 fairly adjudicated, and that legitimate claims will be paid;
12 provided that nothing herein requires the Tribe to agree to
13 liability for punitive damages or attorneys' fees. On or before the
14 effective date of this gaming agreement or not less than 30 days
15 before the commencement of operation of video lottery terminals
16 under this gaming agreement, whichever is later, the Tribe shall
17 adopt and make available to patrons a tort liability ordinance
18 setting forth the terms and conditions, if any, under which the
19 Tribe waives immunity to suit for money damages resulting from
20 intentional or negligent injuries to person or property at the
21 video lottery terminal establishment or in connection with the
22 Tribe's operation of video lottery terminals. The tort liability
23 ordinance shall include procedures for processing any claims for
24 such money damages. Nothing in this section shall require the Tribe
25 to waive its immunity to suit except to the extent of the policy
26 limits set out in this subsection. Any insurance policy provided in
27 compliance with the terms of this subsection shall provide that the

1 policy provider shall not raise the Tribe's sovereign immunity as a
2 defense or otherwise to avoid payment of a claim under this
3 subsection;

4 (e) adopt and comply with standards at least as stringent as
5 federal workplace and occupational health and safety standards at
6 any video lottery terminal establishment. The Tribe will allow for
7 inspection of video lottery terminal establishment workplaces by
8 state inspectors, during normal hours of operation, to assess
9 compliance with these standards, unless inspections are regularly
10 made by an agency of the United States government to ensure
11 compliance with federal workplace and occupational health and
12 safety standards. Nothing herein shall be construed as submission
13 of the Tribe to the jurisdiction of those state inspectors, but any
14 alleged violations of the standards shall be treated as alleged
15 violations of this gaming agreement;

16 (f) comply with tribal codes and any applicable federal law
17 regarding public health and safety;

18 (g) adopt and comply with standards at least as stringent as
19 federal laws and state laws forbidding employers generally from
20 discriminating in the employment of persons to work for the Tribe in
21 relation to its operation of video lottery terminals or in the video
22 lottery terminal establishment on the basis of race, color,
23 religion, national origin, gender, sexual orientation, age, or
24 disability. However, nothing herein shall preclude the Tribe from
25 giving a preference in employment to Indians, pursuant to a duly
26 adopted tribal ordinance;

27 (h) adopt and comply with standards that are at least as

1 stringent as state laws prohibiting a video lottery manager or any
2 employee thereof from cashing any check drawn against a federal,
3 state, county, or city fund, including social security,
4 unemployment insurance, disability payments, or public assistance
5 payments;

6 (i) adopt and comply with standards that are at least as
7 stringent as state laws governing the extension of credit to, the
8 cashing of checks for, and other financial transactions with
9 patrons calculated to protect players from problem and pathological
10 gambling; and

11 (j) adopt and comply with the provisions of the Bank Secrecy
12 Act (31 U.S.C. Sections 5311-5314), as amended, and all reporting
13 requirements of the Internal Revenue Service, insofar as such
14 provisions and reporting requirements are applicable to gaming
15 facilities.

16 Sec. 13.2.1. The Tribe agrees to adopt and, not later than
17 30 days after the effective date of this gaming agreement, make
18 available on request the standards described in Subsections (a)-(c)
19 and (e)-(j) of Section 13.2 to which the Tribe is held with regard
20 to operation of video lottery terminals. In the absence of a
21 promulgated tribal standard in respect to a matter identified in
22 those subsections, or the express adoption of an applicable federal
23 statute or regulation instead of a tribal standard in respect to any
24 such matter, an applicable state statute or regulation shall be
25 deemed to have been adopted by the Tribe as the applicable standard.

26 Sec. 13.3. Participation in State Statutory Programs
27 Related to Employment. (a) Instead of allowing the Tribe to

1 participate in the state statutory workers' compensation system for
2 employees of a video lottery terminal establishment or otherwise
3 engaged in the operation of video lottery terminals, the Tribe may
4 create and maintain a system that provides redress for employee
5 work-related injuries through requiring insurance or
6 self-insurance. The system must include a scope of coverage,
7 availability of an independent medical examination, right to
8 notice, hearings before an independent tribunal, a means of
9 enforcement against the employer, and benefits comparable to those
10 mandated for comparable employees under state law. Not later than
11 the effective date of this gaming agreement, or 60 days before the
12 commencement of video lottery terminal operations under this gaming
13 agreement, the Tribe will advise the State of its election to
14 participate in the statutory workers' compensation system or,
15 alternatively, will forward to the State all relevant ordinances
16 that have been adopted and all other documents establishing the
17 system and demonstrating that the system is fully operational and
18 compliant with the comparability standard set forth in this
19 subsection. The parties agree that independent contractors doing
20 business with the Tribe must comply with all state workers'
21 compensation laws and obligations.

22 (b) The Tribe agrees to participate in the State's program
23 for providing unemployment compensation benefits and unemployment
24 compensation disability benefits with respect to employees of the
25 video lottery terminal establishment, and the Tribe consents to the
26 jurisdiction of the state agencies charged with the enforcement of
27 that code and of the courts of the State for purposes of

1 enforcement.

2 (c) As a matter of comity, with respect to persons employed
3 at the video lottery terminal establishment in capacities otherwise
4 related to the operation of video lottery terminals, other than
5 members of the Tribe, the Tribe shall withhold all taxes due to the
6 State as provided by Texas law, and shall forward the amounts as
7 provided by State law.

8 Sec. 13.4. Emergency Service Accessibility. The Tribe
9 shall make reasonable provisions for adequate emergency fire,
10 medical, and related relief and disaster services for patrons and
11 employees of the video lottery terminal establishment.

12 Sec. 13.5. The Tribe agrees to prohibit the intentional,
13 knowing, or reckless possession of a firearm, illegal knife, club,
14 explosive weapon, machine gun, firearm silencer, knuckles,
15 armor-piercing ammunition, a chemical dispensing device, or a zip
16 gun, as those terms are defined in Section 46.01, Texas Penal Code,
17 at all times in the video lottery terminal establishment. The
18 defenses that apply to the prohibition of possession of those
19 weapons on the premises of a racetrack under Section 46.03, Texas
20 Penal Code, shall also apply to the prohibition of possession of the
21 weapons in video lottery terminal establishments. In addition,
22 Tribal security or Tribal law enforcement personnel, shall be
23 allowed to possess firearms and clubs at a video lottery terminal
24 establishment as authorized by Tribal law.

