

BILL ANALYSIS

H.B. 1963
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Licensing & Administrative Procedures
Committee Report (Unamended)

BACKGROUND AND PURPOSE

The first five years of the Texas Lottery's operation, from Fiscal Years 1992 through 1997, provided lucrative lottery sales growth. It was not until the 75th Legislature first established a cap on the prize payout in 1997 that declines in sales were encountered, with a \$655 million, or 17.5 percent, decline in total sales for Fiscal Year 1998 and an additional \$518 million, or 16.8 percent, decline in Fiscal Year 1999.

The 76th Legislature in 1999 considered legislation to repeal the cap on prize payouts to address declining lottery sales. In a compromise measure, the legislature agreed to repeal the prize cap but linked the repeal to a formula that reduces the advertising budget for the lottery from a base of \$40 million annually, by \$1 million for each one percent by which the lottery's prize payout exceeds 52 percent of gross sales revenue. This provision remains in effect under the State Lottery Act. The Texas Lottery Commission has experienced an increase in overall prize payouts over the past five years to approximately 61 percent of gross sales revenue, nine percentage points higher than the 52 percent referenced in the State Lottery Act, resulting in an overall reduction in the advertising budget for Fiscal Year 2007 from \$40 million to \$31 million without accounting for the impact of inflation.

The Texas Lottery Commission requested a study be conducted by the McCombs School of Business at The University of Texas at Austin to determine the effect of a reduction in advertising dollars on lottery sales. This study considered both the Texas Lottery as well as the lotteries for 38 other states for the year 2002. The researchers determined that "the evidence is compelling that lottery sales are stimulated by well-informed advertising," and that "all state lotteries, including the Texas Lottery Commission, appear to be under-investing currently in advertising." In order to enhance the success of the Texas Lottery, which provides revenue to the Foundation School Fund, the Texas Lottery Commission should be able to fully utilize funds provided to it by the legislature.

H.B. 1963 repeals the limitation on the Texas Lottery Commission's advertising budget, which is based on the percentage of lottery prize payouts. The bill does not appropriate additional funds for lottery advertising, which would be subject to the legislative appropriations process.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

H.B. 1963 repeals Section 466.015(d) of the Government Code to remove the provision that prohibits the advertising budget for the lottery in the next state fiscal year from exceeding an amount equal to \$40 million less \$1 million for each full percent by which the total amount of lottery prizes awarded by the Texas Lottery Commission in the preceding fiscal year exceeds an amount equal to 52 percent of the gross revenue from the sale of tickets in that preceding fiscal

year as determined by the comptroller of public accounts, if the total amount of lottery prizes awarded by the commission in any state fiscal year after the fiscal year ending August 31, 2000, exceeds an amount equal to 52 percent of the gross revenue from the sale of the tickets in that fiscal year as determined by the comptroller.

EFFECTIVE DATE

On passage, or, if the act does not receive the necessary vote, the act takes effect September 1, 2009.