25 Sec. 13.6. Tribal Law Enforcement Plan. The Tribe agrees to
26 implement a written tribal law enforcement services plan that
27 provides a comprehensive and effective means to address criminal

1 and undesirable activity at the video lottery terminal
2 establishment. The plan shall provide that sufficient tribal law
3 enforcement resources are available 24 hours a day, seven days per
4 week to protect the public health, safety, and welfare at the video
5 lottery terminal establishment. To accommodate investigations and
6 intelligence sharing, the Tribe will provide that a police officer
7 holding a current Texas police officer standards and training
8 certification is employed by the Tribe and assigned to handle video
9 lottery terminal related matters when they arise. Intelligence
10 liaisons will be established at the tribal police department or TCA
11 and also at the Texas Lottery Commission. There will be federal,
12 tribal, and state cooperation in task force investigations. The
13 commission's intelligence unit will gather, coordinate,
14 centralize, and disseminate accurate and current intelligence
15 information pertaining to criminal and undesirable activity that
16 may threaten patrons, employees, and assets of a video lottery
17 terminal establishment or the video lottery system. The State and
18 the Tribe will coordinate the use of resources, authority, and
19 personnel of the State and the Tribe for the shared goal of
20 preventing and prosecuting criminal or undesirable activity by
21 players, employees, or businesses in connection with tribal video
22 lottery terminal operations.

23 Sec. 13.7. Annual Statement of Compliance Regarding Use of
24 Revenue. The Tribe agrees to submit to the Texas Lottery Commission
25 an annual statement of compliance regarding the use of its share of
26 revenue generated from video lottery terminal operations and a copy
27 of a current tribal ordinance requiring that revenue generated from

1 video lottery terminal operations be used exclusively for the
2 establishment and improvement of governmental services and
3 programs.

4 SECTION 14.0. EXCLUSIVITY AND FEES.

5 Sec. 14.1. The parties acknowledge and recognize that this
6 gaming agreement provides the Tribe territorial exclusivity
7 through the permitted operation of video lottery terminals without
8 requiring construction or operation of a racetrack for live horse
9 or dog racing. This territorial exclusivity and the additional
10 benefits to the Tribe are of substantial benefit to the Tribe and,
11 consistent with Federal Indian policy, provide special
12 opportunities for tribal economic opportunity through gaming
13 within the external boundaries of Texas. In consideration thereof,
14 as long as the State does not after the effective date of this
15 gaming agreement authorize a person to operate video lottery
16 terminals or any additional form of gaming that would be considered
17 a lottery or gift enterprise under Section 47(a), Article III,
18 Texas Constitution, without the Tribe's written consent within the
19 exclusive territory designated by this gaming agreement for the
20 operation of video lottery games by the Tribe, the Tribe agrees to
21 pay the fees described in this section.

22 (a) The Tribe covenants and agrees to pay to the State a fee
23 derived from net terminal income calculated as set forth in
24 Subsection (b) of this section. The fee shall be deducted from the
25 daily deposit of funds into the State's account from the video
26 lottery terminal operations prior to the State's transfer of funds
27 back to the Tribe for such operations.

1 (b) The fee shall be ___ percent of all net terminal income
2 received by the Tribe in a calendar year.

3 Sec. 14.2. Start-Up Assessment. On the effective date of
4 this gaming agreement, the Tribe shall deposit with the Texas
5 Lottery Commission the sum of \$_____ ("Start-Up Assessment"). The
6 purpose of the Start-Up Assessment shall be to assist the State in
7 initiating its administrative and oversight responsibilities
8 hereunder, and shall be a one-time payment to the State for such
9 purposes.

10 Sec. 14.3. Nothing in this gaming agreement shall be deemed
11 to authorize the State to impose any tax, fee, charge, or assessment
12 on the Tribe or the video lottery terminal establishment except as
13 expressly authorized pursuant to this gaming agreement under
14 Sections 4.6, 6.21(b), and 13.3(c). To the extent that the Tribe is
15 required under federal law to report prizes awarded, the Tribe
16 agrees to copy such reports to the Texas Lottery Commission.
17 Nothing in this gaming agreement, however, shall be interpreted to
18 preclude the State from requiring the Tribe to collect and remit to
19 the State state sales tax on goods sold to non-Indians that are not
20 produced on tribal land, developing and marketing a tribal resource
21 or for which the Tribe has not participated in any meaningful way to
22 their design. Any state sales tax on the sale of such goods to
23 non-Indians shall be conclusively presumed to be a direct tax on the
24 retail consumer, pre-collected for the purpose of convenience and
25 facility.

26 Sec. 14.4. In consideration for the covenants and
27 agreements contained herein, the State agrees that it will not,

1 during the term of this gaming agreement, allow the nontribal
2 operation of any video lottery games or other gaming that would be
3 considered a lottery or gift enterprise under Section 47(a),
4 Article III, Texas Constitution, without the Tribe's written
5 consent within _____ [limitation on state video lottery or other
6 new lottery gaming in exclusive Indian video lottery territory].
7 The state recognizes the importance of this provision to the Tribe
8 and agrees, in the event of a breach of this provision by the State,
9 to require any nontribal entity that operates any such games within
10 the prohibited territory to remit to the State not less than 50
11 percent of any revenue from those games. The State further agrees
12 to remit that revenue at least quarterly to Eligible Tribes, as
13 liquidated damages. For purposes of this part, "Eligible Tribes"
14 shall mean those tribes that have entered into a gaming agreement
15 with the State under Section 466.604, Texas Government Code, and
16 are operating gaming pursuant to the gaming agreement within _____
17 [description of exclusive territory for tribal video lottery].
18 Such liquidated damages shall be allocated pro rata to the Eligible
19 Tribes based on the number of video lottery terminals operated by
20 each Eligible Tribe in the time period when those revenues were
21 generated.

22 Sec. 14.5. The Tribe shall remit to the State a fee of
23 \$_____ for each video lottery terminal delivered to a video
24 lottery establishment of the Tribe.

25 SECTION 15.0. DISPUTE RESOLUTION.

26 Sec. 15.1. Voluntary Resolution; Reference to Other Means
27 of Resolution. In recognition of the government-to-government

1 relationship of the Tribe and the State, the parties shall make
2 their best efforts to resolve disputes that occur under this gaming
3 agreement by good faith negotiations whenever possible. Therefore,
4 without prejudice to the right of either party to seek injunctive
5 relief or specific relief provided in this agreement against the
6 other when circumstances are deemed to require immediate relief,
7 the parties hereby establish a threshold requirement that disputes
8 between the Tribe and the State first be subjected to a process of
9 meeting and conferring in good faith in order to foster a spirit of
10 cooperation and efficiency in the administration and monitoring of
11 performance and compliance by each other with the terms,
12 provisions, and conditions of this gaming agreement, as follows:

13 (a) either party shall give the other, as soon as possible
14 after the event giving rise to the concern, a written notice setting
15 forth, with specificity, the issues to be resolved;

16 (b) the parties shall meet and confer in a good faith
17 attempt to resolve the dispute through negotiation not later than
18 10 days after receipt of the notice, unless both parties agree in
19 writing to an extension of time;

20 (c) if the dispute is not resolved to the satisfaction of
21 the parties within 30 calendar days after the first meeting, then
22 either party may seek to have the dispute resolved by an arbitrator
23 in accordance with this section; and

24 (d) disagreements that are not otherwise resolved by
25 arbitration or other mutually acceptable means as provided herein
26 may be resolved in the United States District Court with
27 jurisdiction over the location or planned location of the Tribe's

1 video lottery terminal establishment or, if the federal courts lack
2 jurisdiction, in a state district court in Travis County. The
3 disputes to be submitted to court action are limited to claims of
4 breach or violation of this gaming agreement or failure to
5 negotiate in good faith as required by the terms of this gaming
6 agreement. The parties agree that, except in the case of imminent
7 threat to the public health, safety, or welfare or the integrity of
8 the lottery, reasonable efforts will be made to explore alternative
9 dispute resolution avenues prior to resorting to judicial process.

10 Sec. 15.2. Arbitration Rules. Arbitration shall be
11 conducted in accordance with the policies and procedures of the
12 Commercial Arbitration Rules of the American Arbitration
13 Association, provided that application of these rules shall not be
14 construed to waive the State's sovereign immunity to an extent
15 greater than otherwise authorized herein. Arbitration shall be
16 held at such location as the parties may agree. Each side shall
17 bear its own costs, attorneys' fees, and one-half the costs and
18 expenses of the American Arbitration Association and the
19 arbitrator, unless the arbitrator rules otherwise. Only one
20 neutral arbitrator may be named, unless the Tribe or the State
21 objects, in which case a panel of three arbitrators (one of whom is
22 selected by each party) will be named. The decision of the
23 arbitrator(s) shall be in writing, shall give reasons for the
24 decision, and shall be binding. Judgment on the award may be entered
25 in any federal or state court having jurisdiction thereof.

26 Sec. 15.3. Limited Waiver of Sovereign Immunity. (a) In
27 the event that a dispute is to be resolved in federal court or a

1 state court of competent jurisdiction as provided in this section,
2 the State and the Tribe expressly consent to be sued therein and
3 waive any immunity therefrom that they may have provided that:

4 (1) the dispute is limited solely to issues arising
5 under this gaming agreement;

6 (2) neither side makes any claim for monetary damages
7 (that is, only injunctive, specific performance, including
8 enforcement of a provision of this gaming agreement requiring
9 payment of money to one or another of the parties, or declaratory
10 relief is sought); and

11 (3) no person or entity other than the Tribe and the
12 State is party to the action, unless failure to join a third party
13 would deprive the court of jurisdiction, provided that nothing
14 herein shall be construed to constitute a waiver of the sovereign
15 immunity of either the Tribe or the State in respect to any such
16 third party.

17 (b) In the event of intervention by any additional party
18 into any such action without the consent of the Tribe and the State,
19 the waivers of either the Tribe or the State provided for herein may
20 be revoked, unless joinder is required to preserve the court's
21 jurisdiction, provided that nothing herein shall be construed to
22 constitute a waiver of the sovereign immunity of either the Tribe or
23 the State in respect to any such third party.

24 (c) The waivers and consents provided for under this section
25 shall extend to civil actions authorized by this gaming agreement,
26 such as actions to compel arbitration, any arbitration proceeding
27 herein, any action to confirm or enforce any judgment or

1 arbitration award as provided herein, and any appellate proceedings
2 emanating from a matter in which an immunity waiver has been
3 granted. Except as stated herein or elsewhere in this gaming
4 agreement, no other waivers or consents to be sued, either express
5 or implied, are granted by either party.

6 (d) The State only waives sovereign immunity to the extent
7 authorized by Section 466.601, Texas Government Code.

8 SECTION 16.0. CONSTRUCTION OF GAMING AGREEMENT; FEDERAL
9 APPROVAL.

10 Sec. 16.1. Each provision, section, and subsection of this
11 gaming agreement shall stand separate and independent of every
12 other provision, section, or subsection. In the event that a
13 federal district court or a state court of competent jurisdiction
14 as provided in this agreement shall find any provision, section, or
15 subsection of this gaming agreement to be invalid, the remaining
16 provisions, sections, and subsections of this gaming agreement
17 shall remain in full force and effect, unless the invalidated
18 provision, section, or subsection is material. It is a material
19 provision of this gaming agreement that Class III gaming be limited
20 to that expressly authorized under this gaming agreement, and
21 Subchapter K, Chapter 466, Texas Government Code. If any final and
22 nonappealable judicial determination authorizes or requires the
23 State to authorize that any Class III gaming be operated by the
24 Tribe or by any other federally recognized Indian tribe in the
25 state, other than video lottery terminals connected to the video
26 lottery system or to a government operated video lottery system
27 structured identical to that expressly authorized under Subchapter

1 K, Chapter 466, Texas Government Code, if so required by federal
2 law, then this gaming agreement shall be null and void for all
3 purposes.

4 Sec. 16.2. Each party hereto agrees to defend the validity
5 of this gaming agreement and the legislation in which it is
6 embodied.

7 Sec. 16.3. The parties shall cooperate in seeking approval
8 of this gaming agreement from an appropriate federal agency if so
9 required by federal law.

10 SECTION 17.0. NOTICES.

11 All notices required under this gaming agreement shall be
12 given by certified mail, return receipt requested, commercial
13 overnight courier service, or personal delivery, to the following
14 persons:

15 Governor

16 Chair, State-Tribal Relations Committee

17 Attorney General

18 [Principal Chief, Governor or Chair]

19 [Name of Tribe]

20 [Address]

21 With copies to: _____

22 SECTION 18.0. DURATION, NEGOTIATION, AND TERMINATION.

23 Sec. 18.1. This gaming agreement shall become effective on
24 the last date of the satisfaction of the following requirements:

25 (a) due execution on behalf of the Tribe, including
26 obtaining all tribal resolutions and completing other tribal
27 procedures as may be necessary to render the Tribe's execution

1 effective including a final and nonappealable decision of a tribal
2 court of competent jurisdiction that the Tribe's execution of this
3 gaming agreement is effective and that all parts and provisions of
4 the gaming agreement are enforceable by and against the Tribe as set
5 forth herein;

6 (b) any federal regulatory approval required under federal
7 law and, if so required, publication in the Federal Register or
8 satisfaction of any other requirement of federal law; and

9 (c) payment of the Start-up Assessment provided for in
10 Section 14.2 of this gaming agreement.

11 Sec. 18.2. This gaming agreement shall have a term which
12 will expire 10 years from the effective date; provided that within
13 one hundred eighty (180) days of the expiration of this gaming
14 agreement or any renewal thereof, either the Tribe or the State,
15 acting through its Governor, may request to renegotiate the revenue
16 sharing terms of this gaming agreement. The Tribe's noncompliance
17 with any operational, reporting, or other requirements under this
18 gaming agreement shall justify termination of operation of video
19 lottery terminals on the Tribe's Indian lands. The Tribe shall be
20 entitled to notice and a hearing on the compliance issue as set
21 forth under Chapter 466, Texas Government Code, and accompanying
22 rules of the commission. If the Tribe does not remedy the
23 noncompliance issue within 180 days of the termination or 60 days
24 after a final decision of the commission that the Tribe is out of
25 compliance, then this gaming agreement shall terminate without
26 penalty against the commission or the State.

27 Sec. 18.3. This gaming agreement shall remain in full force

1 and effect until the sooner of expiration of the term, termination
2 as provided herein, or termination by mutual consent of the
3 parties. In addition to the remedies set forth above, either party
4 may bring an action in federal court, after providing a 60-day
5 written notice of an opportunity to cure any alleged breach of this
6 gaming agreement, for a declaration that the other party has
7 materially breached this gaming agreement. On issuance of such a
8 declaration, the complaining party may unilaterally terminate this
9 gaming agreement on service of written notice on the other party.
10 In the event a federal court determines that it lacks jurisdiction
11 over such an action, the action may be brought in the district court
12 for the county in which the Tribe's video lottery terminal
13 establishment is located. The parties expressly waive their
14 immunity to suit for purposes of an action under this subsection,
15 subject to the qualifications stated herein. Nothing in this
16 provision shall be construed to limit other remedies available to
17 and contract penalties enforceable by the Texas Lottery Commission,
18 as expressly provided herein, in the event of the Tribe's material
19 breach. The Tribe and the State recognize and agree that the narrow
20 and enumerated provisions for such immediate remedies and
21 enforcement by the State are necessary to protect the public
22 health, safety, and welfare and the integrity of the video lottery.

23 SECTION 19.0. AMENDMENTS; RENEGOTIATIONS.

24 Sec. 19.1. The terms and conditions of this gaming
25 agreement may be amended at any time by the mutual and written
26 agreement of both parties. Any such amendment, however, shall
27 require ratification and approval by act of the Texas Legislature.

1 Sec. 19.2. This gaming agreement is subject to
2 renegotiation in the event the Tribe wishes to engage in forms of
3 Class III gaming other than those games authorized herein and
4 requests renegotiation for that purpose, provided that no such
5 renegotiation may be sought for 24 months following the effective
6 date of this gaming agreement.

7 SECTION 20.0. AUTHORITY TO EXECUTE.

8 This gaming agreement, as an enactment of the State
9 Legislature, is deemed approved by the State. On valid execution by
10 the Tribe and the Governor of the State, no further action by the
11 State or any State official is necessary for this gaming agreement
12 to take effect on any necessary approval by any federal agency as
13 required by applicable federal law, including publication in the
14 Federal Register, if required. The undersigned tribal official(s)
15 represents that he or she is duly authorized and has the authority
16 to execute this gaming agreement on behalf of the Tribe for whom he
17 or she is signing.

18 APPROVED:

19 [Name of Tribe]

20 _____ Date:_____

21 [CHIEF EXECUTIVE OFFICER]

22 State of Texas

23 _____ Date:_____

24 Governor of Texas

25 Sec. 466.605. NEGOTIATION FOR DIFFERENT GAMING AGREEMENT
26 TERMS. (a) Nothing in this subchapter may be construed to limit
27 the ability of a federally recognized Indian tribe to request that a

1 gaming agreement be negotiated with this state on terms that are
2 different from those set forth in the gaming agreement under
3 Section 466.604, or the ability of this state to engage in
4 negotiations and to reach agreement under any applicable federal
5 law.

6 (b) In offering to enter into a gaming agreement with Indian
7 tribes in this state under Section 466.604(b), and, except for
8 assessments by this state as provided in that section of the amounts
9 necessary to defray state costs of regulating activities as
10 provided under the gaming agreement, nothing in this chapter may be
11 construed to mean that:

12 (1) this state is imposing any tax, fee, charge, or
13 other assessment on an Indian tribe or on any other person or entity
14 authorized by an Indian tribe as a condition to engaging in a Class
15 III activity; or

16 (2) this state is refusing to enter into gaming
17 agreement negotiations based on the lack of authority of this state
18 or a political subdivision of this state to impose the tax, fee,
19 charge, or other assessment.

20 (c) If any federally recognized tribe with jurisdiction
21 over Indian lands in this state requests that the governor enter
22 into negotiations for a gaming agreement under federal law
23 applicable to the tribe, including the Indian Gaming Regulatory Act
24 (18 U.S.C. Section 1166 and 25 U.S.C. Section 2701 et seq.), on
25 terms different than those prescribed in the gaming agreement in
26 Section 466.604(b), the governor shall enter into those
27 negotiations under the federal law applicable to the tribe and

1 without preconditions and is authorized to reach agreement and
2 execute the agreement on behalf of this state, subject to
3 ratification by the legislature, provided that the gaming agreement
4 does not expand the scope of gaming expressly authorized under this
5 chapter and entitles the tribe only to operate video lottery
6 terminals in strict compliance with state law, unless otherwise
7 required by applicable federal law, and provided that the gaming
8 agreement includes the following provisions:

9 (1) a provision prescribing that the tribe is
10 authorized and allowed to engage only in the Class III gaming
11 activities expressly referred to in the gaming agreement and may
12 not engage in Class III gaming that is not expressly authorized in
13 the agreement;

14 (2) a provision prescribing that any operation or
15 possession by the tribe of any gaming devices not expressly
16 authorized under the gaming agreement, excluding any Class II
17 gaming authorized under applicable federal law, shall be considered
18 a material breach of the gaming agreement and justify termination
19 of the agreement and this state may bring an action in federal court
20 or, in the event the federal court declines jurisdiction, in state
21 court and shall be entitled to an injunction prohibiting the
22 continued operation of any unlawful gaming activity on the tribal
23 lands on a showing by a preponderance of evidence that the breach
24 has occurred;

25 (3) a provision waiving state and tribal sovereign
26 immunity for purposes of operation of video lottery terminals and
27 enforcement of the gaming agreement, provided that this state may

1 not waive sovereign immunity except to the extent expressly
2 permitted under Section 466.601;

3 (4) a provision establishing minimum internal control
4 standards at least as restrictive as those provided under this
5 subchapter and any standards set forth under applicable federal
6 law;

7 (5) a provision requiring any video lottery manager
8 doing business on Indian lands to indemnify and hold harmless the
9 commission, this state, and the members, officers, employees, and
10 authorized agents of the commission and this state from any and all
11 claims which may be asserted against a license or registration
12 holder, the commission, this state, or the employees arising from
13 the license or registration holder's participation in the video
14 lottery system authorized under the gaming agreement;

15 (6) a provision requiring the tribe to pay all
16 regulatory costs incurred by this state in relation to the
17 operation of video lottery terminals on the Indian lands of the
18 tribe to assure compliance with all federal and state law and all
19 provisions of the agreement;

20 (7) a provision recognizing the substantial benefit of
21 the exclusivity or other substantial benefits afforded to the Tribe
22 under the agreement and providing for the sharing of net terminal
23 revenue between the tribe and this state as payment for the
24 exclusivity or other substantial benefit;

25 (8) a provision establishing investigative and
26 licensing standards at least as restrictive as those provided under
27 this subchapter and under any applicable federal law;

1 (9) a provision requiring video lottery terminals and
2 facilities operating the video lottery terminals authorized under
3 the gaming agreement to be owned by the tribe;

4 (10) a provision requiring the video lottery
5 authorized by the gaming agreement to be licensed by the tribe in
6 conformity with the requirements of the agreement, the Tribal
7 Gaming Ordinance, and any applicable federal law, every five years
8 and the tribe shall review and renew the license, if appropriate,
9 and the tribe shall provide to the commission verification that
10 this requirement has been satisfied;

11 (11) a provision requiring the licensing of all video
12 lottery employees and any person extending financing, directly or
13 indirectly, to the tribe's video lottery operation before extending
14 that financing, provided that any person who is extending financing
15 at the time of the execution of the agreement must be licensed by
16 the tribe not later than the 90th day after the date of execution,
17 and the provision may allow the tribe, in its discretion, to exclude
18 from the licensing requirements of this section financing provided
19 by:

20 (A) a federally regulated or state-regulated
21 bank, savings and loan, or other federally or state-regulated
22 lending institution;

23 (B) any federal, state, or local government
24 agency; or

25 (C) any investor who, alone or in conjunction
26 with others, holds less than 10 percent of any outstanding
27 indebtedness evidenced by bonds issued by the tribe;

1 (12) a provision allowing the commission, under the
2 provisions of the agreement, to monitor the conduct of video
3 lottery games to ensure that the video lottery games are conducted
4 in compliance with the provisions of the agreement, and granting
5 the Department of Public Safety and agents of the commission
6 reasonable access to all areas of the facility related to the
7 conduct of video lottery games in order to properly monitor the
8 conduct of video lottery games;

9 (13) a provision specifying jurisdiction of tribal,
10 state, and federal courts with regard to matters arising from the
11 agreement or the operation of video lottery terminals, or both, as
12 authorized by the agreement and consistent with Section 466.601;

13 (14) a provision requiring the tribe to adopt and
14 comply with standards at least as stringent as state public health
15 standards for food and beverage handling at any facilities where
16 video lottery terminals are operated;

17 (15) a provision requiring the tribe to adopt and
18 comply with standards at least as stringent as federal water
19 quality and safe drinking water standards applicable in this state
20 at any facilities where video lottery terminals are operated, and
21 requiring the Tribe to allow for inspection and testing of water
22 quality by state or county health inspectors, as applicable, during
23 normal hours of operation, to assess compliance with these
24 standards, unless inspections and testing are made by an agency of
25 the United States pursuant to or by the Tribe under express
26 authorization of federal law to ensure compliance with federal
27 water quality and safe drinking water standards;

1 (16) a provision requiring the tribe to carry at least
2 \$5 million in public liability insurance for patron claims and
3 providing reasonable assurance that the claims will be promptly and
4 fairly adjudicated and that legitimate claims will be paid;

5 (17) a provision requiring the tribe to adopt and
6 comply with standards at least as stringent as federal workplace
7 and occupational health and safety standards for any facilities
8 where video lottery terminals are operated, and requiring the tribe
9 to allow for inspection of the workplaces by state inspectors
10 during normal hours of operation to assess compliance with these
11 standards, unless inspections are regularly made by an agency of
12 the United States government to ensure compliance with federal
13 workplace and occupational health and safety standards;

14 (18) a provision requiring the tribe to adopt and
15 comply with standards at least as stringent as federal laws and
16 state laws forbidding employers generally from discriminating in
17 the employment of persons to work for the facility operating video
18 lottery terminals on the basis of race, color, religion, national
19 origin, gender, sexual orientation, age, or disability, provided
20 that nothing in the provision precludes the tribe from giving a
21 preference in employment to Indians, pursuant to a duly adopted
22 tribal ordinance;

23 (19) a provision requiring the tribe to adopt and
24 comply with standards that are at least as stringent as state laws
25 prohibiting the use of proceeds of a check issued as a payment under
26 the Aid to Families with Dependent Children program administered
27 under Chapter 31, Human Resources Code, or a food stamp coupon

1 issued under the food stamp program administered under Chapter 33,
2 Human Resources Code, for gaming or other wagering;

3 (20) a provision requiring the tribe to adopt and
4 comply with standards at least as stringent as state laws governing
5 the extension of credit to, the cashing of checks for, and other
6 financial transactions with patrons calculated to protect players
7 from problem and pathological gambling;

8 (21) a provision requiring the tribe to participate in
9 state statutory programs related to employment in video lottery
10 terminal operations or instead of participation in this state
11 workers' compensation system, allowing the tribe to create and
12 maintain a system that provides redress for employee work-related
13 injuries through requiring insurance or self-insurance that
14 includes a scope of coverage, availability of an independent
15 medical examination, right to notice, hearings before an
16 independent tribunal, a means of enforcement against the employer,
17 and benefits comparable to those mandated for comparable employees
18 under state law;

19 (22) a provision requiring the tribe to make
20 reasonable provisions for adequate emergency fire, medical, and
21 related relief and disaster services for patrons and employees of
22 the video lottery terminal operations;

23 (23) a provision requiring the tribe to prohibit the
24 intentional, knowing, or reckless possession of a firearm, illegal
25 knife, club, explosive weapon, machine gun, firearm silencer,
26 knuckles, armor-piercing ammunition, a chemical dispensing device,
27 or a zip gun, as those terms are defined in Section 46.01, Penal

1 Code, at all times in the video lottery terminal establishment; and
2 requiring the defenses that apply to the possession of weapons on
3 the premises of a racetrack under Section 46.03, Penal Code, to
4 apply to possession of the weapons in a video lottery terminal
5 establishment; and requiring tribal security or tribal law
6 enforcement personnel to be allowed to possess firearms and clubs
7 at a video lottery terminal establishment as authorized by tribal
8 law;

9 (24) a provision requiring the tribe to agree that on
10 or before the effective date of the agreement, or not less than 90
11 days before the commencement of any project constructed to serve as
12 the site of video lottery terminals, the tribe shall adopt an
13 ordinance providing for the preparation, circulation, and
14 consideration by the tribe of environmental impact reports
15 concerning potential off-reservation environmental impacts of the
16 construction to be commenced on or after the effective date of the
17 agreement;

18 (25) a provision requiring the tribe to agree to
19 establish separate electronic funds transfer accounts for the
20 purposes of depositing money from video lottery terminal
21 operations, making payments to the commission, and receiving
22 payments from the commission, which must prohibit the tribe from
23 making payments to the commission in cash, but as authorized by the
24 commission may allow a tribe to make payments to the commission by
25 cashier's check;

26 (26) a provision requiring the tribe to adopt and
27 comply with the Bank Secrecy Act (31 U.S.C. Sections 5311-5314), as

1 amended, and all reporting requirements of the Internal Revenue
2 Service, insofar as the provisions and reporting requirements are
3 applicable to gaming facilities; and

4 (27) a provision requiring the tribe to collect and
5 remit to the comptroller state sales and use taxes and state taxes
6 on motor fuels, alcoholic beverages, cigarettes and tobacco
7 products, and hotel occupancy, other than taxes on the sale, use, or
8 consumption of an item by a member of the tribe.

9 (d) The legislature finds that, in any proceeding described
10 by Subsection (c)(2), irreparable injury and inadequate remedy at
11 law shall be presumed once this state has demonstrated the
12 violation has occurred. If this state does not seek an injunction
13 for such a material breach of the gaming agreement, the tribe agrees
14 to pay a contract penalty of \$10,000 per day for every day the
15 violation or breach continues. If the violation or breach is not
16 cured within 10 days, this state may bring an action to enjoin the
17 unlawful conduct.

18 Sec. 466.606. IMPLEMENTATION OF GAMING AGREEMENT. The
19 governor shall execute any documents that may be necessary to
20 implement a gaming agreement authorized under this subchapter.

21 Sec. 466.607. INCORPORATION INTO STATE LAW. The model
22 gaming agreement set out in Section 466.604(b) is hereby
23 incorporated into state law, and the operation of video lottery
24 terminals authorized under the agreement is expressly authorized as
25 a matter of state law for any Indian tribe entering into the gaming
26 agreement in accordance with this subchapter.

27 Sec. 466.608. REGULATORY MONEY RECEIVED UNDER GAMING

1 AGREEMENT. All money received by the commission under a gaming
2 agreement for regulatory costs incurred relative to tribal
3 operations of video lottery terminals shall be deposited to the
4 credit of the state video lottery account to defray expenses of the
5 commission incurred in the oversight, compliance with, and
6 enforcement of video lottery terminal operations conducted
7 pursuant to a gaming agreement.

8 Sec. 466.609. INJUNCTION; CIVIL PENALTY. (a) If the
9 commission, the appropriate governing body for an Indian tribe, or
10 the attorney general has reason to believe that this chapter has
11 been or is about to be violated, the attorney general may petition a
12 court for appropriate injunctive relief to restrain the violation.
13 Filing of the petition does not waive applicable sovereign
14 immunity.

15 (b) Venue for an action by this state seeking injunctive
16 relief is in a district court in Travis County.

17 (c) If the court finds that this chapter has been knowingly
18 violated, the court shall order all proceeds from any illegal
19 gambling to be forfeited to the appropriate governing body as a
20 civil penalty.

21 (d) The remedies provided herein are not exclusive. The
22 commission may suspend or revoke a license, impose an
23 administrative penalty, or seek injunctive or civil penalties or
24 both, depending on the severity of the violation.

25 SECTION 34. Section 467.001, Government Code, is amended by
26 amending Subdivision (9) and adding Subdivision (12) to read as
27 follows:

1 (9) "Person that has a significant financial interest
2 in the lottery" means:

3 (A) a person or a board member, officer, trustee,
4 or general partner of a person that manufactures, distributes,
5 sells, or produces lottery equipment, video lottery equipment,
6 video lottery games, video lottery central systems, supplies,
7 services, or advertising;

8 (B) an employee of a video lottery terminal
9 provider, video lottery central system provider, or person that
10 manufactures, distributes, sells, or produces lottery equipment,
11 supplies, services, or advertising or video lottery equipment or
12 games and that employee is directly involved in the manufacturing,
13 distribution, selling, or production of lottery equipment,
14 supplies, services, or advertising or video lottery equipment or
15 games;

16 (C) a person or a board member, officer, trustee,
17 or general partner of a person that has made a bid to operate the
18 lottery in the preceding two years or that intends to make a bid to
19 operate the lottery or an employee of the person if the employee is
20 directly involved in making the bid; or

21 (D) a sales agent, video lottery retailer, video
22 lottery manager, video lottery terminal provider, or video lottery
23 central system provider.

24 (12) "Video lottery central system," "video lottery
25 equipment," "video lottery game," "video lottery manager," "video
26 lottery retailer," and "video lottery terminal provider" have the
27 meanings assigned by Section 466.002.

1 SECTION 35. Section 467.031, Government Code, is amended to
2 read as follows:

3 Sec. 467.031. DIVISIONS. The commission shall establish
4 separate divisions to oversee bingo and the state lottery. The
5 commission may create a division to oversee video lottery and
6 delegate responsibilities in the administration of Chapter 466 to
7 the executive director, the director of the appropriate division,
8 and the division's staff; provided, however, that the commission
9 may not delegate the following actions:

10 (1) a final determination in any application or
11 request for licensing or registration under Chapter 466;

12 (2) a final determination in any proceeding involving
13 the suspension or revocation of a registration or license under
14 Chapter 466;

15 (3) a final determination that Chapter 466 has been
16 violated; or

17 (4) a final determination or imposition of an
18 assessment of fines or penalties under a law administered by the
19 commission.

20 SECTION 36. Section 467.035(a), Government Code, is amended
21 to read as follows:

22 (a) The commission may not employ or continue to employ a
23 person who owns a financial interest in:

24 (1) a bingo commercial lessor, bingo distributor, or
25 bingo manufacturer; or

26 (2) a lottery sales agency, ~~or~~ a lottery operator, a
27 video lottery retailer, a video lottery manager, a video lottery

1 terminal provider, a video lottery central system provider, or a
2 manufacturer of video lottery games.

3 SECTION 37. Section 411.108, Government Code, is amended by
4 adding Subsection (d) to read as follows:

5 (d) The Texas Lottery Commission may obtain from the
6 department, subject to an interagency agreement entered into under
7 Section 466.020(d) or 466.206, criminal history record information
8 maintained by the department that relates to any natural person,
9 corporation, association, trust, partnership, limited partnership,
10 joint venture, government, subsidiary, or other entity, regardless
11 of its form, structure, or nature that the commission has the
12 authority to investigate under Chapter 466 as related to the
13 commission's operation and oversight of video lottery. Criminal
14 history record information obtained by the commission under this
15 subsection may be released or disclosed only as provided in
16 Sections 466.022(d) and 466.206.

17 SECTION 38. Sections 47.01(4) and (8), Penal Code, are
18 amended to read as follows:

19 (4) "Gambling device" means any electronic,
20 electromechanical, or mechanical contrivance not excluded under
21 Paragraph (B) that for a consideration affords the player an
22 opportunity to obtain anything of value, the award of which is
23 determined solely or partially by chance, even though accompanied
24 by some skill, whether or not the prize is automatically paid by the
25 contrivance. The term:

26 (A) includes, but is not limited to, gambling
27 device versions of bingo, keno, blackjack, lottery, roulette, video

1 poker, slot machines, or similar electronic, electromechanical, or
2 mechanical games, or facsimiles thereof, that operate by chance or
3 partially so, that as a result of the play or operation of the game
4 award credits or free games, and that record the number of free
5 games or credits so awarded and the cancellation or removal of the
6 free games or credits; ~~and~~

7 (B) does not include any electronic,
8 electromechanical, or mechanical contrivance designed, made, and
9 adapted solely for bona fide amusement purposes if:

10 (i) the contrivance rewards the player
11 exclusively with noncash merchandise prizes, toys, or novelties, or
12 a representation of value redeemable for those items, that have a
13 wholesale value available from a single play of the game or device
14 of not more than 10 times the amount charged to play the game or
15 device once or \$5, whichever is less;

16 (ii) any merchandise or a representation of
17 value received by a player may be exchanged only at the same
18 business and business location at which the contrivance operated by
19 the player is located and may not be exchanged for a gift
20 certificate or similar conveyance that is redeemable at another
21 business or business location; and

22 (iii) the contrivance or device does not
23 resemble a slot machine or any other casino game; and

24 (C) does not include any electronic,
25 electromechanical, or mechanical contrivance designed, made, and
26 adapted solely for bona fide amusement purposes if the contrivance
27 rewards the player exclusively with a representation of value

1 redeemable for noncash merchandise that has a wholesale value
2 available from a single play of the game or device of not more than
3 \$20 if the contrivance is located and operated on the premises of a
4 video lottery terminal establishment licensed under Subchapter K,
5 Chapter 466, Government Code, with the approval of the Texas
6 Lottery Commission.

7 (8) "Private place" means a place to which the public
8 does not have access, and excludes, among other places, streets,
9 highways, restaurants, taverns, nightclubs, schools, hospitals,
10 and the common areas of apartment houses, hotels, motels, office
11 buildings, transportation facilities, and shops. The term includes
12 the area in a video lottery terminal establishment licensed under
13 Subchapter K, Chapter 466, Government Code, in which video lottery
14 games are conducted.

15 SECTION 39. Section 47.06(e), Penal Code, is amended to
16 read as follows:

17 (e) An offense under this section is a felony of the third
18 degree [~~Class A misdemeanor~~].

19 SECTION 40. Chapter 47, Penal Code, is amended by adding
20 Section 47.095 to read as follows:

21 Sec. 47.095. INTERSTATE OR FOREIGN COMMERCE DEFENSE. It is
22 a defense to prosecution under this chapter that a person sells,
23 leases, transports, possesses, stores, or manufactures a gambling
24 device with the authorization of the Texas Lottery Commission under
25 Subchapter K, Chapter 466, Government Code, for transportation in
26 interstate or foreign commerce.

27 SECTION 41. Section 6.08, Texas Racing Act (Article 179e,

1 Vernon's Texas Civil Statutes), is amended by adding Subsection (c)
2 to read as follows:

3 (c) The amount deposited in purse accounts from simulcast
4 pools under Subsection (b)(3) of this section, other than the
5 amount deposited to purse accounts for breeds other than
6 thoroughbred and quarter horses, shall be deposited as follows:

7 (1) 70 percent in the purse account for thoroughbreds;
8 and

9 (2) 30 percent in the purse account for quarter
10 horses.

11 SECTION 42. Article 6, Texas Racing Act (Article 179e,
12 Vernon's Texas Civil Statutes), is amended by adding Section 6.095
13 to read as follows:

14 Sec. 6.095. SPECIAL ALLOCATION TO PURSES. (a) Each
15 licensed racetrack that is a video lottery terminal establishment
16 under Subchapter K, Chapter 466, Government Code, shall set aside
17 _____ percent of the share of the video lottery proceeds received by
18 the racetrack under Section 466.590(a)(1), Government Code, for
19 purses as provided by this section.

20 (b) At a greyhound racetrack, all money set aside as
21 provided by Subsection (a) of this section shall be deposited in an
22 account to fund purses.

23 (c) At a horse racetrack a percentage of the money set aside
24 as provided by Subsection (a) of this section shall be used for
25 purses for breeds other than thoroughbreds or quarter horses that
26 is the same as the percentage of money from pari-mutuel pools at the
27 racetrack that is set aside for purses for those breeds under this

1 Act. Of the remaining money:

2 (1) ___ percent shall be deposited in an account to
3 fund purses for thoroughbreds; and

4 (2) ___ percent shall be deposited in an account to
5 fund purses for quarter horses.

6 SECTION 43. Article 6, Texas Racing Act (Article 179e,
7 Vernon's Texas Civil Statutes), is amended by adding Section 6.20
8 to read as follows:

9 Sec. 6.20. LIVE RACING REQUIREMENT. (a) Except as provided
10 by Subsections (b) and (c) of this section, a person who holds a
11 Class 1 racetrack that is a video lottery terminal establishment
12 under Subchapter K, Chapter 466, Government Code, shall conduct:

13 (1) for each breed, not less than the number of live
14 racing days conducted by the racetrack for that breed during the
15 previous calendar year; or

16 (2) for quarter horses and thoroughbreds, not less
17 than 50 live race days or 500 live races.

18 (b) A person who holds a Class 1 racetrack license may
19 conduct fewer live racing days than required by Subsection (a) of
20 this section if the racetrack, the affected breed registry, and the
21 recognized horseman's organization enter into a written agreement
22 to conduct fewer races.

23 (c) A Class 1 racetrack that is a video lottery terminal
24 establishment under Subchapter K, Chapter 466, Government Code, and
25 that did not conduct live racing days in the calendar year before
26 the calendar year in which the racetrack began to conduct video
27 lottery games shall conduct not less than _____ live racing days in

1 the calendar year in which the racetrack begins to conduct video
2 lottery games. In subsequent calendar years, Subsection (a) of
3 this section applies to the racetrack.

4 SECTION 44. A change in law made by this Act relating to a
5 criminal offense applies only to an offense committed on or after
6 the effective date of this Act. An offense committed before the
7 effective date of this Act is covered by the law in effect when the
8 offense was committed, and the former law is continued in effect for
9 that purpose. For purposes of this section, an offense was
10 committed before the effective date of this Act if any element of
11 the offense was committed before that date.

12 SECTION 45. The Legislature finds and declares the
13 following:

14 (1) This state is facing a crisis in providing funding
15 for state governmental programs. Contingent on the approval of the
16 voters, in order to generate additional revenue to fund state
17 governmental programs, a limited and narrow exception to the
18 constitutional prohibition on lotteries has been proposed to
19 authorize a state-controlled and state-operated video lottery
20 system in accordance with this Act.

21 (2) In light of the financial emergency faced by the
22 state and the need to fund state governmental programs, in the event
23 the voters approve this limited state-controlled and
24 state-operated video lottery system, the Texas Lottery Commission
25 must be authorized to commence operation of the video lottery
26 system in accordance with this Act at the earliest possible date,
27 consistent with the intent of the voters and legislative directive.

1 (3) The implementation of the video lottery system
2 will require significant time for application investigations and
3 determinations and for video lottery terminal and video lottery
4 central system providers and manufacturers of video lottery games
5 to develop prototypes for testing for the video lottery central
6 system and video lottery terminals and games.

7 (4) The state's budget crisis constitutes an imminent
8 peril to the public welfare, requiring the adoption of rules and
9 authorization for the Texas Lottery Commission to conduct certain
10 limited pre-implementation activities related to the establishment
11 of the video lottery system to promote and ensure the integrity,
12 security, honesty, and fairness of the operation and administration
13 of the video lottery system.

14 (5) In order to commence operation of the video
15 lottery system at the earliest possible date and to maintain the
16 integrity of state-controlled and state-operated video lottery
17 established by this Act, the Texas Lottery Commission may conduct
18 limited pre-implementation acts before the constitutional
19 amendment proposed by the 79th Legislature, Regular Session, 2005,
20 to authorize the state video lottery system is submitted to the
21 voters for approval.

22 SECTION 46. (a) As soon as practicable after the
23 constitutional amendment to authorize the state video lottery
24 system proposed by the 79th Legislature, Regular Session, 2005, is
25 approved by the voters and becomes effective, the Texas Lottery
26 Commission shall adopt the rules necessary to implement video
27 lottery in accordance with Subchapter K, Chapter 466, Government

1 Code, as added by this Act.

2 (b) Before the proposed constitutional amendment to
3 legalize the state video lottery system is submitted to the voters,
4 the Texas Lottery Commission may expend money from the commission's
5 appropriation for the 2006-2007 biennium for purposes of conducting
6 pre-implementation activities to establish the state video lottery
7 system in accordance with Subchapter K, Chapter 466, Government
8 Code, as added by this Act. Notwithstanding Section 466.355,
9 Government Code, the money authorized to be expended under this
10 section may be withdrawn from the state lottery account to fund the
11 establishment of the state video lottery system.

12 (c) Before the proposed constitutional amendment to
13 authorize the state video lottery system is submitted to the
14 voters, the Texas Lottery Commission may develop and approve forms
15 for applications for licensing and registration required under
16 Subchapter K, Chapter 466, Government Code, as added by this Act.

17 (d) Before the proposed constitutional amendment to
18 authorize the state video lottery system is submitted to the
19 voters, the Texas Lottery Commission may accept pre-implementation
20 applications for video lottery retailers and video lottery managers
21 under Subchapter K, Chapter 466, Government Code, as added by this
22 Act. On receipt of a complete application, completion of all
23 investigations, and submittal of the nonrefundable investigatory
24 fees the commission requires consistent with Subchapter K, Chapter
25 466, Government Code, as added by this Act, the commission may make
26 preliminary findings of suitability for an applicant and location
27 of a video lottery terminal establishment. If the commission

1 determines that all the requirements under Subchapter K, Chapter
2 466, Government Code, have been satisfied, the commission may issue
3 a letter advising the applicant of the status of approval of the
4 application pending approval by the voters of the proposed
5 constitutional amendment to authorize the state video lottery
6 system. If the commission determines that any requirements under
7 Subchapter K, Chapter 466, Government Code, have not been
8 satisfied, the commission may request additional information or
9 conduct further investigations the commission considers necessary
10 and may issue a letter advising the applicant of the status of the
11 application.

12 (e) Before the proposed constitutional amendment to
13 authorize the state video lottery system is submitted to the
14 voters, the Texas Lottery Commission may request and receive
15 information related to applications for licensing and registration
16 under Subchapter K, Chapter 466, Government Code, as added by this
17 Act. An applicant's failure to comply with any requests made by the
18 Texas Lottery Commission under this subsection may be considered
19 grounds for denial of an application.

20 (f) The Texas Lottery Commission may not issue any license,
21 registration, or temporary license related to the state video
22 lottery system under Subchapter K, Chapter 466, Government Code, as
23 added by this Act, unless and until the constitutional amendment
24 authorizing the state video lottery system is approved by the
25 voters and becomes effective.

26 (g) Before the proposed constitutional amendment to
27 authorize the state video lottery system is submitted to the

1 voters, the Texas Lottery Commission may conduct investigations and
2 collect investigative fees related to information requested and
3 received for pre-implementation applications under this section
4 and necessary for the commission's evaluation and determination of
5 an application for any licensing, registration, or commission
6 approval required under Subchapter K, Chapter 466, Government Code,
7 as added by this Act.

8 (h) Before the proposed constitutional amendment to
9 authorize the state video lottery system is submitted to the
10 voters, the Texas Lottery Commission may conduct preregistration of
11 potential video lottery terminal providers. To qualify for
12 preregistration under this subsection, an applicant must satisfy
13 the minimum application requirements under Section 466.512,
14 Government Code, as added by this Act, except that the application
15 fee required under Section 466.513(a), Government Code, as added by
16 this Act, is not due until the applicant files an application for
17 registration under Subchapter K, Chapter 466, Government Code, as
18 added by this Act. A preregistration application must be
19 accompanied by a nonrefundable deposit to the Texas Lottery
20 Commission in the amount of \$25,000. A preregistration applicant
21 shall submit additional money not later than the 10th day after the
22 date the applicant receives notice from the commission that it has
23 incurred actual costs for the preregistration investigation in
24 excess of the initial deposit required under this subsection. If
25 the commission does not receive the additional money from the
26 applicant on or before the 15th day after the date the applicant
27 receives the commission's notice, the commission shall suspend the

1 application until the money is received by the commission. Any
2 deposit or other nonrefundable money provided under this subsection
3 shall be credited toward an application fee required under Section
4 466.513(a), Government Code, as added by this Act.

5 (i) The Texas Lottery Commission may not register any video
6 lottery terminal providers unless and until the constitutional
7 amendment authorizing the state video lottery system is approved by
8 the voters and becomes effective.

9 (j) Notwithstanding Section 466.513, Government Code, as
10 added by this Act, a video lottery terminal provider that has been
11 preregistered by the Texas Lottery Commission in accordance with
12 this section, a video lottery central system provider, or a
13 manufacturer of video lottery games, under a contract with the
14 commission, may manufacture and test prototypes of or existing
15 video lottery equipment for a video lottery central system, video
16 lottery terminals, and video lottery games for the commission's
17 consideration.

18 (k) Before the proposed constitutional amendment to
19 authorize the state video lottery system is submitted to the
20 voters, the Texas Lottery Commission may negotiate contracts with
21 preregistered video lottery terminal providers. The commission may
22 enter into contracts with preregistered video lottery terminal
23 providers, video lottery central system providers, and
24 manufacturers of video lottery games as required for the creation
25 and testing of a video lottery central system, video lottery
26 terminals, and video lottery games for the commission's
27 consideration.

1 (1) Before the proposed constitutional amendment to
2 authorize the state video lottery system is submitted to the
3 voters, the Texas Lottery Commission may negotiate and enter
4 contracts as necessary to establish the video lottery system.

5 (m) Before the proposed constitutional amendment to
6 authorize the state video lottery system is submitted to the
7 voters, the Texas Lottery Commission may employ additional
8 full-time equivalent employees to administer this Act and establish
9 the video lottery system.

10 SECTION 47. Sections 1 through 44 of this Act take effect on
11 the date the amendment to Section 47, Article III, Texas
12 Constitution, authorizing a state video lottery system proposed by
13 the 79th Legislature, Regular Session, 2005, becomes effective.
14 Sections 45 and 46 of this Act and this section take effect
15 immediately if this Act receives a vote of two-thirds of all the
16 members elected to each house, as provided by Section 39, Article
17 III, Texas Constitution. If this Act does not receive the vote
18 necessary for immediate effect, Sections 45 and 46 of this Act and
19 this section take effect on the 91st day after the last day of the
20 legislative session. Sections 45 and 46(m) of this Act expire March
21 1, 2006.